East Sussex County Council

AUDIT COMMITTEE

FRIDAY, 6 NOVEMBER 2020

10.00 am CC2, COUNTY HALL, LEWES

++Please note that this meeting is taking place remotely++

MEMBERSHIP - Councillor Colin Swansborough (Chair)
Councillors Gerard Fox (Vice Chair), Matthew Beaver, Martin Clarke, Philip Daniel, Michael Ensor and Daniel Shing

A G E N D A

1 Minutes of the previous meeting *(Pages 3 - 6)*

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 Review of the Grant Thornton (GT) report to those charged with governance and Statement of Accounts for 2019-20 *(Pages 7 - 200)*
Report by the Chief Finance Officer

6 Review of the Grant Thornton (GT) report to those charged with governance and Pension Fund Annual Report for 2019-20 *(Pages 201 - 358)*
Report by the Chief Finance Officer

7 Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting: The Redmond Review *(Pages 359 - 448)*
Report by the Chief Finance Officer

8 Revised Internal Audit Plan 2020/21 *(Pages 449 - 458)*
Report by the Chief Internal Auditor

9 Internal Audit Progress Report - Quarter 2 (01/07/20 - 30/09/20) *(Pages 459 - 476)*
Report by the Chief Internal Auditor

10 Treasury Management - Stewardship Report 2019/20 *(Pages 477 - 496)*
Report by the Chief Finance Officer

…/11

11 Property Asset Disposal and Investment Strategy *(Pages 497 - 502)*
Report by the Chief Operating Officer

12 Work programme *(Pages 503 - 506)*

13 Any other non-exempt items previously notified under agenda item 4

14 Exclusion of public and press
To consider excluding the public and press from the meeting for the remaining agenda item on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

15 Property Asset Disposal and Investment Strategy *(Pages 507 - 518)*
Report by the Chief Operating Officer

16 Any other exempt items previously notified under agenda item 4

PHILIP BAKER
Assistant Chief Executive
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29 October 2020

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NOTE: *As part of the County Council's drive to increase accessibility to its public meetings, this meeting will be broadcast live on its website and is accessible at:*
www.eastsussex.gov.uk/yourcouncil/webcasts/default.htm

AUDIT COMMITTEE

MINUTES of a meeting of the Audit Committee held at County Hall, Lewes on 18 September 2020.

PRESENT	Councillors Colin Swansborough (Chair) Councillors Gerard Fox (Vice Chair), Matthew Beaver, Martin Clarke, Philip Daniel and Michael Ensor
ALSO PRESENT	Philip Baker, Assistant Chief Executive Kevin Foster, Chief Operating Officer Ian Gutsell, Chief Finance Officer Russell Banks, Chief Internal Auditor Nigel Chilcott, Audit Manager Mark Winton, Audit Manager

10 MINUTES OF THE PREVIOUS MEETING HELD ON 10 JULY 2020

10.1 RESOLVED to agree the minutes as a correct record.

11 APOLOGIES FOR ABSENCE

11.1 There were no apologies for absence.

12 DISCLOSURES OF INTERESTS

12.1 There were none.

13 URGENT ITEMS

13.1 There were none.

14 REPORTS

14.1 Reports referred to in the minutes below are contained in the minute book.

15 ASSESSMENT OF THE CORPORATE GOVERNANCE FRAMEWORK AND ANNUAL GOVERNANCE STATEMENT FOR 2019/20

15.1 The Committee considered a report by the Assistant Chief Executive. He set out the Internal Audit opinion of substantial assurance following their review of the process to develop the Annual Governance Statement.

15.2 The Assistant Chief Executive highlighted Annex B as being new this year in response to best practice recommended by the Committee on Standards in Public Life regarding bodies owned or established by the Authority. As had been agreed by the Governance Committee, the Annex covered those bodies which are a separate legal entity on which the County Council is a member or has appointed a Member or officer as a director. The Assistant Chief Executive sought the views of the Committee which would be reported to the Governance Committee.

15.3 The Committee RESOLVED to (1) note the report;

(2) recommend to the Governance Committee that the following should be added to the Business Services (BSD) actions at Annex A to the Annual Governance Statement: Report on progress towards full implementation of the Requirements and Recommendations of the Local Government Transparency Code 2015, including information in Part 3 of the Code; and

(3) request that the format of Appendix 1 be reviewed. .

16 INTERNAL AUDIT PROGRESS REPORT - QUARTER 1 2020/21

16.1 The Committee considered a report by the Chief Internal Auditor, which presented outcomes of five reasonable assurance and two partial assurance. The Audit Manager also set the work the Team had done in advising departments on changed ways of working caused by the pandemic, and the redeployment of Internal Audit staff.

16.2 The Committee discussed:

- Cultural Compliance – Contracts Management Group and the comment about recovery of VAT
- Digital Postal Hub – Control Environment Review and the Data Security breach
- Library asset management and the effect of other services, for instance Parking Teams, relocating into libraries
- Purchase to pay, and the monitoring of departmental figures for high volume low value transactions
- MBOS Requirement Catalogue and assurance of avoiding unnecessary costs

16.3 Officers responded:

- The Cultural Compliance audit was an assessment of the Group's compliance with the Council's policies on performance, supervision, training, administration of sickness and travel claims. In respect of the VAT issue, it related to Purchase Card transactions and only £240 was not reclaimed.
- The Post Hub Data Security breach happened when the system went off-line and two items were printed back-to-back and placed in a single envelope. The recipient notified the Information Commissioner's Office. The Audit Team then assessed the overall control environment of the Hub.
- The effect of other Teams relocating into Libraries was not part of the original scope of the audit, but will be taken forward in the follow up.
- Processing of invoices without purchase orders (retrospective orders) is monitored through SAP. Multiple low value transactions are addressed by the Orbis Sourcing Solutions team, who look to aggregate orders through the procurement process. The audit found no evidence of systematic avoidance of the procurement rules.

- The MBOS Requirement Catalogue is a live document that is kept under review by the Project Board and Programme Manager. All requirements are reviewed by subject matter experts (SMEs) and challenged to ensure a future-proofed system, and not a replication of current features.

16.4 The Committee RESOLVED to note the report.

17 INTERNAL AUDIT STAFFING AND RESOURCES

17.1 The Committee considered a report by the Chief Internal Auditor, which he plans to replicate with the other Orbis partners' Audit Committees. He set out the current structure of three sovereign Internal Audit teams with two specialist teams working across the three authorities. These are the IT Audit and the Counter Fraud Teams led by Mark Weston and Simon White respectively. The new structure allows the Team to be marketed to other local authorities in these highly specialised areas.

17.2 The Chief Internal Auditor set out the challenges of recruitment, and that once the right calibre of person had been identified and appointed, then technical skills can be focussed on.

17.3 The Committee asked about the need to buy in specialist help. The Chief Internal Auditor set out that the main area remained IT Audits, and that external assistance would be brought in on a case by case basis. Technical training is underway, and the spend on external help should diminish over time.

17.4 The Committee RESOLVED to (1)note the report and
(2) commend the training programme for staff.

18 STRATEGIC RISK MONITORING 2020/21 - Q1 (01.04.20 - 30.06.20)

18.1 The Committee considered a report by the Chief Operating Officer, which presented the Strategic Risk Register ahead of it being considered by Cabinet. He highlighted the inclusion of a new "No Trade Deal Brexit" Risk, which had been suggested by the Committee at the previous meeting.

18.2 On Risk 16 – Covid-19, the Committee asked whether the local outbreak plans took into account business continuity of the Authority, and whether a sudden outbreak might affect the work of a department. The Chief Operating Officer confirmed that the Director of Public Health is the local lead officer and informs a weekly strategic officer group meeting. Business Services have done scenario planning, and has prepared for a potential reduction in resource in terms of prioritisation of services.

18.3 The Committee RESOLVED to note the report.

19 WORK PROGRAMME

19.1 The Committee considered the Work Programme. The Chief Operating Officer set out that in regard to the potential impact of a unitary authority for Surrey on the Orbis partnership, the Devolution White Paper may not be published until next year. A report will be presented at the appropriate time.

19.2 The Chief Finance Officer recommended an additional report for the November meeting, on the "Independent Review into the Oversight of Local Audit and the transparency of Local Authority financial reporting" by Sir Tony Redmond. The Committee agreed.

19.3 The Committee RESOLVED to note the revised Programme.

The meeting ended at 11.07 am.

Councillor Colin Swansborough (Chair)

Report to:	**Audit Committee**
Date:	**6 November 2020**
By:	**Chief Finance Officer**
Title of report:	**Review of the Grant Thornton (GT) report to those charged with governance and Statement of Accounts for 2019-20**
Purpose of report:	**For the Committee to review the Independent Auditor's (GT) report to those charged with governance prior to its submission to the Governance Committee on 10 November 2020.**

RECOMMENDATIONS: The Committee is asked to:

1) note the reports and its appendices; and

2) identify any concerns arising from the Independent Auditor's (GT) report or the management response to it, that need to be brought to the attention of the Governance Committee.

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1. Background

1.1 This report summarises the key findings arising from the audit work of Grant Thornton (GT) in relation to the Council's 2019/20 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 Under its terms of reference, it is the role of this Committee to "Review the annual statement of accounts and the external auditor's report to those charged with governance."

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

2.3 The GT reports to those charged with governance and the Council's Statement of Accounts for 2019/20, along with the covering report under which they will be taken to the Governance Committee for approval on 10 November 2020 are attached at Appendix 1.

2.4 The audit of the 2019/20 Statement of Accounts by GT has now been completed. Whilst there remain a few outstanding items to finalise the audit, I am pleased to be able to report that GT will be issuing an unqualified "true and fair" audit opinion.

2.5 The audit opinion will include an "Emphasis of Matter" to ensure users of the accounts are aware of material uncertainties relating to the valuation of Property, Plant and Equipment and the valuation of pooled property investments within the East Sussex Pension Fund. These areas of professional valuation have been impacted by COVID-19 and, although the numbers in the accounts have not changed, note 5 in the accounts (pages 50 – 53) has been updated to reflect the issue and potential impacts.

2.6 A small number of presentational adjustments arising from normal audit work have been noted, discussed, and resolved as stated in the reports to those charged with governance, and GT has made a recommendation, which have been discussed and responses included on page 27 of the GT report.

2.7 One area for improvement was identified:

- *Prompt updating of the leases register:* it was identified that one lease was still on the lease register when it was no longer an ongoing lease commitment for the Council. There were £3.6m of forward commitments disclosed relating to this lease. The accounts disclosure was updated to correct the error. In this case the error was not material. GT recommend that adequate controls are in place to ensure that the lease register is promptly and accurately updated. In response, management have agreed that during the preparation for the implementation of IFRS16, the lease register, and the process for keeping it up to date will be reviewed and, where appropriate, updated.

2.8 GT 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) and did not identify any significant VFM risks in 2019/20. GT concluded that *"the Council continues to demonstrate good financial stewardship in line with delivery of the core offer. As for all councils across the country, COVID-19 had presented a major challenge to the Council's financial position and its future financial sustainability. However, we are satisfied that the Council has put in place adequate arrangements to understand and secure its financial sustainability in the short to medium term."* GT provided a detailed commentary on pages 18 – 24 of their report.

3. Conclusion and reasons for recommendations

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

- The findings made by the external auditors as a result of final audit of the 2019/20 accounts;
- Whether there is any issue arising that Members might wish to bring to the attention of the Governance Committee when it meets to approve the Statement of Accounts for 2019/20 on 10 November 2020.

IAN GUTSELL
Chief Finance Officer

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Local Member(s): All
Background Documents: None

Audit Committee – Item 5 Appendix 1

Report to:	**Governance Committee**
Date:	**10 November 2020**
By:	**Chief Finance Officer**
Title of report:	**Independent Auditor's, Grant Thornton (GT), Report to those charged with governance and Statement of Accounts for 2019/20.**
Purpose of report:	**To present the GT report to those charged with governance, and to report an anticipated unqualified audit opinion on the 2019/20 Statement of Accounts.**

RECOMMENDATIONS - to:

(i) Note the Independent Auditor's (GT) Report to those charged with governance on ESCC Accounts and the Value for Money conclusion report.
(ii) Authorise the Chief Finance Officer to sign the formal Letter of Representation to GT UK LLP.
(iii) Approve the 2019/20 Statement of Accounts for publication.

1. Background

1.1 This report summarises the key findings arising from GT's audit work in relation to the Council's 2019/20 financial statements, and on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

2. Supporting Information

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

2.2 GT report requires publication of more detailed points, which in the past were treated as routine technical matters between officers and 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 (CFO) on 6 August 2020 formally approved the draft Statement of Accounts, in line with the Accounts and Audit 2015 Regulations. Since then the audit has been carried out by GT, and the Regulations require the CFO to report on changes to the accounts before they can be published.

3.2 Subject to any issues being identified by GT between the issue of this report and the meeting, the CFO is able to report that the auditors propose to issue an unqualified "true and fair" audit opinion.

3.3 The audit opinion will include an "Emphasis of Matter" to ensure users of the accounts are aware of material uncertainties relating to the valuation of Property, Plant and Equipment and the valuation of pooled property investments within the East Sussex Pension Fund.

These areas of professional valuation have been impacted by COVID-19 and, although the numbers in the accounts have not changed, note 5 in the accounts (pages 50 – 53) has been updated to reflect the issue and potential impacts.

3.4 A small number of presentational adjustments arising from normal audit work have been noted, discussed, and resolved as stated in the reports to those charged with governance, and GT has made recommendations, which have been discussed and responses included on page 27 of the GT report.

3.5 1 area for improvement was identified:

- *Prompt updating of the leases register:* it was identified that 1 lease was still on the lease register when it was no longer an ongoing lease commitment for the Council. There were £3.6m of forward commitments disclosed relating to this lease. The accounts disclosure was updated to correct the error. In this case the error was not material. GT recommend that adequate controls are in place to ensure that the lease register is promptly and accurately updated. In response, management have agreed that during the preparation for the implementation of IFRS16, the lease register, and the process for keeping it up to date will be reviewed and, where appropriate, updated.

3.6 GT 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 2019/20. GT concluded that *"the Council continues to demonstrate good financial stewardship in line with delivery of the core offer. As for all councils across the country, COVID-19 had presented a major challenge to the Council's financial position and its future financial sustainability. However, we are satisfied that the Council has put in place adequate arrangements to understand and secure its financial sustainability in the short to medium term."* GT provided a detailed commentary on pages 18 – 24 of their report.

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

4. Publication of Statement of Accounts

4.1 The legal deadline for publishing the 2019/20 accounts has been extended, due to COVID-19, to 30 November 2020. Once GT has completed their work, a Letter of Representation (Appendix C) needs to be signed by the Chief Finance Officer prior to GT issuing an unqualified opinion. This will enable the 2019/20 Statement of Accounts to be published on the Council's website, which fulfils the legal requirement.

5. Conclusion and reasons for recommendations

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

IAN GUTSELL
Chief Finance Officer

Audit Committee – Item 5 Appendix 1

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Local Member(s): All
Background Documents: None

Appendices

Appendix A Independent Auditor's (GT) report to those charged with governance on the East Sussex County Council Accounts and Value for Money conclusion
Appendix B ESCC 2019/20 Statement of Accounts
Appendix C Letter of Representation

Governance Committee Report Appendix A

Grant Thornton

The Audit Findings for East Sussex County Council

Year ended 31 March 2020

6 November 2020

Contents

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Section	Page
1. Headlines	3-5
2. Financial statements	6-17
3. Value for money	18-24
4. Independence and ethics	25-26

Appendices	
A. Action plan	27
B. Follow up of prior year recommendations	28
C. Audit adjustments	29-31
D. Fees	32
E. Audit Opinion	33-34

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of East Sussex County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for the Audit Committee as those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. The pandemic has presented the Council with significant front-line challenges, particularly the provision of adult social care and children's services have become more complex and expensive to deliver, the closure of schools, and the necessary redesign of the Council's service delivery to operate alongside the impacts of the pandemic. The Council has had to rapidly reforecast the 2020/21 and medium term financial position in line with expected impacts of the pandemic (see our Value for Money work for more information on this). The pandemic has also impacted the Finance Team who like many other employees have had to adapt to working from home at short notice. Agile working had been established successfully at the Council for several years, and therefore teams were well prepared to adapt smoothly into working from home. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We reported our audit risk assessment including the impact of the pandemic on our audit in our audit plan reported to you on 27 April 2020, and presented to Cabinet on 2 June 2020. In our plan we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 7. Restrictions for non-essential travel and home working during the pandemic have meant both Authority and audit teams have had to perform the audit entirely remotely. This has required the audit team to use regular video calls to ensure that both teams kept in close contact as we would when carrying out fieldwork on site. The audit team have also had to consider alternative approaches to obtaining audit evidence to corroborate transactions, estimates and judgements in the financial statements. Remote working also requires our teams to carry out additional tests to corroborate the completeness and accuracy of information produced by the Council which we would otherwise have performed in person on site (for example viewing a report being run from Council systems by the officer). The above has proved more time consuming than carrying out an audit under normal circumstances. There have been challenges for both the audit team and the Council's team to conduct the audit virtually during the pandemic with additional complexity that both teams had to face and address within a short space of time. However, we have worked together to overcome these issues to meet a tight audit timeframe. We started the audit in July 2020. Draft financial statements were provided to the audit team on the 9th July 2020. An updated set of statements (the statements which were published for inspection) were subsequently provided on 6th August 2020.

Headlines

Financial Statements

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

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

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

Our audit work was completed remotely during July–October 2020. Our findings are summarised on pages 7 to 15. We have not identified any adjustments to the financial statements that have resulted in adjustment to the Council's Comprehensive Income and Expenditure Statement stated in the draft accounts. There were some changes to disclosure and classifications identified during the audit which have been corrected for. We also identified some errors which were not material to the financial statements and management has decided not to adjust these in the accounts presented to the Audit Committee on 6 November. We invite the Audit Committee to consider these and confirm its agreement not to amend the accounts.

Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters:

- Completion of testing of grant revenues and the capital grants received in advance creditor;
- Closing minor queries coming out of our audit sample testing;
- Confirmation of one investment balance by an external third party confirmation from the institution;
- Completing our assessment of the reasonableness of methods and assumptions used in the PPE valuation using our auditor expert valuer;
- obtaining a letter from the East Sussex Pension Fund auditor from which we take assurance over the systems and controls that take place at the Pension Fund and which could impact the pension liability;
- Review of the updated Note 5 disclosure of estimation uncertainty for the material uncertainty relating to the pension fund net liability when this is available.
- Completion of review of cash flow forecasts and budgetary documents to support the going concern disclosures in the accounts;
- Completion of our work in agreeing certain non-material disclosures and agreeing disclosures relating to Covid-19 are sufficient;
- Finalising quality reviews of the audit file which could potentially raise additional audit queries;
- Receipt of the signed management representation letter; and
- Review of the final amended set of financial statements.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of the Council.

Subject to the satisfactory resolution of the items noted above, our anticipated audit report opinion will be unqualified but will include an 'Emphasis of Matter' paragraph highlighting the 'valuation material uncertainties' in relation to property, plant and equipment valuation and property investments held by the pension fund. This is described in more detail at page 7.

Headlines

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that East Sussex County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We did not identify any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 18 to 24.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code, but are unable to issue our completion certificate until we complete the Whole of Government accounts additional work as prescribed by the National Audit Office (NAO). The instructions for this Whole of Government accounts work has yet to be issued by the NAO.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

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

We have not had to alter our audit plan, as communicated to you on 27 April 2020.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion in November 2020, as detailed in Appendix E. These outstanding items are reported on Page 4.

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan, except in the interim between our planning work and the fieldwork visit we have added an additional specific level of materiality for cash and cash equivalents after having reconsidered what users of the accounts would consider to be a material error for this balance.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£13m	We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year.
Performance materiality	£9.75m	The maximum amount of misstatement the audit team could accept in an individual account or group of related accounts. This is less than materiality due to "aggregation risk".
Trivial matters	£0.7m	We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance
Materiality for cash and cash equivalents	£500k	Our assessment of what users would consider to be material with respect to cash

Significant audit risks - Findings

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 Risk description unchanged from that reported in our audit plan.	We have: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The completed draft financial statements were provided on 6th August 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence; • engaged the use of auditor experts for higher risk (based on income and expenditure levels) councils. As a result of the Covid-19 pandemic, the property market remains very uncertain. As a result of this, material uncertainties have been declared by the professional valuer relating to land and buildings, and also by an investment manager for pooled property investments underlying the net pension liability. We have discussed with management the disclosure of the uncertainty in the PPE valuation in the sources of estimation uncertainty note in the accounts. In the draft accounts presented for audit the PPE valuation material uncertainty was not disclosed with sufficient clarity. It was also not accompanied by supporting information to allow users to understand the sensitivity of the estimate to key variables. We discussed this with the finance team who agreed to update Note 5 Assumptions made about the future and other major sources of estimation uncertainty to include clearer wording around the material uncertainty which was in line with the professional valuation report, and also to include information around the sensitivity of the estimate. We have included a 'Emphasis of Matter' in our audit opinion to ensure that users of the accounts are aware of the material uncertainty. This has been included in our schedule of disclosure changes resulting from the audit in Appendix C. The material uncertainty relating to the pooled property investment underlying the net pension liability will be disclosed by the finance team in the accounts Note 5 Assumptions made about the future and other major sources of estimation uncertainty. We will include a emphasis of matter in our audit opinion to ensure that users of the accounts are aware of the material uncertainty. Note we have not included this in our schedule of disclosure changes resulting from the audit as this change came about as a result of information provided by the Pension Fund administrator. As at the date of issuing this report the Authority is awaiting information from the Pension Fund to inform this disclosure, and therefore we have included review of the reasonableness of this disclosure as outstanding work on page 4. See appendix C for changes to disclosures agreed during the audit. Subject to completion of the work on page 4, our work against this risk has not raised further issues.

Significant audit risks - Findings

Risks identified in our Audit Plan | **Auditor commentary**

Revenue recognition

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

Risk description unchanged from that reported in our audit plan.

For the material income streams where we have not rebutted the presumed risk of revenue recognition, we have:

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

Subject to satisfactory resolution of matters identified on page 4, our audit work has not identified any further issues in respect of revenue recognition.

Management override of controls

Risk description unchanged from that reported in our audit plan.

Page 19

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and as part of accounts production for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence;
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any further issues in respect of management override of controls.

Accuracy and accounting for Private Finance Initiative (PFI) liability

Risk description unchanged from that reported in our audit plan.

We have:

- reviewed your PFI models and assumptions contained therein;
- obtained an understanding of any changes to PFI contracts made since the prior year;
- compared the your PFI models to the prior year to identify any changes;
- reviewed and tested the output produced by your PFI models to generate the financial balances within the financial statements;
- reviewed the disclosures relating to your PFI schemes for compliance with the Code and the International Accountancy Standard IFRIC 12.

Our audit work has not identified any further issues in respect of the accounting of the PFI liability.

Significant audit risks - Findings

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings Risk description unchanged from that reported in our audit plan.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met and discuss this basis where there are any departures from the Code; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • assessed how management have challenged the valuations produced internally, by professional valuers and by independent property managing consultants to assure themselves that these represent the materially correct current value; • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register; • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value; • engaged an auditor's expert professional valuer to supplement our own auditor knowledge and expertise with qualified valuer expert insight and challenge into the valuation process, methods and assumptions used. On all material areas of land and buildings which were revalued during the year we have reviewed and challenged the valuations method, and key assumptions and inputs into the valuation estimate. We have shown our detailed analysis and review of the estimation process in the key judgement and estimates section. See comments about the estimation uncertainty around valuation of land and buildings on page 7 above. Our audit work so far has not identified any issues in respect of valuation of land and buildings. However this work is still in progress and outstanding items are included on page 4.

Significant audit risks - Findings

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability Risk description unchanged from that reported in our audit plan.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by using an auditor's expert. We have provided information about our detailed review of the estimation process in the key judgement and estimates section. We report our commentary on sources of estimation uncertainty stemming from the Covid-19 pandemic impacts and their disclosure in the accounts at page 7, the Covid-19 audit risk. In 2018 the Court of Appeal ruled there was age discrimination in the judges and firefighters pension schemes where there was transitional protections given to scheme members – this also impacted Local Government Pension Schemes. Following the McCloud judgment the cases were referred back to Employment Tribunals for remedy. The tribunal issued an interim declaration providing that claimants who were active members on 31 March 2012 are entitled to be treated as having met the conditions for full transitional protection. In July 2020, the government released a consultation on applying the remedy, and this is the next phase of the Government's response to address this discrimination. From an accounting perspective, we concluded that the consultation is an event after the reporting period which provides an indication of possible remedy. However, as there remain a number of uncertainties before this is implemented, we do not regard publication of the consultation to be an adjusting event. It may be some time before the outcome of the consultation is known, and an adjusting event crystallises, but management should continue to keep the development of the pension schemes under review. The accounts presented to members, correctly, do not reflect the impact of the government's remedy consultation. At the time of writing this report, audit work to confirm the application of controls to ensure the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements is still in progress. We gain assurance over this by obtaining a letter from the East Sussex Pension Fund auditor from which we take assurance over the systems and controls that take place at the Pension Fund and which could impact the pension liability. Subject to satisfactory resolution of matters identified on page 4, our audit work has not identified any further issues in respect of valuation of the net liability.

Other audit issues

Risks identified in our Audit Plan	Auditor commentary
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	In our review of the Council's accounting policies we identified that the disclosure in relation to IFRS 16 is appropriate. **Recommendation** In finalising assessment of the impact of IFRS 16, in preparation for its implementation, the Council must ensure completeness of the assessment of leases so that all relevant leases are included in the assessment.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £365.168m	Other land and buildings comprises £325 m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£40.168m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council engaged Montagu Evans to complete the valuation of properties as at 31 March 2020 on a three yearly cyclical basis. 52% of total assets were revalued during 2019/20. In line with RICS guidance, the Council valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has updated disclosures on this issue in Note 5. Management have assessed their assets for any impairments; no material impairments were noted. Management have considered the year end value of non-valued properties to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of Other land and buildings was £365.168m a net decrease of £4.709m from 2018/19 (£369.877m).	• We assessed management's valuer to be competent, capable and objective; • The valuation method remains consistent with the prior year; • We reviewed the completeness and accuracy of the underlying information provided to the valuer used to determine the estimation. We have so far not identified any significant discrepancies; • We engaged our own valuation expert, to provide us with additional assurance on the valuation methodology and approach and the resulting assumptions for the £190.927m of land and buildings revalued in 2019/20. We are able to conclude that the valuation methodology and assumptions made by the valuers were reasonable and appropriate with reference to the CIPFA Local Government Code 2019/20 and RICS –Valuations Global Standards. • Our valuation expert is challenging the valuations assumptions and inputs at a detailed level for a sample of assets. This work to date has not identified any issues, but the work is currently being concluded. • We confirmed consistency of the estimate and the reasonableness of changes against data produced by our valuers; • To gain assurance on the carrying value of assets not valued in 2019/20, we made an assessment of the potential value of these assets as at 31 March 2020 comparing against management's assessment and concluded that the potential estimated increased valuation on these assets was not material at £4.8m: • We have agreed the valuation report to the fixed asset register and the statement of accounts. • Subject to satisfactory resolution of matters identified on page 4, we are satisfied that the key estimates and judgements underlying the revaluation estimate for land and building is reasonable.	

Page 23

Assessment

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

Significant findings – key estimates and judgements

Accounting area | **Summary of management's policy** | **Auditor commentary** | **Assessment**

Net pension liability – £416.868m

Summary of management's policy

The Authority recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.

The Council's actuary disclosed a material uncertainty in the valuation of the Council's pension fund liability at 31 March 2020 as a result of uncertainty around land and building valuations caused by Covid-19. The Council are including disclosures on this issue in Note 5 to the accounts.

The Council's net pension liability at 31 March 2020 is £416.888m (2019 £521.412m) comprising the Council's share of the East Sussex Pension Fund assets and liabilities. The Council use Hymans Robertson to provide actuarial valuations estimate of the Council's asset and liabilities derived from this scheme. A full valuation is required every three years.

The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £144m net actuarial gain during 2019/20 (2018/19: £78m loss).

Auditor commentary

- We assessed management's actuarial expert and concluded they are clearly competent, capable and objective in producing the estimate;
- We carried out analytical procedures to conclude on whether the Council's share of LGPS pension assets and liabilities was reasonable. We concluded the Council's share of assets and liabilities was analytically in line with our expectations;
- We engaged an auditor's actuary expert to challenge the reasonableness of the estimation method used and the approach taken by the actuary to verity the completeness and accuracy of information used. We were satisfied that the actuary was provided with complete and accurate information about the workforce, and that the method applied was reasonable;
- The auditors' expert provided us with indicative ranges for assumptions by which we have assessed the assumptions made by management's expert. As set out below all assumptions were within the expected range and were therefore considered reasonable:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.3%	2.3%	
Pension increase rate	1.9%	1.8-2.0%	
Salary growth	1.9%	1.90 - 2.90%	
Life expectancy – Males currently aged 45 / 65	22.5 / 21.6	21.6-23.3/ 20.5-22.5	
Life expectancy – Females currently aged 45 / 65	25.3 / 23.9	24.6-26.3/ 22.9-24.3	

- We reviewed the adjustments made as a result of the McCloud judgement and considered the impact of the 'other experience' adjustments arising from the triennial actuarial valuation. We confirmed there were no significant changes in 2019/20 to the valuation method.

Page 24

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £416.868m **Continued**		• We concluded that the disclosure of the estimate in the financial statements was adequate; • We agree that it is reasonable to communicate the material uncertainty around the valuation of the net liability, along with sensitivity analysis.	
Level 2/3 investments	The Council have investment properties that are valued on the balance sheet as at 31 March 2020 at £11.063m. Management engaged Montagu Evans to complete the valuation of properties as at 31 March 2020. The value of the investment decreased by £6.9m in 2019/20 due to a net loss from the fair value adjustments. In line with RICS guidance, the Council valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 5. Management have assessed the impact of Covid-19 on their investment properties, and concluded a reduction of 1% or 10% in either the market value of rent yield would not be material.	• We assessed management's valuer to be competent, capable and objective; • We have reviewed the completeness and accuracy of the underlying information provided to the valuer used to determine the estimation. We have so far not identified any significant discrepancies; • We engaged our own valuer to provide us with additional assurance on the valuation methodology and approach and the resulting assumptions for the investment properties revalued in 2019/20. We are able to conclude that the valuation methodology and assumptions made by the valuers were reasonable and appropriate with reference to the CIPFA Local Government Code 2019/20 and RICS –Valuations Global Standards; • The valuation method remains consistent with the prior year; • We confirmed consistency of the estimate and the reasonableness of changes against data produced by valuers Gerald Eve; • We challenged management over the appropriateness of the fair value hierarchy of their investment properties. Investment properties valued based on the market approach have been changed from level 3 to level 2; • We have agreed the valuation report to the fixed asset register and the statement of accounts; • Subject to satisfactory resolution of matters identified on page 4, we are satisfied that the key estimates and judgements underlying the revaluation estimate for investments is reasonable.	

Page 25

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Significant findings – going concern

Our responsibility

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

Overview

It has been a challenging year due to the Covid-19 pandemic. Financially, the impact of this is being felt in increasing levels of expenditure and in some revenue generating parts of the Council seeing significant falls in income levels. This is expected given what we know about the key ways Covid-19 is impacting local government: support is being given to local businesses and residents, costs of providing accommodation to the vulnerable and homeless have increased, other health and social care costs have increased as these services become more complicated to deliver and Brighton’s parking and attractions which generate fee income have seen many less visitors due to national restrictions on movement.

In February 2020, the Council set a balanced budget for the financial year 2020/21, including £3.5m of savings. Subsequent to the impact of Covid-19 and upon reforecasting the 2020/21 year, the Council is currently expecting a budget gap of £2.9m, after government COVID-19 support funding to date is taken into account. The Council has sufficient strategic reserves balance to meet this gap in 2020/21 but is intending to minimise the impact on reserves through use of budgeted contingencies and other measures. The original Medium Term Financial Plan published in February 2020, anticipated a funding deficit building to £9.3m by 2022/23. The MTFP to 2023/24 was updated in October 2020 to reflect the post-COVID position and the current projection shows a cumulative budget gap of £11.5m in 2021/22 rising to £23.9m up to 2023/24. For more detail, reference pages 18-24.

Going concern commentary

Management's assessment process

- Detailed budget setting and budget review/approval governance processes are undertaken in February 2020;
- This includes consideration of the adequacy of reserves and the setting of a working balance level considered appropriate;
- Subsequent to the start of the Covid-19 pandemic, the 2020/21 budget has been reforecast to incorporate known impacts, and the MTFS was updated in October to reflect the uncertainty around COVID-19 impact and the level of funding that would be made available from government in the forthcoming funding settlement;
- The Council’s cash flow forecast is prepared annually in advance as part of budgetary preparations, and is then maintained on a live basis and reviewed regularly to ensure liquidity to meet obligations as they fall due;
- Balance sheet positions, including the cash position, is forecast over the MTFS for further management assurance over liquidity, taking into account capital investment plans and planned use of reserves, and forecasts investment balances and borrowing needs for planning purposes;

Auditor commentary

Management have prepared the accounts on the going concern basis based on their assessment processes as documented adjacent. The use of the going concern basis is disclosed in Note 2 Accounting Policies. In Note 9 Events After the Reporting Period the Council has considered the financial impacts of lockdown which started on the 26 March 2020 as a non-adjusting event with conditions arising after the reporting date. The Council has also disclosed its conclusion that these events do not indicate that the Council would be unable to continue as a going concern. Further information provided in the Narrative Report discloses the forward looking view of the areas of additional costs and reduced revenue due to Covid-19.

We have reviewed management’s process to assess the use of the going concern basis. We reviewed the 2020/21 budget and the reforecast MTFS, including the key assumptions, to confirm that they are reasonable in line with our knowledge of the Council and the sector.

We documented the cash-flow forecasting process, particularly given that there could be a potential cash flow impact from reduced certainty over revenues and grant income during 2020/21 and subsequent years. In order to gain assurance over the going concern presumption we consider it necessary to review cash flow forecasting through to 12 months from the expected date of signing (to November 2021). Although we always request evidence of cash flow planning, in previous years when going concern would have been regarded as a lower risk, we could be flexible in accepting alternative evidence of balance sheet forecasting (underlying the MTFS or within treasury planning). However, due to the uncertain impact of Covid-19 on the economy and therefore Council revenue streams, we have needed to be more stringent in this requirement around evidence of cash flow planning. We have requested this cash flow forecast from management, but this is outstanding currently.

We were satisfied through our review of these processes that management have in place adequate processes to continually assess the use of the going concern basis, and adequate financial governance and risk scenario planning processes to anticipate and mitigate events which might present a risk to going concern.

We have not identified any material uncertainty over the going concern basis adopted, subject to completion of our review of the items on page 4 (review of cash flow forecasts and budgetary documents).

Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any significant or material incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any such incidences from our audit work.
Written representations	• A signed letter of representation has been requested.
Confirmation requests from third parties	• We requested from management permission to send confirmation requests in respect of your bank, investments and loans balances. This permission was granted for all institutions and the requests were sent. All of these requests were returned with positive confirmation, with the exception of confirmations requested in respect of the 1 investments balance from Barclays. We are continuing to chase these confirmations requests with assistance from your officers and in the meantime will undertake alternative procedures to verify whether these balances are materially fairly stated as at 31 March 2020.
Disclosures	• Our review found no material omissions in your financial statements. We identified a number of disclosure adjustments which are set out later within this report.
Audit evidence and explanations/significant difficulties	• Except for the outstanding items noted on page 4, all information and explanations requested from management was provided.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We identified a small number of minor consistency updates in the Narrative Reports but otherwise no other inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit; • If we have applied any of our statutory powers or duties. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that full guidance from the NAO on the required procedures has yet to be issued. As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Note that work is not yet completed and the work is planned to be completed subsequent to the accounts audit and signing of the financial statements. This would mean we cannot issue our completion certificate until this work has been finished.
Certification of the closure of the audit	For the reasons stated above, we are unable to certify the closure of the 2019/20 audit in the audit report. We will issue the completion certificate once we have considered the above point and completed the WGA work.

Value for Money

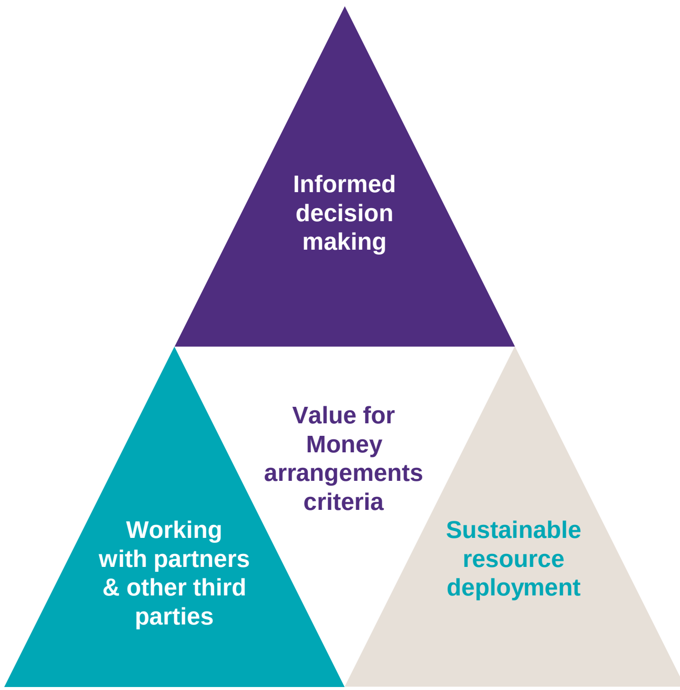
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2020 and identified a number of significant risks in respect of specific areas of proper arrangements around Financial Sustainability using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan on 27 April 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work. In response to the Covid-19 pandemic we updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We did not identify any new VfM risks in relation to Covid-19. We were satisfied that our work addressing the Medium Term Financial Sustainability risk would allow us to address the ways that Covid-19 has impacted on the Authority’s medium term financial sustainability, how management are forecasting the impacts on future income and expenditure, and the arrangements that have been put in place by management to respond to these impacts

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Overall conclusion

Based on the work we performed to address the significant risk, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found on page 24.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements, which was as follows:

Medium term financial sustainability

You continued during 2019/20 to face significant financial pressures associated with reductions in Central Government funding and rising demand for services. Future government funding is uncertain, making it difficult to plan ahead. Your Medium Term Financial Plan (MTFP) shows a deficit position of £9.3m by 2022/23. This is before the impact of Covid-19 costs and reductions in forecast income. To gain assurance over this risk we planned to build on the work we carried out in 2018/19. in particular we will undertake work in the following areas:

• review your 2019-20 outturn, including details of performance against both your revenue and capital budgets;

• review progress against your 2020-21 financial plan up to the completion of our audit;

• assess the reasonableness of assumptions made in your MTFP;

• assess your reserve levels;

• review documentation and discuss your progress and plans to address the budget gap in coming years.

Value for Money

Overview

The financial resilience of the Council depends on its ability to balance income and expenditure, without over-reliance on reserves to fund the day to day cost of services. Despite challenging conditions, in particular the impact of COVID-19 in the last part of the year, the Council achieved an underspend of £0.9m in 2019/20 primarily from unused budgeted contingencies. In our view, this reflects steady financial performance in line with underlying financial plans.

In February 2020, the Council set a balanced budget for the financial year 2020/21, including £3.5m of savings. Following the significant financial impact of COVID-19 that became apparent in March 2020 and the lockdown period spanning the first financial quarter, the Council is currently anticipating a budget gap of £2.9m in 2020/21, after government COVID-19 support funding to date is taken into account. The Council has sufficient strategic reserves balance to meet this gap in 2020/21 but is intending to minimise the impact on reserves through use of budgeted contingencies and other measures. In our view, the significant achievements in prior years to reduce spend in line with the core offer, leaving relatively small savings requirement in the medium term, has put the Council in a relatively strong position to face the challenges posed by COVID-19.

The original Medium Term Financial Plan published in February 2020, anticipated a funding deficit building to £9.3m by 2022/23. The MTFP to 2023/24 was updated in October 2020 to reflect the post-COVID position and the current projection shows a cumulative budget gap of £11.5m in 2021/22 rising to £23.9m up to 2023/24. This position assumes that services will return to business as usual from 1 April 2021 and does not take into account any additional COVID-19 funding which may be forthcoming from government. The Council has undertaken scenario analysis to look at various potential outcomes and settled on this as the likely case. We are satisfied that the Council has taken appropriate steps to understand the challenge and considered an appropriate range of outcomes.

The Council continues to be guided by its ‘Core Offer’, which underpins business and financial planning and represents a level of service below which the Council should not go in order to meet the needs of residents. This has been reviewed in the context of COVID-19 impact with the update published in October 2020, including the extent to which further savings could be made.

However, due to the uncertainty around funding levels in the 2021/22 settlement, the Council has stated that it is not currently seeking to identify any further savings to close the budget gap until there is greater clarity, and the gap is currently to be covered by the strategic reserve. The Council’s position is that the Core Offer reflects the minimum acceptable level of service to local residents and further savings would take it below this level. In our view, while it would be prudent to identify further savings at this stage, we accept the rationale and the comfort provided by the availability of reserves.

The 2019/20 budget surplus of £0.9m was transferred to the Council’s strategic reserves which stood at £42.2m at 1 April 2020. The strategic reserve provides the Council with the flexibility to manage identified financial risks, and offers a degree of flexibility to manage unforeseen financial circumstances reducing the need to make immediate savings.

Overall conclusion

The Council continues to demonstrate good financial stewardship in line with delivery of the core offer. As for all councils across the country, COVID-19 had presented a major challenge to the Council’s financial position and its future financial sustainability. However, we are satisfied that the Council has put in place adequate arrangements to understand and secure its financial sustainability in the short to medium term.

Recommendation

While the available strategic reserves and budgeted contingency provide some financial security, once the government funding settlement is finalised, the Council will need to review the need to make further savings and protect reserves when setting the forthcoming 2021/22 budget. This may include the need for further consideration of the ability to deliver services in line with the Core Offer.

Value for Money

Financial performance 2019/20

The Council reports a revenue underspend of £0.9m for 2019/20 within a gross budget of £850m. Although there has been an overspend on service budgets, this has been mitigated as described in the table below.

Item	£m
Overspend on service budgets	5.8
General Contingency	(3.6)
Treasury Management underspend	(2.1)
Other underspends	(0.3)
Business Rates	(0.7)
2019/20 Revenue Underspend	**(0.9)**

Page 32

To support the Council's resilience in a challenging climate, the underspend has been allocated to the strategic reserve.

The overspends on service budgets relates to £5.8m in Children's Services due to continuing pressures on care placements, accommodation-related costs, residential facilities and disability agency placements. There was also an overspend of £0.7m in Adult Social Care due to increased demand and costs for services for older people and working age adults. These overspends have been offset by underspends in Business Services (£0.1m) and Communities, Economy and Transport (£0.5m).

Recommendation

The Council should continue to closely monitor and mitigate the underlying pressures in Children's Services, making a distinction between this and short term COVID related pressures. The current analysis of in year pressures for 2020/21, excluding COVID impact, indicate that further overspends are forecast, accepting that they are significantly lower than in 2019/20 (as at Quarter 1).

The Treasury Management underspend relates to lower than anticipated borrowing (due to slippage on the capital programme) and interest on £20m of longer-term investments with other Local Authorities. The additional Business Rates income relates to higher than anticipated Business rates income as well as a one-off surplus on the national Business Rates Levy.

Savings performance 2019/20

Of the £14.1m savings target for 2019/20 (which includes £9.0m carried forward from previous years), £11.2m (79%) has been achieved. The remaining £2.9m was carried forward to be delivered in future years. This is made up of £0.6m in Adult Social Care, £1.3m in Children's Services and £1.0m in Communities, Economy and Transport. This continues the Council's good track record of delivering savings and managing slippage.

In line with good practice, the Council continues to monitor savings plan performance as a separate item in the monitoring report, providing clarity to members.

Capital budget performance 2019/20

We note that 93% of the capital programme for 2019/20 was delivered (£94.5m) against a budget of £101.1m. Reasons for slippages include bad weather as well as programmes outside of the Council's control. This low level of slippage, particularly in light of COVID-19, is indicative of relatively robust financial planning and forecasting processes in relation to the capital programme.

Value for Money

Progress against 2020/21 Budget and the impact of COVID-19

On 11 February 2020, a balanced budget for 2020/21 was approved at Full Council. However, by March and April 2020, the impact of COVID-19 was being felt across all service areas.

The Council has reported regularly to members on the impact of COVID-19 on the budget. In line with good practice, financial reporting has been split into business as usual (non-COVID) and COVID related items to the full extent possible.

In the Quarter 1 financial monitoring report (October 2020), a total service overspend of £1.1m was forecast under the category of business as usual. This is made up of an overspend of £0.2m in Adult Social Care, £0.7m in Business Services (which mainly relates to savings that are unlikely to be achieved in 2020/21), £0.7m overspend in Children's Services (relating to agency placements and inhouse foster placements over and above those anticipated) and an underspend of £0.5m in Communities, Economy and Transport (relating to reduced pre-COVID waste volumes). There is also a £2.7m underspend within treasury management and centrally held budgets (relating to capital slippage and an actuarial review update).

A total service overspend of £36.5m is forecast under COVID-19 related items across the departments. This is made up of:

- £19.3m in Adult Social Care (relating to relief payments to providers, hospital discharge costs and spend on PPE)
- £1.3m in Business Services (relating to IT costs for remote working, loss of income streams due to closure of various premises and at risk savings targets)
- £8.0m in Children's Services (relating to Looked After Children and Home to School Transport budgets)
- £7.9m in Communities, Economy and Transport (relating to reductions in car parking income, increased collection volumes and costs of reopening household waste sites with social distancing).

There is also a COVID-19 related overspend of £1.2m within centrally held budgets.

The Council has received three tranches of un-ringfenced COVID-19 funding from government (£16.3m, £9.8m and £3.6m), totalling £29.7m. In addition, the Council will benefit from the recovery of a proportion of lost service income through the government's scheme. This is in addition to a range of ringfenced government support to the Council and to the wider community that have helped to mitigate the financial impact in 2020/21.

This position is summarised in the table below:

Item	£m
Business As Usual	
Service Budgets Overspend	1.1
General Contingency	(3.9)
Centrally Held Budgets Underspend	(2.7)
Business As Usual Net Position	**(5.5)**
COVID-19 Impact	
Service Budgets Overspend	36.5
Centrally Held Budgets Overspend	1.2
Central Resources	0.4
COVID-19 Net Position	**38.1**
Government COVID-19 Funding	**(29.7)**
Unfunded Pressure 2020/21	**2.9**

It is anticipated that this net unfunded pressure of £2.9m will be met through use of reserves. General Reserves of £10.0m exist at 31 March 2020.

Capital Programme slippage of £12.9m (13%) against a budget of £97.4m is projected. Of the slippage forecast, £1.7m relates to planned programme activity, and £11.2m is COVID-19 related (including £12.0m relating to Local Enterprise Partnership (LEP) schemes where the timetable is not solely controlled by the Council).

Despite the challenging circumstances presented by the COVID-19 outbreak, the Council has a considered understanding of the financial position in 2020/21 and has sufficient reserves in order to meet the deficit projected.

Value for Money

Medium Term Financial Plan (MTFP)

A State of the County report is developed annually to update members on the issues which need to be taken into account in the priority and budget setting process, including the demographic evidence base; the national and local policy context; an update on the medium term financial planning position and Capital Programme.

In October 2020, a review of the Core Offer has been undertaken in light of the current operating context and concluded that the Core Offer remains largely appropriate as an expression of the Council’s minimum locally appropriate service offer to residents.

The MTFP to 2023/24 has also been updated in October 2020 assuming business as usual from 1 April 2021. Should there be a loss of income or extra pressures arising in 2021/22 from COVID-19, these will be managed through the Council’s normal quarterly monitoring process. This updated MTFP shows a deficit of £11.5m (2021/22), £5.2m (2022/23) and £7.2m (2023/24).

Key Assumptions and Scenario Planning

A number of scenarios based on the potential for further funding announcements have been prepared. The scenario deemed most likely is a combination of an increase in the Adult Social Care Precept of 1%, a revenue support Grant and a one off grant from government. This would bring the deficits to £3.0m (2021/22), £9.6m (2022/23) and £7.2m (2023/24). In our view, the Council has made reasonable assumptions around the impact of COVID-19 on the medium term financial position, and has mitigated the high level of uncertainty by developing a range of scenarios, which have been summarised and presented to members.

The Council is not seeking to identify any further savings to close the budget gaps presented above as any further savings would take it below its agreed Core Offer. The Council will continue to update the MTFP based on government announcements and local developments and if there is a deficit remaining on the 2021/22 budget, the Council intends to use reserves to mitigate this position until the medium-to-longer term funding position is clarified.

Financial governance - savings plans

The Council has a good track record of planning and delivering savings plans, including the successful management of slippage. In its Report to the Cabinet on 11 February 2020, it states it has made savings of £134m between 2010 and 2020.

Savings of £3.541m and £3.251m were projected in 2020/21 and 2021/22 (respectively) as set out in the February 2020 MTFP. In October 2020, the deliverability of existing savings plans has been reviewed, and whilst no savings have been identified as undeliverable, there will be slippage of £2.316m of savings into 2022/23 and 2023/24.

Financial governance – monitoring

The Council continues to prepare quarterly financial reports to Cabinet and each department provides a detailed commentary. Finance and performance information is reported together, as this gives a more rounded view. In this report, updates on the capital programme, centrally held budgets/corporate funding, changes to fees and charges, and general balances are given. Savings plan delivery is also separately monitored as part of the quarterly reporting to Cabinet (on a formal basis) providing significant transparency on progress.

Recommendation

It is noted that financial monitoring reports are shared with Full Cabinet on a broadly quarterly basis, in line with previous decisions and cost reductions around the level of resource required by the finance team and a cost effective finance process. Given the present high level of financial uncertainty and the unusual circumstances presented by COVID-19, including the potential need to make decisions quickly, the Council should consider the cost-benefit of more regular financial reporting to Cabinet on a temporary basis.

We have noted that the Council has put in place other temporary measures to enable it to respond to COVID-19 and operate effectively during this period of uncertainty. This included the Corporate Management Team meeting more frequently as a COVID Strategic Management Group (SMG), and setting up a Finance Risk Log which is reported to that SMG.

Value for Money – Financial Resilience

Recommendations identified from 2019/20 VfM review

The following recommendations have been identified and will be monitored in future value for money reviews.

Recommendation
While the available strategic reserves and budgeted contingency provide some financial security, once the government funding settlement if finalised, the Council will need to review the need to make further savings and protect reserves when setting the forthcoming 2021/22 budget. This may include the need for further consideration of the ability to deliver services in line with the Core Offer.
The Council should continue to closely monitor and mitigate the underlying pressures in Children's Services, making a distinction between this and short term COVID related pressures. The current analysis of in year pressures for 2020/21, excluding COVID impact, indicate that further overspends are forecast, accepting that they are significantly lower than in 2019/20 (as at Quarter 1).
It is noted that financial monitoring reports are shared with Full Cabinet on a broadly quarterly basis, in line with previous decisions and cost reductions around the level of resource required by the finance team and a cost effective finance process. Given the present high level of financial uncertainty and the unusual circumstances presented by COVID-19, including the potential need to make decisions quickly, the Council should consider the cost-benefit of more regular financial reporting to Cabinet on a temporary basis.

Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D.

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following services were identified which were charged from the beginning of the financial year to November 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	£7,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £80,350 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		Self review (because GT provides audit services)	To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

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

Action plan

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Medium	**Prompt updating of the leases register** During our lease testing we identified a lease which was on the lease register and therefore part of the accounts disclosure of lease commitments, which was in fact no longer an ongoing lease commitment for the Council. There were £3.6m of forward commitments disclosed relating to this lease. On discussion with management the accounts disclosure was updated to correct the error. There is a risk that if the lease register is not correctly and promptly updated that the financial information that feeds into the accounts and forecasting processes for the Council could be inaccurate and as observed for the 2019/20 accounts this could lead to misstatement of disclosures in the accounts. In this case the misstatement was not material, but this type of error could potentially cause a material misstatement.	We recommend that management ensure there are adequate controls in place to ensure that the lease register is promptly and accurately updated. **Management response** As part of the preparation for the implementation of IFRS16, the lease register, and the process for keeping it up to date, will be reviewed and, where appropriate, updated.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of East Sussex County Council's 2018/19 financial statements, which resulted in 2 recommendations being reported in our 2018/19 Audit Findings report. *We have followed up on the implementation of our recommendations and the actions taken by management are as follows:*

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Access to client maintenance functionalities (SCC4) (SAP access providing virtually full system rights)** 13 users with firefighter ID's have access to using SCC4. Improper execution of client administration transactions could result in a loss of entire client (SAP system), including information, data and configured functionalities.	We recommended that the profile should be reserved for use within an emergency and the number of firefighter type ID should be monitored with access being regularly reviewed. We have confirmed that users are being regularly reviewed and have been reduced to 3 at the March 2020 year end. We regard this as being a reasonable number of this type of profile.
✓	**Journals with no descriptions** We identified journal entries being prepared and recorded with no descriptions, increasing the potential for erroneous or fraudulent posting to go unnoticed.	We recommended that management should consider running exception reports to identify and review journal entries with no narrative included As part of our testing of journals for 2019/20 we have run an extraction report from the full listing of journals for any with no description. There were none reported, so we were satisfied that this is not an issue for the 2019/20 year.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

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

Impact of adjusted misstatements

There were no adjusted misstatements for the year ending 31 March 2020.

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Critical judgements in applying accounting policies	This note in the accounts included several items which in our assessment were reiterating the accounting policies and did not contain critical judgements which were pivotal in application of the accounting policies and which could have a material impact on the accounts.	We recommended that a number of the critical judgements were removed from this note. **Management response** This was amended in the accounts.	✓
PPE land and buildings material uncertainty	The professional valuer has declared in their valuation report a material uncertainty over land and building valuations due to uncertainties in the property market caused by the Covid-19 pandemic. This material uncertainty is in line with national RICs guidance and has been declared by most professional valuers nationwide for valuations produced at 31/03/2020. The material uncertainty was not disclosed in the Authority's draft accounts Note 3 Critical Judgements and Assumptions Made.	We recommended that Note 3 was updated to include the disclosure of the material uncertainty declared by the professional valuer, and in line with Code guidance to include some information as to the sensitivity of the estimate, so users of the accounts could further understand the level of uncertainty. **Management response** This was amended in the accounts.	✓

Audit adjustments

Misclassification and disclosure changes (continued)

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Categorisation of investment properties at Level 2 or 3	We challenged the categorisation of investment properties in the draft accounts as Level 3 financial assets in the financial instrument hierarchy in Note 18 to the accounts. Categorisation at Level 3 means that they are valued only through unobservable inputs, and we disagreed that was the case as the investment properties were being revalued using an estimate based on discounted cash flow of expected future rental income based on known rental tenancy agreements. We did not consider this to be an unobservable input and our view therefore was that these were more appropriately disclosed as Level 3 financial instruments.	We recommended that the investment properties were recategorized from Level 3 to Level 2 in Note 18 to the accounts. **Management response** This was amended in the accounts.	✓
Related party transactions	In our testing of related parties we identified a related party which did not meet the IAS24 criteria for definition as a related party.	We recommended that the related party transaction disclosure in the accounts was updated to remove the disclosure relating to that entity. **Management response** This was amended in the accounts.	✓

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Audit adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

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

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	80,350	TBC
Total audit fees (excluding VAT)	**£80,350**	**TBC**

The Public Sector Audit appointments scale fee is £64,350. The Council has disclosed £80,350 within the financial statements in line with our Audit Plan.

Across all suppliers, and sectors (public and private), the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, as well as to undertake additional and more robust testing. As a firm, we are absolutely committed to meeting the expectations of the FRC and other key stakeholders regarding audit quality and public sector financial reporting. To ensure the increased regulatory focus and expectations are fully met we have proposed a necessary increase to our fees to £80,350.

The final fee is due to be settled by Public Sector Audit Appointments. We understand that PSAA has approved in principle the planned fee of £80,350, but this is subject to their final review.

There is additional work which was necessary to be carried out during the audit and Value for Money work due to the added complexities of the impact of Covid-19. We are still completing this work and the extent of this fee will be discussed and proposed to the Chief Finance Officer.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – Agreed upon procedures in respect of the Teachers' Pension Scheme	7,000	TBC
Total non- audit fees (excluding VAT)	**£7,000**	TBC

We have not yet completed the work for these other services. We do not expect the final fees to differ from the proposed fees based on our estimate of the amount and complexity of the work involved.

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

Page 44

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of East Sussex County Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Finance Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 5 to the financial statements, the outbreak of Covid-19 means the property market remains uncertain and capital and rental values may change rapidly in the short to medium term. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's pooled property investment valuation reports. Our opinion is not modified in respect of this matter.

Other information

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

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for

Audit opinion (continued)

securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

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

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2020. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Use of our report

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

[Signature]

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East Sussex County Council

Statement of Accounts

2019/20

Contents	Page

Narrative Report	4
Statement of Responsibilities for the Statement of Accounts	14
Independent Auditor's Report to East Sussex County Council	15
Annual Governance Statement	18
Accounting Statements	
Comprehensive Income and Expenditure Statement	27
Movement in Reserves Statement	28
Balance Sheet	30
Cash Flow Statement	31
Notes to the Accounting Statements	32
East Sussex Pension Fund Accounts	108
Glossary of Terms	145

Additional Information

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

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

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

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

Index of Notes to the Accounting Statements

Note **Page**

1. Authorisation of the Statement of Accounts 33
2. Accounting Policies 33
3. Accounting Standards that have been issued but have not yet been adopted 48
4. Critical Judgements in applying Accounting Policies 49
5. Assumptions made about the future and other major sources of estimation uncertainty 50
6. Expenditure and Funding Analysis 54
7. Adjustments between accounting basis and funding basis under regulations 58
8. Material items of income and expenses 60
9. Events after the Balance Sheet date 60
10. Transfers to / from Earmarked Reserves 61
11. Other Operating Expenditure 62
12. Financing and Investment Income and Expenditure 63
13. Taxation and Non Specific Grant Income 63
14. Property, Plant, and Equipment 64
15. Investment Properties 68
16. Intangible Assets 70
17. Heritage Assets 71
18. Financial Instruments 72
19. Assets Held for Sale 76
20. Current & Long Term Debtors and Payments in Advance 77
21. Cash and Cash Equivalents, Bank overdraft and accrued balances for third parties 77
22. Creditors and Income in Advance 78
23. Provisions 78
24. Usable Reserves 79
25. Unusable Reserves 80
26. Cash Flow Statement – Operating Activities 84
27. Cash Flow Statement – Investing Activities 84
28. Cash Flow Statement – Financing Activities 85
29. Cash Flow Statement – Reconciliation of Liabilities arising from Financing Activities 85
30. Pooled Budget and Partnership Arrangements 85
31. Members' Allowances 86
32. Officers' Remuneration 88
33. Termination Benefits & Exit Packages 90

34. External Audit Costs 91

35. Grant Income 91

36. Dedicated Schools Grant 92

37. Related Parties 93

38. Capital Expenditure and Capital Financing 94

39. Leases 94

40. Other long term liabilities, including Private Finance Initiatives and Similar Contracts 95

41. Pensions Schemes Accounted for as Defined Contribution Schemes 97

42. Defined Benefits Pension Schemes 98

43. Contingent Liabilities 103

44. Contingent Assets 103

45. Nature and extent of risks arising from Financial Instruments 103

46. Trust Funds 107

47. Closed Landfill Sites 108

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 2019/20;
- The Statement of Responsibilities which details the responsibilities of the Council and the Chief Finance Officer (S151 Officer) concerning the Council's financial affairs and the actual Statement of Accounts;
- The Independent Auditor's Report to the Council – this is provided by the external auditors, Grant Thornton LLP, following the completion of the annual audit;
- Annual Governance Statement – the Council is required to carry out an annual review of the effectiveness of the system of internal control and to include a status report with the Statement of Accounts. The Statement explains how the Council has complied with the Code of Corporate Governance during 2019/20. However, any significant events or developments that occur between 31 March 2020 and the date on which the Statement of Accounts is signed by the Chief Finance Officer must also be reported;
- The Core Accounting Statements comprise:

  ~ The Comprehensive Income and Expenditure Statement (CIES) – this is fundamental to the understanding of a Council's activities. It brings together all of the functions of the Council and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year.

  ~ The Movement in Reserves Statement (MiRS) - this statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure and mitigate the risk and impact of unplanned events) and other reserves.

  ~ The Balance Sheet – this shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

  ~ The Cash Flow Statement – this summarises the changes in cash and cash equivalents of the Council during the reporting period.
- The Accounting Policies Note explains the basis for the recognition, measurement, and disclosure of transactions in the Accounting Statements;
- The Notes to the Accounting Statements provide supporting and explanatory information and are fundamentally important in the presentation of a true and fair view;
- The Pension Fund Accounts – the East Sussex Pension Fund is administered by the Council; however, the Pension Fund must be completely separate from the Council's own finances. This statement is an extract from the Pension Fund Annual Report and summarises the financial position of the East Sussex Pension Fund, including all income and expenditure for 2019/20, together with assets and liabilities as at 31 March 2020; and
- A glossary to the Statement of Accounts is also included to help to make what is ultimately a technical accounting document more understandable to the reader.

Changes to financial reporting requirements and accounting policies

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

The Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or before 1 January 2019 and applies for accounting periods commencing on or after 1 April 2019.

The key accounting changes principally introduced by the Code in 2019/20 are:

- Amendments to enhance the descriptions of adaptations and interpretations of standards, explain the Code process for identifying statutory adjustments and confirm the relevance of application guidance within standards;
- Updates to reflect the issue of the International Accounting Standards Board March 2018 *IFRS Conceptual Framework;*
- New application guidance on the accounting treatment for the apprenticeship levy;
- Amendments to IFRS 9 Financial Instruments with regard to prepayment features and interpretation of clauses within Lender option borrower option contracts; and

- Clarification for Group accounts with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Under the Code, the Authority is required to disclose details on the impact of an accounting change required by new accounting standards that have been issued, but not yet adopted, by the Code. The new standards introduced by the Code that will need to be adopted by the council in 2019/20 are:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015–2017 Cycle; and
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

Financial Report

This report, and associated statement of accounts, has been prepared before the full impact of COVID-19 is known. For East Sussex, the impact of the pandemic started to be felt from the middle of March 2020, and therefore has not had a material financial impact on the 2019/20 accounts. In line with CIPFA Bulletin 05, issued in April 2020, the statement of accounts has been prepared with appropriate reference to COVID-19.

Since the pandemic began, staff across the Council have been, and continue to be, involved in a huge amount of work to support the nation's response. A report detailing the Council's COVID-19 response and future plans was presented to Cabinet on 2 June 2020, the link to the report on the Council's website is:

https://democracy.eastsussex.gov.uk/ieListDocuments.aspx?CId=133&MId=4361&Ver=4

The net outturn at year end was £376.57m against a revised net budget of £375.89m, a net overspend of £0.68m.

The 2019/20 Approved Budget

The Council's 2019/20 original net budget of £375.15m comprises three main elements: Council Tax, business rates and Government grant. As part of the Government's deficit reduction plans, the level of grant funding to Local Government has been reducing, ahead of promised funding reform. The revenue support grant received by the Council will have reduced to £0.6m by 2022/23.

The Council's decisions about how to deal with the funding shortfall of £5.1m in 2019/20 needed to take account of local circumstances. Some of the key factors influencing our choices were:

- 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; and
- 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 10.4% between 2020 and 2024. 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 slightly 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 ensures savings in one area do not give rise to unforeseen consequences in another area;
- Maximises efficiency, exploits technology, and makes the best use of all our assets;
- Maximises East Sussex resources through strong partnership working, income generation, lobbying and exploring new ways of working;
- Removes management and support costs wherever possible, to maximise the resources available to the front line;
- Sustains investment in activity that will most help manage demand;
- Encourages communities to help achieve their priority outcomes;
- Is open and transparent to provide clarity about priorities and consequences, specifying clearly what the County Council will do;
- Delivers service change and facilitative programmes aimed at providing modern services which meet the needs of local people, working with others to do this in a way that makes the best use of resources; and
- Uses our local evidence base to meet the most important needs of our communities and leading to innovative solutions which build a compelling future, rather than managing decline.

Narrative Report

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. Savings of £134m have been made between 2010/11 and 2019/20, with further savings planned as funding continues to be constrained whilst demands for our services grows.

Underpinning the need to identify future savings, the core offer sets out how we will provide the best service we can within the resources we have available. It is an ambitious but realistic plan to help us continue to deliver quality, value-for-money services where they're most needed. Savings of £7.2m, aligned to the core offer, are identified for the period 2020/21 to 2022/23.

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

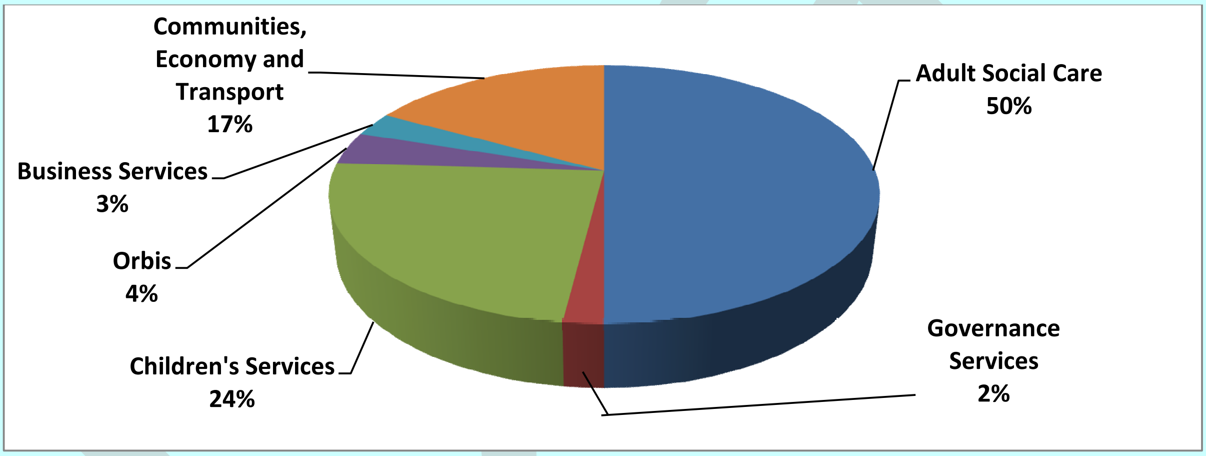
The Authority's 10 year planned programme is supported by a 20 year Capital Strategy. The purpose of the strategy is to drive the authority's capital investment ambition in support of the Council Plan, whilst ensuring appropriate capital expenditure, capital financing and treasury management. The strategy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

The revenue and capital budget for 2019/20 was presented to Council on 5 February 2019. Attached below is a link to the report on the Council's website:

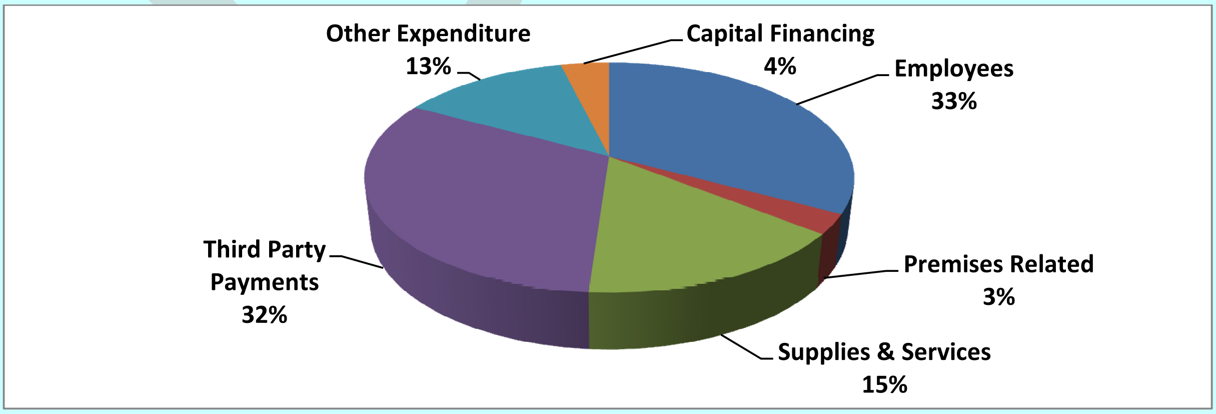
https://democracy.eastsussex.gov.uk/ieListDocuments.aspx?CId=150&MId=3348&Ver=4

How much was spent on the revenue account

The Expenditure and Funding Analysis (EFA) on page 48 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

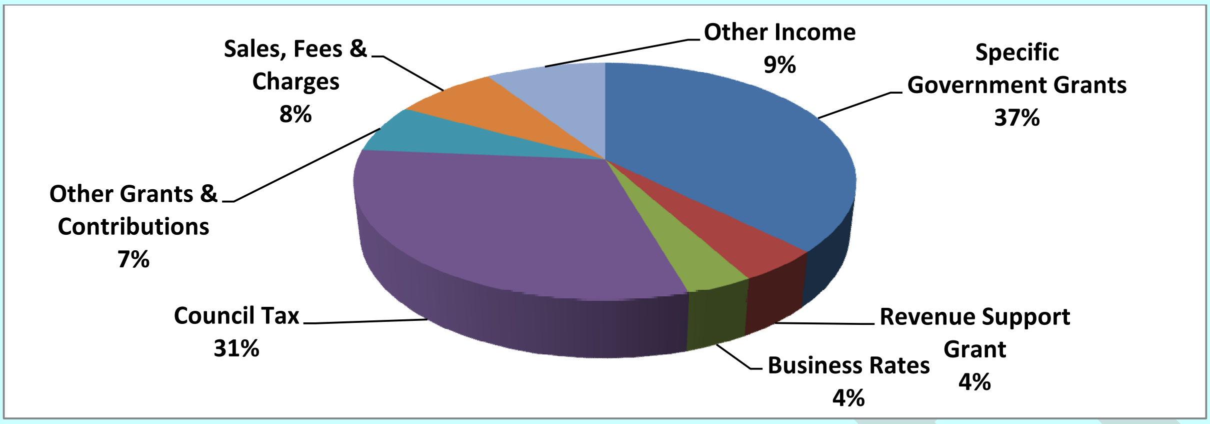


County Council services are staff intensive and employee costs account for 33% of the expenditure. Non-employee expenditure includes costs of premises at 3%, supplies and services at 15% and third party payments at 32%, with other expenditure at 13%. Capital financing (the cost of borrowing, interest and repayments) and accounting for on-going Private Finance Initiative (PFI) within the ESCC Balance Sheet accounts for the remaining 4%.

Narrative Report

Where the money came from

The chart shows that 37% of our income came from Specific Government grants, 31% came from residents through Council Tax, 7% from other grants & contributions, 9% from other income including use of reserves and bank interest. Business Rates consisted of 4%, and 8% of our income came from users of our services, with Revenue Support Grant representing 4% of the Council's Funding.



Analysis of the Revenue Budget

The Council's careful monitoring of budgets during the year has ensured that service pressure areas have been identified early and action was taken by directorates to manage potential variations within their cash limited budgets. The table below shows actual net spending of £376.57m during 2019/20, based on the total cost of providing services including charges for support services, treasury management and use of assets.

The net service budget for the year was £338.12m (including Dedicated Schools Grant (DSG), with total actual expenditure of £343.94m, i.e. services overspend of £5.82m. Although there were no new material variations to those previously reported (i.e. within the Council's Monitoring Q3 report), the pressure within Children's Services remained. The overspend in Children's Services of £5.8m was in two main areas: Early Help and Social Care where there have been continuing pressures on Looked After Children (LAC) care placements and difficulties in sourcing accommodation for families in need (£5.7m); and Education and ISEND where the pressures have continued in residential facilities and disability agency placements due to unplanned complex high need pupils (£1.0m). This was offset by underspends and efficiencies elsewhere in the service. The service overspends have been managed by the use of the budgeted general contingency and underspending within the Treasury Management activities. The structural pressures have been addressed in the 2020/21 budget, with the allocation of additional funding of £5.0m

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 2.66%) of the net revenue budget set by the Council.

The analysis of revenue expenditure provided is for budgetary comparison purposes and reconciles to the analysis contained in the Expenditure and Funding Analysis (EFA) on page 48. The table below sets out the revenue budget for 2019/20 using the standard management reporting format and how these compare with outturn:

Departments	**Current Estimate**	**Actual Outturn**	**Variation**
	£m	**£m**	**£m**
Adult Social Care	170.89	171.54	0.65
Public Health	-	-	-
Governance Services	7.37	7.34	(0.03)
Children's Services	77.32	83.12	5.80
Orbis	13.88	11.70	(2.18)
Business Services	9.36	11.41	2.05
Communities, Economy and Transport	59.30	58.83	(0.47)
Service Spend (incl. DSG Related)	**338.12**	**343.94**	**5.82**
Corporate Budgets	(2.75)	(6.61)	(3.86)
Transfers to Reserves	22.93	23.77	0.84
Treasury Management	17.59	15.47	(2.12)
Net Expenditure	**375.89**	**376.57**	**0.68**

Financed from:			
Revenue Support Grant	-	-	-
Business Rate Retention	(33.72)	(34.15)	(0.43)
Business Rate Top-up	(42.41)	(42.41)	-
Business Rates Compensation Grants	-	-	-
Business Rate Pool	(8.43)	(8.43)	-
Business Rates Levy Account Surplus	-	(0.25)	(0.25)
Business Rates adjustments for previous years	0.24	0.24	-
Council Tax	(287.68)	(287.68)	-
Council Tax adjustments for previous years	(3.01)	(3.01)	-
New Home Bonus Grant	(0.88)	(0.88)	-
	(375.89)	**(376.57)**	**(0.68)**

Balances:		
Opening	10.00	10.00
Added / (withdrawn) during the year	-	-
Closing	**10.00**	**10.00**

Earmarked Reserves and Provisions

The financial statements also set out details of the Council's earmarked reserves, which are another essential tool to manage risk exposure and smooth the impact of major costs and unexpected events. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement, and regard to LAAP Bulletin 99 - Local Authority Reserves and Balances.

It is the S151 Officer's duty to consider the robustness of the Council's budgets, the adequacy of reserves and the general fund when they are set annually. This consideration is summarised in the annual Robustness Statement which is published as part of RPPR. The Council's reserves policy supports the Council's strategic agenda and corporate cross cutting priorities, and in particular:

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

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

Details of the Council's earmarked reserves can be found on page 54, Note 10 to the Accounting Statements. Current earmarked reserves held at 31 March 2020 totalled £124.7m. Of this, £14.6m relates to reserves to meet the estimated future costs of managing the Private Finance Initiative (PFI) waste facility, £9.3m relates to future funding for the capital programme and £42.2m relates to services revenue grants and contributions set aside for future years. The remainder of the significant reserves are to help meet some of the cost of insurance liabilities to manage litigation and other corporate risks not otherwise recognised.

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

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

Future Years

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

Narrative Report

The general contingency for 2020/21 is £3.9m and will be used in the first instance to cushion the impact of pressures in-year. Any unused balance will be transferred to strategic reserves at the end of the financial year, in line with the approved reserves policy.

Of the £42.2m balance on the Revenue Grants and Contributions Reserve, £16.2m relates directly to COVID-19 funding that was received in March 2020. The remaining balances are committed for specific purposes. Within the Financial Management Reserve, £20.1m is considered to be available for unfunded COVID-19 pressures, noting that its use would impact on the Authority's MTFP: firstly the reserve would need to be built up again, thereby adding an additional budget pressure; secondly, if the reserve is not available to support the development and investment in services then this would place additional burdens on the future financial viability of the authority. The Council does not hold large balances for capital receipts or unapplied capital grants, and any balances have a planned use.

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 2019 for 2019-20 was £103.1m. This was further adjusted to reflect the variation at outturn (March 2020), re-profiling of budgets and approved variations in line with financial regulations and governance (detail of which is shown below).

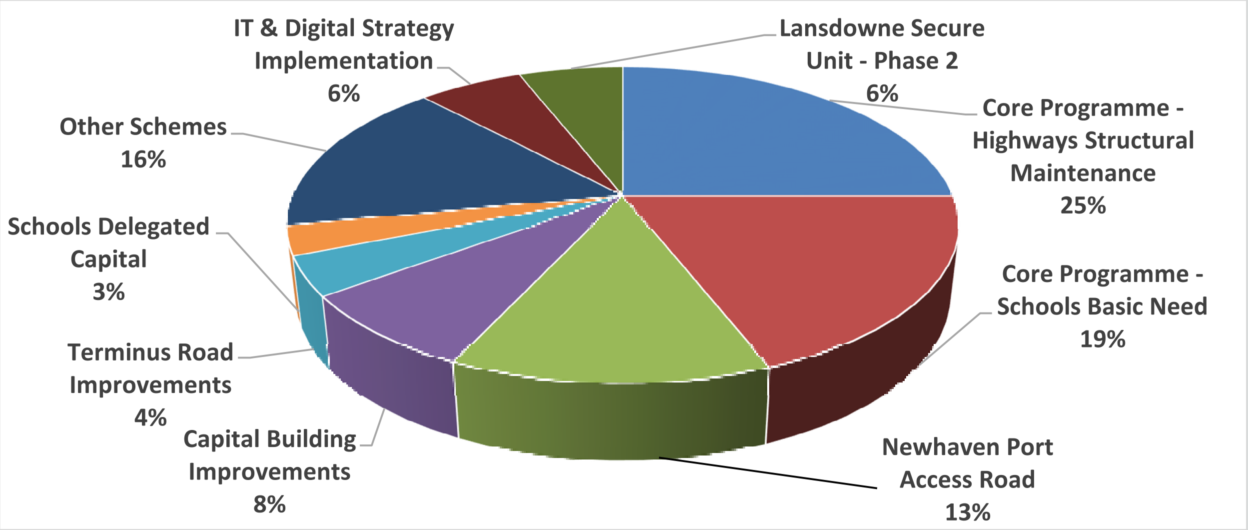
Capital Programme gross movements during 2019/20:

	£m
Budget as per February 2019	**103.1**
Project re-profiling following reviews	(9.6)
Approved Variations	6.1
Budget as per February 2020	**99.6**
Post budget approved variations	1.5
Revised Budget as per March 2020	**101.1**

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 2020 was £101.1m.

In 2019/20 the County Council spent £94.5m gross of which £30.9m was supported by scheme specific resources, giving a net expenditure of £63.6m. The larger schemes that took place during the year included delivering school places, the structural maintenance of roads throughout the county, Newhaven Port Access Road, East Sussex Strategic Growth Package, and many other improvements to schools, buildings and roads. Of the £6.1m variation to revised gross budget, £2.2m of delays were on schemes that are not managed by the Council, such as Skills for Rural Businesses - Post Brexit. There has been smaller scale slippage on a number of other projects, including on Newhaven Port Access as a result of storm delay and Bexhill Link Road as a result of delays to part 1 compensation claims. Delays to the Schools Basic Need programme were experienced due to bad weather and at the Lansdowne Unit, as a result of a more detailed profile of delivery following the contractors being on-site. These were able to be offset in part by spend in advance on other areas of the Basic Need programme. Further spend in advance on IT&D is due to the accelerated procurement of core IT&D infrastructure and laptops to mitigate against expected future price increases.

The chart below shows a high level analysis of the 2019/20 capital expenditure.



Narrative Report

As per the approved budget at February 2020, the County Council plans to invest £100.5m in capital projects in 2020/21, funded by:

	£m
Borrowing	38.7
Scheme Specific grants and contributions	33.3
Non-specific grants	19.9
Capital reserves and revenue contributions	5.4
Capital Receipts	2.9
Community Infrastructure Levy	0.3
Total resources	**100.5**

The Balance Sheet

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

At 31 March 2019 £m		At 31 March 2020 £m
1,002,713	Long Term Assets (including Property, Plant & Equipment)	1,008,769
278,979	Current Assets (including debtors and short term investments)	264,982
(146,125)	Current Liabilities (including creditors and bank overdraft)	(145,380)
(856,964)	Long Term Liabilities	(742,757)
278,603	**Net Assets**	**385,614**
	Represented by:	
147,963	Usable Reserves	166,913
130,640	Unusable Reserves	218,701
278,603	**Total Reserves**	**385,614**

The main changes to the balance sheet in 2019/20 are (i) the increase in usable reserves, primarily due to receipt of the £16.3m COVID-19 Grant on 27 March 2020 being held in an earmarked reserve for use in 2020/21 and (ii) an increase in unusable reserves due to the reduction in the pension liability of £104.5m.

Academy Schools – three schools are expected to convert to Academy status in 2020/21. The net book value of property, plant and equipment will be written out of the Council's balance sheet at the date of conversion. Their net book value at 31 March 2020 is £27.3m.

Financial Challenges in 2019/20

The County Council plans and monitors its performance, policy and resources through a single process, called Reconciling Policy, Performance and Resources (RPPR). For full details of the County Council's challenges and the financial implications, the attached is a link to the report on the Council's website, which was presented to Council on 5 February 2019:

https://democracy.eastsussex.gov.uk/ieListDocuments.aspx?CId=150&MId=3348&Ver=4

Financial Challenges for 2020/21 and beyond

Looking ahead, the Authority faces unprecedented challenges in managing its budget; not only because of COVID-19, but also with all of the uncertainty around future funding levels.

The level of government funding that the Council will receive between 2021/22 – 2023/24 is yet to be confirmed; Spending Review (SR) 2019 was for a single year, therefore funding will be announced at SR20, the date of which is still to be confirmed, but which could be subject to delay. Additionally, the Fair Funding Review and Business Rate Retention reform have been confirmed as delayed until at least 2021/22. Government funding is therefore assumed to continue to reduce while in the same period there is considerable uncertainty as to the medium to longer term impact of COVID-19.

Impact of COVID-19 – revenue
Scenario modelling of future demand and other impacts on revenue service budgets is ongoing as part of the RPPR cycle, as it is too early at this stage to understand the full impact of COVID-19.

Narrative Report

There are no significant transformation plans that are currently affected by COVID-19. However, a number of savings targets have been affected. Within a total £3.5m target for 2020/21 the affected savings identified to date are:

- Additional car parking income due to a delay of parking fee increases for permits and on-street parking (£0.5m);
- Cost of delay to savings arising from de-designation of Children's Centre properties (£0.046m);
- Additional flood management income due to lower applications for ordinary watercourse consent and pre-applications enquires (£0.025m); and
- Paused staff consultations within the Council’s shared Orbis services have delayed delivery of savings totalling £0.4m.

Impact of COVID-19 – capital

The Capital Strategy is being revised to reflect post COVID-19 considerations, and within the Capital Programme there may be further emerging overspends relating to COVID-19 that will need to be managed within the overall programme. Work will be ongoing to review and update programme, in line with the future service offer and any investment required in support of this, including consideration of basic need. Further updates to grants, S106, CIL and capital receipts and to present a rounded picture in terms of the pressures and slippage verses available resource.

Impact of COVID-19 - Debt Recovery

Debt recovery was suspended on 26 March 2020 which means that no reminders have been despatched and no actions taken to actively chase any ASC client or debtor, including commercial. It is too early to fully understand the impact of suspending debt recovery operations for the last three months. As soon as the suspension is lifted, which is expected to be on 1 July 2020, all debt recovery action will recommence.

Impact of COVID-19 - Council’s Workforce

Following the government’s ‘stay at home’ message, the Council moved quickly to support all staff to work from home where this was appropriate to their role. Routine projects to upgrade ICT software and refresh equipment were already well progressed and this therefore enabled the significant majority of staff to work remotely with relative ease.

At an early stage a Council wide ‘staff deployment’ scheme was agreed, enabling staff from across the Council to volunteer to be deployed into a team/ service requiring additional staff capacity in order to maintain critical services. To date, approximately 155 staff have been deployed into a range of roles such as distribution of PPE, food delivery, making contact with residents in the shielded group, providing support to the Community Hubs and driving duties.

In addition, staff have also been deployed within departments. For example, in Adult Social Care and Health, staff within Learning Disability Services moved from day centres into residential services in order to keep those critical services operating.

The Council has seen relatively low levels of sickness absence. Between the end of March to the beginning of June, 236 staff have been absent as a consequence of COVID-19 and 126 staff have self-isolated (this does not include those staff who were self-isolating but well enough to work from home).

As the gradual easing of the lockdown restrictions begin, the Council is actively planning the future working arrangements and the safe return to the workplace of those services where there is a need for them to resume as soon as possible for the public.

As we look to the future, it is critical that we ensure we use the lessons learned from COVID-19 to inform our future workforce planning arrangements. The overwhelming success of our remote working arrangements have provided us with the opportunity to reconsider how we best use our office spaces as well as future working arrangements. Our reset and recovery planning will include considerations around working practices and models of service delivery.

Impact of COVID-19 - Supply Chain

The County Council moved quickly in March 2020 to pay suppliers immediately (once invoices matched and approved) rather than on their due date as a supportive measure during the COVID-19 crisis.

The promptness of paying our commercial suppliers within 30 days has risen by 5% to 95% due to a combination of collaborative working by Business Operations directly with departments, improved systems and processes and extra resources applied through the COVID-19 period to manage the increase in volumes of payments. The County Council is now paying these suppliers on average 18 days from receipt of invoice, compared to 22 days in February 2020.

Procurement priorities and strategies are driven by service need, with a focus on supporting local suppliers This is reflected in the Council Plan target of 54% of what we spend being local, against a national government target of 33%. Procurement actively encourage the use of locally-based suppliers where they can offer best value for money and they design contracts that are accessible to local SMEs who wish to bid for them.

As COVID-19 supplier relief is just starting to taper off and staff are returning from furlough, it is too early at this stage to identify which suppliers are not sustainable without some form of financial relief. The government is still advising that we pay on immediate payment terms and in their recent recovery instructions, they emphasise that local government should continue to support businesses as much as possible.

The Procurement team are reviewing current work plans for 2020/21, looking at upcoming tenders and checking with departments and stakeholders whether priorities have changed. Procurement activity will be closely linked to the East Sussex Economy Recovery Plan, with focus on social value, local supply chains, local skills and local unemployment.

Brexit
The UK left the European Union (EU) on 31 January 2020 and entered a transition period which is set to end on 31 December 2020. Negotiations to agree a deal for our future trading relationship with the EU re-started in April after a pause at the start of the COVID-19 pandemic. There is, however, a possibility that an agreement will not be reached and the UK will exit the transition period without a trade deal.

If it becomes likely later this year that we will not reach a trade deal with the EU, we would expect national and local government to step up planning for any impact of no trade deal on our borders, businesses, procurement, and ability to deliver public services. This may involve Local Resilience Forums, and councils undertaking new regulatory functions, at the same time as playing a core role in the COVID-19 pandemic response. This would be a considerable challenge.

East Sussex Pension Fund

In line with the accounting standard IAS19, the Council's net liability for future pension payments, as shown in the Balance Sheet, has decreased by £104.5m from £521.4m at the start of the year to £416.9m at 31 March 2020. Note 42 to the accounting statement provides detailed information. The resultant impact on the CIES is a charge of £40.0m to reflect the present value of the defined benefit obligation and a net Actuarial gain on pension assets and liabilities of £144.5m.

The explanations for this significant change are as follows:

- In assessing liabilities for retirement benefits at 31 March 2019, the actuary assumed a discount rate of negative 0.1% real (2.4% 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 2020, the actuary has advised that a rate of 0.4% real (2.3% nominal) is appropriate. The change in the real discount rate over the year along with revised financial and demographic assumptions has resulted in a decrease in the liabilities measured at today's prices of around £224.0m
- Asset returns on the Fund in the year to 31 March 2020 were lower than expected for the Council. The decrease in the Fund's assets due to investment performance in equity and other markets was estimated to be 4.2%, compared to the expected return on assets at the start of the year of 7.3%, with a total decrease of around £119.5m.

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 £531.7m, £365.3m and £685.9m in respect of employee members, deferred pensioners and pensioners respectively as at 31 March 2020. There is also a liability of approximately £40.6m in respect of LGPS unfunded pensions and £42.8m 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 2019/20, agreed in February 2019, was set against a background of market uncertainty and a prudent approach was taken with all investments. The emphasis continues to be on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed). The strategy and limits are consistent with the capital programme and revenue budget. As will be clear from the current global events, it is impossible in practical terms to eliminate all credit risk. This Council seeks to be as prudent as possible.

This Council has always adopted a prudent approach on its investment strategy and in the last few years, there have been changes to the list of the approved organisations used for investment of short-term surpluses. This list is regularly reviewed to ensure that the Council is able to invest at the best available rates consistent with low risk. The organisations are also regularly monitored to ensure that their financial strength and low risk has been maintained.

The average level of funds available for investment purposes during 2019/20 was £215m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The total amount received in short term interest and dividends for the twelve months to 31 March 2020 was £2.3m at an average rate of 1.08%.

At 31 March 2020, the majority of the Council's external debt was held as long-term loans (£237.9m), and no new short-term or long-term borrowing was undertaken during 2019/20.

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

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

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

The authority manages cashflow daily with a high level forecast out to the end of the financial year. This is reviewed daily from an estimate to actual and updated for all known material items of income and expenditure.

Narrative Report

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

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

The 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; and
5. External arrangements.

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

The Annual Governance Statement, which accompanies this Statement of Accounts, covers more than just financial matters and is set out in full on pages 18 - 21.

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

The Audit Opinion

The 2019/20 Audit Opinion and Certificate is available on pages 15 - 17.

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer – Section 151 Officer.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- to approve the Statement of Accounts, which include the accounting statements for East Sussex Pension Fund.

The Responsibilities of the Chief Finance Officer – Section 151 Officer

The Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the Chartered Institute of Public Finance and Accountancy/Local Authorities (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'), is required to provide a true and fair view of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2020.

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

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

The Chief Finance Officer has also:

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

I certify that the Statement of Accounts gives a true and fair view of the Council's financial position and its income and expenditure for the year ended 31 March 2020.

Ian Gutsell

Chief Finance Officer (Section 151 Officer)
XX XX 2020

Independent Auditor's report to East Sussex County Council

To Follow

Independent Auditor's report to East Sussex County Council

Independent Auditor's report to East Sussex County Council

Annual Governance Statement for the year ended 31 March 2020

1. Scope of responsibility

East Sussex County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The County Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised. In discharging this overall responsibility, Members and senior officers are responsible for putting in place proper arrangements for the governance of the County Council's affairs, the effective exercise of its functions, the management of risk and the stewardship of the resources at its disposal. To this end, East Sussex County Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Local Code is on our website at www.eastsussex.gov.uk 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 2020 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. Each Director has included in their Directorate Assurance Statement confirmation that the actions identified for 2019/20 have been completed or provided an update and explanation regarding progress.

A review of the Annual Governance Statement was undertaken by Internal Audit during 2019/20 and a provisional Substantial Assurance rating was given. This opinion means that controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. The recommendations arising from the review have been implemented

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

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

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

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

Councillor Keith Glazier, Leader
Becky Shaw, Chief Executive
2 October 2020

Annual Governance Statement for year ended 31 March 2020

ANNEX A

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

Business Services (BSD)

- Implement Pension Fund's Good Governance Review (September 2020 and ongoing)
- Deliver priorities in the Orbis Business Plan (including savings) and managed progress through the relevant governance process (March 2021)
- Implement a new Property Asset Management System (January 2021) and asset maintenance contracts to ensure increased visibility of asset condition
- Implement a new target operating model for the property service (September 2020)
- Implement data improvement programme for Pensions administration (September 2020)
- Implement a project and portfolio management tool to ensure adequate control and governance over our change initiatives, ensuring they remain aligned with priorities and are adequately resourced and monitored post 'go live' to maximise benefits realisation (December 2020)
- Rollout the Contract Management Framework and training across the Council. The Framework will continue to evolve, with the addition of guidance around de-commissioning services and exit management (December 2020)
- Report on progress towards full implementation of the Requirements and Recommendations of the Local Government Transparency Code 2015, including information in Part 3 of the Code (ongoing)

Children's Services

- Develop and monitor the multi-agency action plan to address the areas for development identified in the Joint Targeted Area Inspection of the multi-agency responses to children's mental health in East Sussex. Plan agreed July 2020
- Develop, monitor and report on the children and young people's priorities for the East Sussex Health and Care Plan and embed the new Children and Young People's Oversight Board (March 2021)
- Establish robust arrangements as the host authority and work with partner local authorities (West Sussex County Council, Surrey County Council and Brighton and Hove City Council) to establish Adoption South East as the Regional Adoption agency in line with government expectations and guidance (March 2021)

Communities, Economy and Transport

- Implementation of powers of entry actions identifies by Internal Audit (August 2020)
- Review of progress and governance of the highways re-procurement project (Ongoing until contract award)
- Development of corporate strategy for the digital preservation of modern records and archive material (March 2021)
- Audit of grants and loans governance and process (March 2021)
- Review of our effectiveness as a statutory consultee on planning applications (March 2021)
- Review of highways cultural compliance actions identified by Internal Audit (March 2021)

Adult Social Care and Health

- Delivery of the Adult Social Care and Health Covid-19 Recovery Plan by August 2021
- Developing by December 2020 our East Sussex Integrated Care Partnership model to align with the priorities for the health and social care plan and delivering our objectives in 2020/21
- Establishing by December 2020 a shared understanding of our system financial model covering a 3 – 5 year period, including setting out the required shifts in investment to primary care and community services that will support the plan. More detail will be developed for 2020/21 and this will align with organisational budget-setting processes for future years, as well as any risk share arrangements that may be developed.
- Complete the review of Public Health and by March 2021 establish a delivery plan and governance arrangements to ensure all agreed proposals are delivered
- Complete an Adult Social Care Winter Plan that meets all requirements ESCC and DHSC requirements by October 2020
- Continue to review every three months the Local Outbreak Plan to ensure it reflects latest guidance, learning from outbreaks elsewhere best practice (ongoing)

Governance Services

- Implement and maintain revised decision-making arrangements as provided for in the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority Police and Crime Panel Meetings) (England and Wales) Regulations 2020 to ensure that effective and lawful decisions can continue to be made during the Coronavirus pandemic. This will include providing appropriate training for councillors in relation to remote meetings and agreeing procedures for remote meetings. (Ongoing 2020)
- Implement revised arrangements for school admission appeals to be heard during 2020/21 in line with the The School Admissions (England) (Coronavirus) (Appeals Arrangements) (Amendment) Regulations 2020. (June 2020)
- Ensure decision-making arrangements and school admission appeal arrangements are revised to reflect any further Regulations published during the year as a result of Coronavirus. (ongoing throughout 2020/21)
- Undertake planning and preparation for the 2021 County Council elections and Member induction, including maintaining a risk log. (work will continue throughout 2020/21)
- Support implementation of the recommendations arising from the Internal Audit review of the of the online declaration of interest and gifts/hospitality system. (October 2020)
- Ensure updated legal advice provided as required in relation to changes to coronavirus legislation, including secondary legislation and newly issued guidance.
- Undertake work with the Judiciary to implement solutions to enable the progression of court proceedings in light of Covid 19 in order to avoid delays in relation to decisions being made for children and vulnerable adults.

Annual Governance Statement for year ended 31 March 2020

ANNEX B

Separate bodies owned or set up by the County Council

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

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

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

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

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

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

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

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

Annual Governance Statement for year ended 31 March 2020

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

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

Annual Governance Statement for year ended 31 March 2020

What the relationship is between the body and the local authority	The County Council is a partner authority of SELEP Ltd – one of six county/unitary authorities, as listed above. The Leader of the County Council is a Company Director of SELEP Ltd. There are no shares/shareholders in the company. The County Council has one seat on the Board of Directors of SELEP Ltd, occupied by the Leader of the County Council.
What is the structure and form of the body (e.g. private limited company etc)	SELEP Ltd became a 'company limited by guarantee' in Feb 2020. SELEP Ltd has a Board of 20 Directors (plus an additional 5 co-opted Directors). East Sussex, Essex, Kent, Medway, Southend and Thurrock are members of the company. SELEP Ltd operates a federated model of governance, with four 'federated boards' covering its geography, allowing for decision-making and project prioritisation at a local level. The federated board for East Sussex is 'Team East Sussex' (TES).
How the Council oversee its activities and provided assurance on its governance including financial governance	The SELEP Strategic Board (Board of Directors) meets at least quarterly, so the Leader of the County Council can directly oversee the activities of SELEP Ltd. SELEP Ltd has also established the following groups: • Accountability Board – a 'joint committee' made up of SELEP's six county/unitary authority members, to oversee the financial governance of SELEP Ltd, responsible for the sign-off of all funding decisions. The Leader of the County Council is our representative on the SELEP Accountability Board. • Investment Panel – a sub-committee of the Strategic Board to act as an advisory committee on matters pertaining to project prioritisation, recommendations on provisional funding allocations and future priorities. The Leader of the County Council is our representative on the SELEP Investment Panel. • Senior Officer Group – an advisory group made up of a senior officer from each of SELEP's six county/unitary authorities. ESCC's Head of Economic Development, Skills, Culture and Infrastructure is our representative on the SELEP Senior Officer Group. For projects within our local federated area, the County Council acts as the local accountable body for the defraying of funds (such as the Government's Growing Places Fund, Local Growth Fund or Getting Building Fund) from SELEP Ltd to external partners. A Service Level Agreement (SLA) is in place between the County Council and Essex CC as the accountable body to SELEP Ltd, and the County Council's S151 Officer is required to sign-off on all contract agreements between the County Council and project promoters. All of the governance arrangements for SELEP Ltd are set out in the SELEP Articles of Association, SELEP Framework Agreement and SELEP Local Assurance Framework. ESCC senior officers, including the Chief Finance Officer, collaborated on the development of all of these documents, and they have been approved through our own internal governance procedures (Lead Member SMED and Governance Committee).
What the relationship is between the body and individual councillors and whether councillor's' involvement is likely to constitute a conflict of interest	The Leader of the County Council is a Company Director of SELEP Ltd, and has filed an appropriate declaration with SELEP Ltd in accordance with the SELEP Register of Interests policy. Where the Leader cannot attend a SELEP meeting, a substitute Cabinet Member may attend in their place, subject to full compliance with the same Register of Interests policy (the Lead Member for Economy has also filed an appropriate declaration with SELEP Ltd for such an eventuality). The declaration of a disclosable pecuniary interest does not apply where the interest concerned relates primarily to the general interest of any public sector member in her/his area of geographical responsibility; therefore the involvement of the ESCC Leader on SELEP Ltd is <u>not</u> likely to constitute a conflict of interest.
How can councillors scrutinise the activities of the body, in particular if it will fall within the remit of the audit or scrutiny	The activities of SELEP Ltd do not fall within the remit of the County Council's audit or scrutiny committee, but SELEP Ltd does have its own scrutiny arrangements for all funding decisions taken by the SELEP Accountability Board, whereby each of the six county/unitary authority members of SELEP Ltd has the ability to challenge a decision made by the Accountability Board, and the

committee, and if not, how else scrutiny will happen	scrutiny committees of the six county/unitary authorities have the power to call-in the funding decisions before they are implemented.
Designated Officer contact	Richard Dawson, Communities, Economy and Transport.

Annual Governance Statement for year ended 31 March 2020

Addendum to Annual Governance Statement 2019/20 produced to provide an up to date commentary on the Authority's governance response to the Covid-19 pandemic

The following should be read in conjunction with the Annual Governance Statement

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

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

1.3 Virtual Meetings under the new regulations have taken place regularly since April including the Full Council, Cabinet, Committees, Panels and individual Cabinet decision making meetings. The reporting and monitoring of performance, finance and ongoing updates to the Corporate Strategic Risk Register reflect issues arising from the pandemic.

1.4 Members have been invited to provide feedback on their experiences of virtual meetings and their views on proposals for the conduct of meetings in the coming months, including ongoing Member support needs. The responses received were considered by the cross-party Member ICT and Development Reference Group which supported the approach being taken.

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

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

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

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

1.8 In July 2020 the East Sussex Health and Wellbeing Board approved the East Sussex Outbreak Control Plan. Planning to prevent and respond to cases of Covid-19 in our communities requires a whole system and multi-agency approach, including the NHS Test and Trace programme. A wide range of stakeholders have contributed and commented on the Plan and will continue to shape its development. More detail on operational delivery elements will be added to the Plan as guidance is produced nationally. The Board approved an updated version of the Plan in September, including an escalation framework and agreed to receive a further report at its December meeting regarding developments and updates.

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

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.

2018/19 Gross Expenditure	2018/19 Gross Income	2018/19 Net Expenditure		2019/20 Gross Expenditure	2019/20 Gross Income	2019/20 Net Expenditure
£000	£000	£000		£000	£000	£000
269,225	(90,585)	178,640	Adult Social Care	274,547	(94,282)	180,265
30,509	(27,676)	2,833	Public Health	28,045	(26,832)	1,213
8,558	(1,155)	7,403	Governance Services	8,721	(896)	7,825
380,168	(275,965)	104,203	Children's Services	400,936	(276,227)	124,709
45,535	(18,693)	26,842	Business Services	46,350	(17,035)	29,315
127,946	(35,840)	92,106	Communities, Economy & Transport	122,349	(38,194)	84,155
18,820	(311)	18,509	Corporate Expenditure	15,740	(21,478)	(5,738)
880,761	**(450,225)**	**430,536**	**Cost of Services**	**896,688**	**(474,944)**	**421,744**
5,342	-	5,342	Other operating expenditure - Note 11	25,402	-	25,402
38,655	(5,132)	33,523	Financing and investment income and expenditure - Note 12	37,184	(2,796)	34,388
-	(432,806)	(432,806)	Taxation and non-specific grant income - Note 13	-	(436,277)	(436,277)
		36,595	**Deficit on Provision of Services**			**45,257**
		(25,385)	Surplus on revaluation of non-current assets – Note 25			(7,745)
		77,751	Remeasurement of the net defined pension liability – Note 42			(144,523)
		52,366	**Other Comprehensive Income and Expenditure**			**(152,268)**
		88,961	**Total Comprehensive Income and Expenditure**			**(107,011)**

Movement in Reserves Statement

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

2018/19	**General Fund Balance**	**Schools Balance**	**Earmarked Reserves**	**Total General Fund**	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Total Usable Reserves**	**Unusable Reserves**	**Total Council Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 March 2018 - Notes 24 and 25	**9,999**	**10,734**	**112,186**	**132,919**	**1,233**	**14,402**	**148,554**	**219,010**	**367,564**
IFRS 9 – Financial Instruments	184	-	-	184	-	-	**184**	(184)	**-**
Restated Balance 1 April 2018	**10,183**	**10,734**	**112,186**	**133,103**	**1,233**	**14,402**	**148,738**	**218,826**	**367,564**
Movement in Reserves during 2018/19									
Total Comprehensive Income and Expenditure	(36,595)	-	**-**	**(36,595)**	**-**	**-**	**(36,595)**	**(52,366)**	**(88,961)**
Adjustments between accounting basis & funding basis under regulations - Note 7	30,110	-	-	30,110	1,889	3,821	35,820	(35,820)	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	**(6,485)**	**-**	**-**	**(6,485)**	**1,889**	**3,821**	**(775)**	**(88,186)**	**(88,961)**
Transfers to / (from) Earmarked Reserves - Note 10	6,301	3,454	(9,755)	-	-	-	-	-	-
Increase / (Decrease) in Year	**(184)**	**3,454**	**(9,755)**	**(6,485)**	**1,889**	**3,821**	**(775)**	**(88,186)**	**(88,961)**
Balance at 31 March 2019 - Notes 24 and 25	**9,999**	**14,188**	**102,431**	**126,618**	**3,122**	**18,223**	**147,963**	**130,640**	**278,603**

Movement in Reserves Statement

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

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 2019			31 March 2020
£000		Note	£000
959,280	Property, Plant & Equipment	14	962,855
738	Heritage Assets	17	652
17,962	Investment Property	15	11,063
5,242	Intangible Assets	16	4,745
14,661	Long Term Investments	18	24,494
4,830	Long Term Debtors	20	4,960
1,002,713	**Long Term Assets**		**1,008,769**
200,016	Short Term Investments	18	182,024
3,445	Assets Held for Sale	19	2,624
4,141	Payments in Advance	20	9,237
24	Inventories		22
47,121	Short Term Debtors	20	52,803
24,232	Cash and Cash Equivalents	21	18,272
278,979	**Current Assets**		**264,982**
(20,298)	Income in Advance	22	(26,419)
(8,888)	Short Term Borrowing	18	(2,312)
(6,823)	Bank overdraft and Accrued balance for third parties	21	(8,425)
(2,302)	Provisions	23	(5,444)
(107,814)	Short Term Creditors	22	(102,780)
(146,125)	**Current Liabilities**		**(145,380)**
(521,412)	Liabilities related to defined benefit pension schemes	42	(416,868)
(11,761)	Provisions	23	(11,364)
(240,559)	Long Term Borrowing	18	(237,923)
(11,492)	Capital Grants & Contributions Receipts in Advance	35	(9,551)
(71,740)	Other Long Term Liabilities	40	(67,051)
(856,964)	**Long Term Liabilities**		**(742,757)**
278,603	**Net Assets**		**385,614**
147,963	Usable Reserves	24	166,913
130,640	Unusable Reserves	25	218,701
278,603	**Total Reserves**		**385,614**

I certify that this Statement of Accounts provides a true and fair view of the financial position of the Council as at 31 March 2020 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 XX XX 2020

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.

2018/19		2019/20
£000		**£000**
36,595	Net deficit on the provision of services	45,257
(101,331)	Adjustments to net deficit on the provision of services for non-cash movements	(123,612)
64,604	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	61,556
(132)	Net cash inflow from Operating Activities - Note 26	(16,799)
(11,251)	Investing Activities - Note 27	14,403
30,833	Financing Activities - Note 28	9,958
19,450	**Net (increase) / decrease in net cash and cash equivalents** - Note 21	**7,562**
(36,859)	Net cash and cash equivalents at the beginning of the reporting period - Note 21	(17,409)
(17,409)	**Net cash and cash equivalents at the end of the reporting period** - Note 21	**(9,847)**

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 XX 2020) is published with an audit opinion.

2. Accounting Policies

i. General

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year end 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These require them to be prepared in accordance with proper accounting practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS).

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

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

ii. Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Revenue Recognition

Revenue is recognised in accordance with IFRS 15 - Revenue Recognition from Contracts with Customers and IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers). Under IFRS15, the principles of revenue recognition are determining if the transaction is an exchange or non-exchange transaction. With non-exchange transactions there is no or only nominal consideration in return. The obligating extent is often determined by statutory prescription (e.g. council tax, VAT or a fine for breach of law) or may be a donation or bequest. For exchange transactions, assets or services and liabilities of approximately equal value are exchanged. There is a contract which creates right and obligations. Performance obligations in the contract have to be measured and the transaction price allocated to these obligations. Revenue is recognised when the performance obligations are satisfied. Examples include fees and charges for services and the sale of goods provided.

Notes to the Accounting Statements

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.

Notes to the Accounting Statements

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

Post Employment Benefits

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

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education
- The Local Government Pension Scheme
- The NHS Pension Scheme, administered by the NHS Business Service Authority.

The schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council.

Teachers' Pensions

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it was a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

Local Government Pensions Scheme

Most other employees can join the Local Government Pension Scheme. The Council administers the pension fund for all local authorities within the geographical area of East Sussex. The Local Government Scheme is accounted for as a defined benefits scheme. The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees.

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

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

Notes to the Accounting Statements

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 assessing liabilities for retirement benefits at 31 March 2020, the actuary has advised that a rate of 0.4% real (2.3% nominal) which is based on the rate of return at the accounting date on a high-quality corporate bond of equivalent currency and term to scheme liabilities. In assessing liabilities for retirement benefits at 31 March 2019, the actuary advised that a rate of negative 0.1% real (2.4% nominal) is appropriate.

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

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

x. Events After the Balance Sheet Date

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

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

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

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

Notes to the Accounting Statements

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

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Where loans are made at less than market rates (soft loans), a loss is recorded in the CIES (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the CIES at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Notes to the Accounting Statements

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the CIES to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

Financial Assets Measured at Fair Value through Profit of Loss

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

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

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

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

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

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

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

Expected Credit Losses

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

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

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

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

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

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

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

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

Notes to the Accounting Statements

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.

Community Infrastructure Levy (CIL)

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

xiv. Intangible Assets

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

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

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The expected useful life is normally up to seven years. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and on disposal (for any sale proceeds greater than £10,000) the Capital Receipts Reserve. Capital receipts (if more than the de minimis level of £10,000) from the sale of assets are held in a reserve until they are required to finance capital expenditure.

Notes to the Accounting Statements

xv. Interests in Companies and Other Entities

An assessment of the Council's interests has been carried out during the year in accordance with the Code of Practice to determine the group relationships that exist. Inclusion in the group is dependent upon the extent of the Council's control over the entity demonstrated through ownership, such as a shareholding in an entity or representation on an entity's board of directors. The Council has no material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities, which would require it to prepare group accounts alongside its own financial statements. The investments in the Council's accounts are shown at fair value through profit and loss or at amortised cost.

xvi. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the latest invoice price.

xvii. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, highest and best use, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

xviii. Joint Operations

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

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

xix. Leases

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

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

The Council as Lessee

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

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

Notes to the Accounting Statements

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

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

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

The Council as Lessor

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and;
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

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

xx. Overheads and Support Services

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

Notes to the Accounting Statements

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

Assets that have physical substance and are held for use in the production or supply of goods or services, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Recorded as capital expenditure are all transactions that involve the purchase of new Property, Plant and Equipment or expenditure that adds to their value. The purchase of furniture and equipment is treated as capital if it is associated with capital building works. Otherwise individual items of vehicles and equipment are treated as capital if the value is over £20,000. If the value is less than this sum we charge it to revenue.

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

- operational land, buildings and plant – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV). Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value;
- infrastructure, community assets and assets under construction – at depreciated historical cost;
- surplus assets – at fair value in highest and best use, the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every three years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Componentisation Policy

The Council ensures that the overall value of an asset is fairly apportioned over significant components that need to be accounted for separately and that their useful lives and the method of depreciation are determined on a reasonable and consistent basis. The Council's adopted componentisation policy is as follows:

- Each part of an item of Property Plant and Equipment (PP&E) with a cost that is significant in relation to the total cost of the items is depreciated separately. Where there is more than one significant part of the same asset, which has the same useful life and depreciation method, such parts are grouped in determining the depreciation charge;
- Where a component is replaced or restored, the carrying amount of the old component is derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the recognition principles of capitalising expenditure with a de minimus level of £20,000;
- All components that have a different useful economic life from the main asset are identified separately – provided the amount is above the £20,000 de minimus level, and then only if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentised. Component assets could include building structure, roof, heating, electrical, lifts and external works. The expected useful economic lives of components are shown in the depreciation section below.
- De-recognition of a component of PP&E takes place when no future economic benefits are expected from its use (i.e. its service potential is used up) and it is removed from the Balance Sheet. For example, if a new roof is significant in relation to the total value of the asset, part of the existing carrying value of the building would be derecognised and then the new roof recognised;
- For revalued assets (as part of the rolling programme), the individual valuation sheets produced by the external valuers would be compared to the beacon analysis. If a particular asset conforms to the components identified in the beacon, and it is significant in relation to the total value, those percentages will be applied to the carrying value. If it does not conform to the beacon, revised percentages will be obtained;
- On componentisation, any Revaluation Reserve balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets (with the exceptions shown in the table below) and calculated on a straight-line basis over the expected life of the asset, on the difference between the net book value and any estimated residual value. The depreciation charge is calculated on an 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, buildings structure, roof and external works	Individually assessed by valuers, usually up to 60 years
Heating and Lighting components	Individually assessed by valuers, usually up to 25 years
Lifts	Individually assessed by valuers, usually up to 15 years
Vehicles	Individually assessed on acquisition, usually up to 10 years
Information Technology	Individually assessed on acquisition, usually up to 10 years
Other plant, furniture and equipment	Individually assessed on acquisition, usually up to 20 years
Infrastructure	New roads 40 years; Highways component assets between 10 & 40 years
Infrastructure land	Not depreciated as an infinite life expectancy
Community land	Not depreciated as an infinite life expectancy
Assets under construction	Not depreciated until the asset becomes operational
Surplus buildings	Individually assessed by valuers
Surplus land	Not depreciated as an infinite life expectancy

Notes to the Accounting Statements

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. F

Accounting for Schools

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

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

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

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

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

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

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

Notes to the Accounting Statements

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 9.80% for Peacehaven Schools and 5.97% for the Joint Integrated Waste Management Service PFI Contract) on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator, the profile of write-downs is calculated using the same principles as for a finance lease;
- lifecycle replacement costs – a proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out for the Joint Integrated Waste Management Service PFI Contract. This expenditure is recognised as revenue expenditure for Peacehaven Schools, where there are non-significant lifecycle replacements costs charged to prepayment.

xxiii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

Landfill Allowance Schemes

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

Closed Landfill Sites

Notes to the Accounting Statements

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 (Refcus)

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

Expenditure on academy or voluntary aided schools assets, i.e. properties not owned by the Council, are treated as Refcus. 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.

Notes to the Accounting Statements

xxvii. Redemption of Debt

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

xxviii. Carbon Reduction Commitment (CRC)

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

xxix. Council Tax and Business Rates

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

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

xxx. Heritage Assets

The Council’s Heritage Assets are managed by East Sussex Record Office, which holds the historic and administrative archives for the County of East Sussex and, under an SLA agreement, for the City of Brighton & Hove. These comprise records dating 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,

Notes to the Accounting Statements

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.

xxxi. Fair Value Measurement

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

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

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

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.

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

Notes to the Accounting Statements

The Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) will introduce several changes in accounting policies which will be required from 1 April 2020. 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:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures;
- Annual Improvements to IFRS Standards 2015–2017 Cycle;
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

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 2020 and there is therefore no impact on the 2019/20 Statement of Accounts.

The implementation of IFRS 16 - Leases was due in 2020/21 (effective date 1 January 2020) but has been deferred until 2021/22. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases, unless the lease term is less than one year or the underlying asset has a low value. Transition work is underway but currently the impact of IFRS 16 cannot be reasonably estimated.

4. Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 2, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Accounting Statements are:

- Financial Pressures - the Council anticipates that the pressures on public expenditure will continue to be severe. These pressures will be mitigated by further service area and corporate savings, and a limited use of reserves. An assessment of the ongoing pressures and means of mitigation has been made by way of the Council's Medium Term Financial Planning process which has assessed the period to 31 March 2023. As a consequence, the Council is of the view that the level of uncertainty is not significant enough in terms of its anticipated impact to warrant an impairment of assets due to reduced levels of service provision, or a need to close facilities.

- Accounting for Schools – the Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the schools land and buildings on its Balance Sheet where it directly owns the assets, the school or school Governing Body own the assets or rights to use the assets have been transferred from another entity.

  Where the land and building assets used by the school are owned by an entity other than the Council, school or school Governing Body then it is not included on the Council's Balance Sheet. The exception is where the entity has transferred the rights of use of the asset to the Council, school or school Governing Body. The Council has completed a school by school assessment across the different types of schools it controls within the County. Judgements have been made to determine the arrangements in place and the accounting treatment of the land and building assets. The Council regards that the economic benefits or service potential of a school flows to the Council where the Council has the ability to employ the staff of the school and is able to set the admission criteria.

  There are currently 6 types of schools within the County:

  - 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.

Notes to the Accounting Statements

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 at March 2020:

Type of School	Primary	Secondary	Special	All Through	Total
Community	45	8	1	-	54
Voluntary Controlled	45	-	-	-	45
Voluntary Aided	21	1	-	-	22
Foundation / Trust	2	1	-	-	3
Academy	36	13	9	3	61
Total	**149**	**23**	**10**	**3**	**185**

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 2020 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 total depreciation and amortisation charged in 2019/20 is £53.0m and the net book value of property, plant and equipment at 31 March 2020 is £962.9m. As a result of the coronavirus impact, the property market remains uncertain and capital and rental values may change rapidly in the short to medium term. In view of this, the valuers have advised that there is a material valuation uncertainty and less confidence than usual should be placed in the probability of the opinion of value exactly coinciding with the price achieved were there to be a sale. 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 £6.6m for every one year that useful lives had to be reduced.

Notes to the Accounting Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	the year if the carrying value is calculated as materially different to the fair value at the Balance Sheet date.	
	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 2019/20 to the Surplus on Provision of Services is £14.1m and £19.7m to the Revaluation Reserve.
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 2019/20, the Council's actuary advised that the net pension's liability has decreased from £521.4m at the start of the year to £416.9m at 31 March 2020. Note 42 to the Accounting Statements provide detailed information. Details of the sensitivity analysis of the actuarial assumptions can be found in Note 42 on page 96. The Council included the estimated impact of the McCloud judgement in the 2018/19 accounts as an IAS 19 liability and have done the same for 2019/20. However until the new legislation is agreed, the impact is only estimated and therefore there could be a significant risk of material adjustment to the carrying amount of the liability. As a result of the coronavirus impact, the property market remains uncertain and capital and rental values may change rapidly in the short to medium term. East Sussex Pension Fund financial statements include a 'material valuation uncertainty' in respect of the valuation of pooled property investments. These investments are valued at 31 March 2020 at £325.92m in the Pension Fund accounts. The total value of the fund assets in the Pension Fund accounts at 31 March 2020 is £3,479.1m, so this investment type represents just over 9.4% of total assets. East Sussex County Council's share of these investments is material and therefore there is also a material valuation uncertainty in respect of the pension fund net liability valuation of which these investments are a constituent part.

Notes to the Accounting Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
		Advice from the investment fund manager of the pooled property portfolio is that the indicative effect of the Covid-19 pandemic on these valuations could result in a reduction of up to 10% in the reported value at year end which is £32.59m for the fund as a whole. East Sussex County Council's share of the pension fund's total assets is 36%. Therefore, its share of the pension's pooled property asset is £117.33m. The fund manager's assessment of the effect that Covid-19 could have on East Sussex County Council is up to £11.73m.
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 (Marsh) undertaken according to standard actuarial techniques, bssed 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 23.
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 set aside a £9.3m provision (see Note 23), which it believes is appropriate based on local circumstances, including risks and major environmental initiatives being undertaken.

Notes to the Accounting Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
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. As a result of the coronavirus impact, the valuer has indicated there are matters that may give rise to material valuation uncertainty. The property market remains uncertain and capital and rental values may change rapidly in the short to medium term. In view of this, the valuers have advised that less confidence than usual should be placed in the probability of the opinion of value exactly coinciding with the price achieved were there to be a sale.
		Investment Properties are valued using comparable house prices, land values, rent/yield basis or deferred market value. A 1% reduction in house prices and land values or 1% yield increase would reduce the investment property valuations by £0.18m. A 10% reduction would be £1.6m. Surplus Properties are valued using comparable land values, residual site values and rent/yield basis. A 1% reduction in land values or a 1% increase in yield would reduce the surplus property valuations by £0.1m. A 10% reduction would be £0.7m.

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.

2018/19	**As Reported for Resource Management**	**Adjustment to arrive at the net amount chargeable to General Fund**	**Net Expenditure Chargeable to the General Fund**	**Adjustments between the Funding and Accounting Basis (Note 7)**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
	£000	**£000**	**£000**	**£000**	**£000**
Adult Social Care	166,549	6,027	172,576	6,064	178,640
Public Health	-	2,688	2,688	145	2,833
Governance Services	7,034	59	7,093	310	7,403
Children's Services	71,577	(2,693)	68,884	35,319	104,203
Business Services	21,070	(2,874)	18,196	8,646	26,842
Communities, Economy & Transport	59,154	(8,856)	50,298	41,808	92,106
Total	**325,384**	**(5,649)**	**319,735**	**92,292**	**412,027**
Corporate Expenditure	10,157	-	10,157	8,352	18,509
Net Cost of Services	**335,541**	**(5,649)**	**329,892**	**100,644**	**430,536**
Other Income and Expenditure from the Expenditure and Funding Analysis					
Other Corporate Expenditure	38,664	12,427	51,091	(12,226)	38,865
Financing	(374,205)	(293)	(374,498)	(58,308)	(432,806)
Total	**(335,541)**	**12,134**	**(323,407)**	**(70,534)**	**(393,941)**
Deficit for the Year	**-**	**6,485**	**6,485**	**30,110**	**36,595**

General Fund Balance at 1 April 2018	**(10,183)**
Less: Deficit for the Year	6,485
Add: Transfer from Reserves	(6,301)
General Fund Balance at 31 March 2019	**(9,999)**

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

General Fund Balance at 1 April 2019	**(9,999)**
Add: Surplus for the Year	(23,119)
Less: Transfer to Reserves	23,119
General Fund Balance at 31 March 2020	**(9,999)**

(a) Adjustments between Funding and Accounting Basis

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

Adjustments from General Fund to arrive at the CIES amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
2018/19	**£000**	**£000**	**£000**	**£000**
Adult Social Care	2,622	3,464	(22)	6,064
Public Health	-	145	-	145
Governance Services	-	309	1	310
Children's Services	27,714	7,783	(178)	35,319
Business Services	7,281	1,354	11	8,646
Communities, Economy & Transport	40,706	1,098	4	41,808
Total	**78,323**	**14,153**	**(184)**	**92,292**
Corporate Expenditure	-	8,352	-	8,352
Net Cost of Services	**78,323**	**22,505**	**(184)**	**100,644**
Other income and expenditure from the Expenditure and Funding Analysis	**(91,203)**	**11,368**	**9,301**	**(70,534)**
Difference between General Fund deficit and CIES deficit in provision of services	**(12,880)**	**33,873**	**9,117**	**30,110**

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:

	2018/19	2019/20
	£000	£000
Adult Social Care	90,585	94,282
Public Health	27,676	26,832
Governance Services	1,155	896
Children’s Services	275,965	276,227
Business Services	18,693	17,035
Communities, Economy & Transport	35,840	38,194
Corporate Expenditure	311	21,478
Total Income analysed on a segmental basis	**450,225**	**474,944**

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

	2018/19	2019/20
	£000	£000
Expenditure		
Employee benefits expenses	337,170	348,510
Other service expenses	490,657	502,174
Depreciation, amortisation, impairment	64,886	65,626
Interest payments	19,035	17,914
Premium on Loan Repayments	7,668	-
Precepts and levies	615	569
Loss on the disposal of assets	4,727	24,804
Total Expenditure	**924,758**	**959,597**
Income		
Fees, charges and other service income	(72,407)	(74,092)
Interest and investment income	(2,325)	(2,415)
Income from council tax & non domestic rates	(356,516)	(368,199)
Government grants and contributions	(456,915)	(469,634)
Total Income	**(888,163)**	**(914,340)**
Deficit on the Provision of Services	**36,595**	**45,257**

IFRS 15 (Revenue from Contracts with Customers)
Of the £74.1m total of income received from fees, charges and other service income listed above for 2019/20, £67.0m of this balance would been accounted for under IFRS 15 and £7.1m would have been outside the scope of this reporting standard.

7. Adjustments between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

2019/20	**Usable Reserves**		
	General 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	39,979	-	-
Financial Instruments transferred to the Financial Instruments Adjustment Account	(190)		
Financial Instruments transferred to the Pooled Investment Funds Adjustment Account	167		
Council tax and NNDR (transfers to or from Collection Fund Adjustment Account)	(1,191)	-	-
Holiday pay (transferred to the Accumulated Absences Reserve)	-	-	-
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	47,780	-	(4,091)
Total Adjustments to Revenue Resources	**86,545**	**-**	**(4,091)**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(3,044)	3,044	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(10,507)	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(4,618)	-	-
Total Adjustments between Revenue and Capital Resources	**(18,169)**	**3,044**	**-**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	(3,122)	-
Total Adjustments to Capital Resources	**-**	**(3,122)**	**-**
Total Adjustments	**68,376**	**(78)**	**(4,091)**

2018/19	General 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	33,873	-	-
Financial Instruments transferred to the Financial Instruments Adjustment Account	7,494	-	-
Financial Instruments transferred to the Pooled Investment Funds Adjustment Account	340	-	-
Council tax and NNDR (transfers to or from Collection Fund Adjustment Account)	1,491	-	-
Holiday pay (transferred to the Accumulated Absences Reserve)	(185)	-	
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):	24,912	-	3,821
Total Adjustments to Revenue Resources	**67,925**	**-**	**3,821**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(4,511)	4,511	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(10,112)	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(23,192)	-	-
Total Adjustments between Revenue and Capital Resources	**(37,815)**	**4,511**	**-**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	(2,622)	-
Total Adjustments to Capital Resources	**-**	**(2,622)**	**-**
Total Adjustments	**30,110**	**1,889**	**3,821**

8. Material items of income and expenses

The Council has disposed of the following property, plant and equipment from its Balance Sheet as three schools obtained academy status during 2019/20. This is included within losses on disposals of non-current assets of £24.80m (see Note 11). The assets were transferred for no consideration and the amounts are recognised as losses on disposal.

School	Type of School	£000
Peacehaven Community	Secondary	17,885
Hailsham Primary	Primary	2,608
Total		**20,493**

9. Events after the Balance Sheet date

COVID-19

The UK government imposed coronavirus (covid-19) lockdown measures in England on 26 March 2020 and subsequently revised and extended them. The lockdown banned all non-essential travel and contact with people outside one's own household, many workers were furloughed and almost all schools, businesses, venues, facilities and amenities were closed. Three phases for easing lockdown measures have been announced with phase 1 beginning on 11 May, phase 2 on 1 June and phase 3 on 4 July. Although March saw the first few weeks of the covid-19 crisis, the full financial consequences will fall in 2020/21 and future years and therefore is considered as a non-adjusting event with conditions arising after the reporting date. The contingent liability note identifies the estimated costs to the Council. The events after the reporting period do not indicate that the Council would be unable to continue as a going concern.

Academy Schools

Two schools are expected to convert to Academy status in 2020/21. The net book value (NBV) of the property, plant and equipment will be written out of the Council's balance sheet at the date of conversion. The net book values at 31 March 2020 is shown in the table below.

School	Type of School	Date of Conversion	NBV £000
Causeway	Secondary	TBC	23,463
Sedlescombe	Primary	TBC	-
Stafford	Primary	TBC	3,825

Sedlescombe school is a voluntary controlled school and so was de-recognised from the Council's Balance Sheet in 2015/16 as the rights of ownership is with the church diocese.

Closure of School

Broad Oak Community primary school will close at the end of the school year in August 2020 and has a net book value of £1.33m.

Countryside Management

In 2020/21 the ownership of the Seven Sisters Country Park will transfer to the South Downs National Park Authority. In addition, Ditchling Common Country Park will be leased to the Sussex Wildlife Trust, ownership of the Ouse Estuary Nature Reserve transferred to Newhaven Town Council and Riverside Park leased to Newhaven Town Council. The Seven Sisters Country Park and Ouse Estuary Nature Reserve are classed as community land assets and valued at their existing use value. The net book values are £0.70m and £0.11m respectively.

Authorised for Issue

The Statement of Accounts was authorised for issue by the Chief Finance Officer on XX XX 2020. 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 2020, 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 2020 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.

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 2019/20.

	Balance at 1 April 2018	Transfers In 2018/19	Transfers Out 2018/19	Balance at 31 March 2019	Transfers In 2019/20	Transfers Out 2019/20	Balance at 31 March 2020
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Strategic Reserves							
Priority Outcomes & Transformation	**9,757**	-	(1,543)	**8,214**	-	(1,041)	**7,173**
Financial Management	**25,624**	6,757	-	**32,381**	2,620	-	**35,001**
Service Reserves							
Capital Programme	**19,057**	-	(8,547)	**10,510**	-	(1,176)	**9,334**
Waste	**12,843**	-	-	**12,843**	1,770	-	**14,613**
Insurance	**5,448**	-	(667)	**4,781**	1,682	-	**6,463**
Other Reserves							
Public Health	**7,684**	-	(2,688)	**4,996**	-	(970)	**4,026**
Held on behalf of others	**6,240**	-	(1,288)	**4,952**	977	-	**5,929**
Total	**86,653**	**6,757**	**(14,733)**	**78,677**	**7,049**	**(3,187)**	**82,539**
Revenue Grants and Contributions Reserve							
Services	**21,960**	-	(1,454)	**20,506**	-	(826)	**19,680**
Dedicated Schools Grant	**3,573**		(325)	**3,248**	2,933	-	**6,181**
COVID-19	**-**	-	-	-	16,297	-	**16,297**
Total	**25,533**	**-**	**(1,779)**	**23,754**	**19,230**	**(826)**	**42,158**
Total	**112,186**	**6,757**	**(16,512)**	**102,431**	**26,279**	**(4,013)**	**124,697**

Types of Reserve

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.
Financial Management	This is to enable the effective management of the medium-term financial strategy by managing cash flow across financial years; along with providing funding to invest to save and attract other sources of income.
Capital Programme	To provide resources which may be used for capital spending, and in recognition of the reducing forecasts of capital receipts.
Waste	To smooth the large year-on-year budget increases that will be needed to finance the Waste PFI project over the whole life of the service.
Insurance	To cater for internal insurance and risk management on Council services. Self Insurance through this reserve is more economical than external insurance for these classes of risks.
Public Health	The Public Health Reserve represents income from Government received which have no conditions attached, and set aside for the health and wellbeing of the local communities under the Government's healthcare.
Held on behalf of others	Represents money that is held on behalf of others or statutorily ring-fenced.
Revenue Grants and Contributions	These are grants and contributions that have been received with no conditions attached but are yet to be applied to expenditure. The Council has earmarked these revenue grants and contributions until they are applied.

Balances held by schools under a scheme of delegation

The schools balances reserve holds the balances held by the Council's schools under a scheme of delegation. These reserves are held by each individual school and are used to provide education to the pupils of that school. They are not used for any other purpose. Additional information on Dedicated School Grants and Schools Balances are detailed within Note 36.

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

	Balance at 1 April 2018	Transfers In 2018/19	Transfers Out 2018/19	Balance at 31 March 2019	Transfers In 2019/20	Transfers Out 2019/20	Balance at 31 March 2020
	£000	£000	£000	£000	£000	£000	£000
Balances held by schools	**10,734**	**4,308**	**(854)**	**14,188**	**2,563**	**(1,710)**	**15,041**

11. Other Operating Expenditure

	2018/19	2019/20
	£000	£000
Levies		
▪ Ashdown Forest Conservators	61	30
▪ Sussex Inshore Fisheries & Conservation Authority	406	414
▪ Environment Agency - Flood & Coastal Erosion	148	154
Loss on the disposal of non-current assets (net of receipts)	4,727	24,804
Total	**5,342**	**25,402**

Note - The 2019/20 loss on the disposal of non-current assets figure of £24.8m (gross of £3.0m capital receipts) includes the removal of two schools from the Balance Sheet, that have attained Academy status at a value of £20.5m (details are included in Note 7). The comparative figures for 2018/19 are £9.3m loss (gross of £4.5m receipts) and two schools with a value of £6.5m.

12. Financing and Investment Income and Expenditure

	2018/19	2019/20
	£000	£000
Interest payable on debt and finance leases	18,810	17,676
Net interest on pension assets and liabilities	11,358	12,859
Impairment Losses	465	10
Fair Value of Pooled Funds	340	167
Premium on loan repayment	7,668	-
Soft Loan interest	14	(3)
Interest receivable	(2,320)	(2,563)
(Increase) / Decrease in fair value of Investment Properties	(2,533)	6,476
Net income from Investment Properties	(222)	(196)
Surplus on Trading Undertakings	(57)	(38)
Total	**33,523**	**34,388**

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

13. Taxation and Non Specific Grant Income

	2018/19	2019/20
	£000	£000
Revenue Support Grant (RSG)	14,966	-
Business Rates	76,825	84,752
Council Tax	276,721	287,676
Council Tax – prior years surplus	3,622	3,008
New Home Bonus Grant	1,231	886
Business Rates Levy	1,133	252
Total	**374,498**	**376,574**
Share of Collection Fund Surplus / (Deficit)	(1,785)	1,191
Capital Grants and Contributions	60,093	58,512
Total	**432,806**	**436,277**

Note: The government are phasing out revenue support grant and incorporating this within increased shares of business rates retention. The Council are part of an East Sussex business rate pilot scheme in 2019/20 and so RSG has been foregone.

14. *Property, Plant, and Equipment*

Movements in 2019/20:	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 2019	**369,877**	**171,981**	**570,163**	**2,521**	**16,041**	**16,199**	**1,146,782**	**90,174**
Additions	19,473	6,898	34,725	-	102	17,654	**78,852**	197
Revaluation increases recognised in the Revaluation Reserve	16,964	3,905	-	-	1,026	-	**21,895**	971
Revaluation decreases recognised in the Revaluation Reserve	(16,346)	(6,301)	-	-	(1,281)	-	**(23,928)**	(2,304)
Revaluation increases (reversal of previous losses) recognised in the Provision of Services	7,099	291	-	-	44	-	**7,434**	2,424
Revaluation decreases recognised in the Provision of Services	(11,741)	(3,799)	-	-	(951)	-	**(16,491)**	(5,324)
Derecognition – disposals	(5,361)	(849)	-	-	(425)	-	**(6,635)**	-
Derecognition – disposals - schools	(14,170)	(6,747)	-	-	-	-	**(20,917)**	(17,601)
Assets reclassified within PPE	(627)	(224)	48	-	1,519	(716)	**-**	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	(220)	-	**(220)**	-
Assets reclassified (to) / from Investment Property	-	-	-	-	275	-	**275**	-
At 31 March 2020	**365,168**	**165,155**	**604,936**	**2,521**	**16,130**	**33,137**	**1,187,047**	**68,537**
Accumulated Depreciation and Impairment								
At 1 April 2019	**(340)**	**(19,193)**	**(167,883)**	**-**	**(86)**	**-**	**(187,502)**	**-**
Depreciation charge	(10,468)	(15,479)	(24,401)	-	(200)	-	**(50,548)**	(4,191)
Depreciation written out to the Revaluation Reserve	3,923	5,600	-	-	276	-	**9,799**	961
Revaluation losses recognised in the deficit on the Provision of Services	1,228	1,257	-	-	-	-	**2,485**	1,416
Reversal of previous losses	763	7	-	-	9	-	**779**	182
Derecognition – disposals	1	1	-	-	-	-	**2**	-
Derecognition – disposals - schools	299	492	-	-	-	-	**791**	580
Assets reclassified within PPE	-	1	-	-	(1)	-	**-**	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	2	-	**2**	-
Assets reclassified (to) / from Investment Property	-	-	-	-	-	-	**-**	-
At 31 March 2020	**(4,594)**	**(27,314)**	**(192,284)**	**-**	**-**	**-**	**(224,192)**	**(1,052)**

Movements in 2019/20:	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment*
Net Book Value								
At 31 March 2020	**360,574**	**137,841**	**412,652**	**2,521**	**16,130**	**33,137**	**962,855**	**67,485**
At 31 March 2019	**369,537**	**152,788**	**402,280**	**2,521**	**15,955**	**16,199**	**959,280**	**90,174**

Movements in 2018/19:	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 2018	**373,692**	**171,286**	**515,341**	**1,943**	**16,585**	**25,709**	**1,104,556**	**93,138**
Additions	19,289	3,995	38,221	-	576	7,092	**69,173**	109
Revaluation increases recognised in the Revaluation Reserve	19,829	5,178	-	757	1,115	-	**26,879**	-
Revaluation decreases recognised in the Revaluation Reserve	(10,583)	(1,653)	-	-	(1,726)	-	**(13,962)**	(3,073)
Revaluation increases (reversal of previous losses) recognised in the Provision of Services	2,159	(264)	-	-	771	-	**2,666**	-
Revaluation decreases recognised in the Provision of Services	(22,087)	(2,750)	-	(179)	(871)	-	**(25,887)**	-
Derecognition – disposals	(39)	-	-	-	(275)	-	**(314)**	-
Derecognition – disposals - schools	(4,574)	(2,272)					**(6,846)**	-
Assets reclassified within PPE	(1,398)	(377)	16,601	-	1,776	(16,602)	**-**	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	(1,557)	-	**(1,557)**	-
Assets reclassified (to) / from Investment Property	(6,411)	(1,162)	-	-	(353)	-	**(7,926)**	-
At 31 March 2019	**369,877**	**171,981**	**570,163**	**2,521**	**16,041**	**16,199**	**1,146,782**	**90,174**
Accumulated Depreciation and Impairment								
At 1 April 2018	**(210)**	**(16,081)**	**(145,249)**	**-**	**-**	**-**	**(161,540)**	**-**
Depreciation charge	(9,716)	(15,120)	(22,634)	-	(39)	-	**(47,509)**	(3,583)
Depreciation written out to the Revaluation Reserve	4,351	8,580	-	-	26	-	**12,957**	3,583
Revaluation losses recognised in the deficit on the Provision of Services	3,414	2,075	-	-	4	-	**5,493**	-
Reversal of previous losses	1,662	1,074	-	-	-	-	**2,736**	-
Derecognition – disposals	-	-	-	-	2	-	**2**	-

Movements in 2018/19:	**Other Land and Buildings**	**Vehicles, Plant, Furniture & Equipment**	**Infrastructure Assets**	**Community Assets**	**Surplus Assets**	**Assets Under Construction**	**Total Property, Plant and Equipment**	**PFI Assets Included in Property, Plant and Equipment***
Derecognition – disposals - schools	111	243	-	-	-	-	**354**	-
Assets reclassified within PPE	43	36	-	-	(79)	-	**-**	-
Assets reclassified (to) / from Investment Property	5	-	-	-	-	-	**5**	-
At 31 March 2019	**(340)**	**(19,193)**	**(167,883)**	**-**	**(86)**	**-**	**(187,502)**	**-**
Net Book Value								
At 31 March 2019	**369,537**	**152,788**	**402,280**	**2,521**	**15,955**	**16,199**	**959,280**	**90,174**
At 31 March 2018	**373,482**	**155,205**	**370,092**	**1,943**	**16,585**	**25,709**	**943,016**	**93,138**

Depreciation

Depreciation is calculated on a straight-line basis over the expected life of the asset, on the difference between the book value and any estimated residual value. Depreciation is charged on all classes of Property, Plant and Equipment, with the exception of land, community assets, surplus land and assets under construction. The useful lives used in the calculation of depreciation are set out in the accounting policy xxi (Note 2).

Revenue Expenditure Funded from Capital Under Statute (Refcus)

Refcus represents capital expenditure on assets which are not owned by the Council (e.g. capital grants, adapting the homes of people with disabilities). Refcus is written off in the year in which the expenditure is incurred. However, the financing cost, in terms of interest and Minimum Repayment Provision, is deferred over a number of years. In 2019/20, £13.03m (£13.90m in 2018/19) of the Council's capital investment related to Refcus (Note 38), and all was written off in the year the expenditure was incurred.

Revaluation and Impairment Losses

Each year the Council revalues a proportion of its land and building assets including schools and undertakes an impairment review of the entire asset portfolio. Where land and property assets have increased in value, the revaluation gains are shown in the revaluation reserve (see Note 25) and total £27.4m (£40m in 2018/19). Some assets will also lose value on revaluation. In 2019/20, the Council has recognised revaluation losses of £33.7m (£34.3m in 2018/19). Of the £33.7m total, £14.0m (£19.9m 2018/19) has been charged to the Comprehensive Income and Expenditure Statement and £19.7m (£14.4m in 2018/19) to the Revaluation Reserve. The reversal of revaluation losses taken to the Comprehensive Income and Expenditure Statement in 2019/20 totalled £8.2m (£5.4m 2018/19). The net charge to the Comprehensive Income and Expenditure Statement of losses less reversals was £5.8m (£14.5m 2018/19). 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.

Capital Commitments

As at 31 March 2020, the Council had not entered into any material contracts for the construction or enhancement of Property, Plant and Equipment in 2020/21 and future years that amounted to the value of £10m or more.

Valuation of Property, Plant and Equipment (PPE)

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

Freehold and long leasehold buildings properties regarded by the Council as operational are valued on the basis of existing use value or where 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 £38.19m 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 may be applied to the remaining portfolio (based on those assets that were valued by the valuer in the year) if the values are deemed to be materially different to their carrying value. Indexation was last applied in 2018/19.

	Other Land and Buildings	**Vehicles, Plant, Furniture and Equipment**	**Surplus Assets**	**Total**
	£000	**£000**	**£000**	**£000**
Carried as at historical cost	-	38,194	-	**38,194**
Valued at fair value in:				
31 March 2020	190,927	66,801	16,130	**273,858**
31 March 2019	174,241	60,160	-	**234,401**
31 March 2018	-	-	-	**-**
Gross Valuation	**365,168**	**165,155**	**16,130**	**546,453**

Fair value hierarchy

As at 31 March 2020, there are sixteen properties classed as surplus, an increase of one on the previous year. No properties were reclassified as held for sale. The fair value hierarchy of surplus assets at 31 March are as follows:

Recurring fair value measurements using:	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 (NBV) 31 March 2020	-	14,222	1,908	**16,130**
Surplus assets (NBV 31 March 2019	-	14,165	1,790	**15,955**

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 building or vacant building rented out under operating leases without service objectives. There are 28 assets classed as investment property, a decrease of two from the previous year.

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

	2018/19	2019/20
	£000	£000
Rental Income from Investment Property	(265)	(248)
Direct Operating Expenses arising from Investment Property	44	52
Net (gain) / loss	**(221)**	**(196)**

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

	2018/19	2019/20
	£000	£000
Balance at start of the year	**7,849**	**17,962**
Additions	-	2
Net Gains / (Losses) from fair value adjustments	2,533	(6,476)
Transfers (to) / from Property, Plant & Equipment & Assets Held for Sale	7,580	(425)
Balance at end of the year	**17,962**	**11,063**

Fair value measurement

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

Fair value hierarchy

The fair value hierarchy at 31 March is as follows:

	31 March 2020			
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	-	4,750	-	**4,750**
Farm Business Tenancy	-	-	950	**950**
Land	-	750	6	**756**
Residential Property	-	1,490	-	**1,490**
Other	-	1,173	1,944	**3,117**
Total	-	**8,163**	**2,900**	**11,063**

	31 March 2019			
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	-	4,351	-	**4,351**
Farm Business Tenancy	-	425	963	**1,388**
Land	-	773	6	**779**
Residential Property	-	1,205	-	**1,205**
Other	-	6,490	3,749	**10,239**
Total	-	**13,244**	**4,718**	**17,962**

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 £2.47m charged to revenue in 2019/20 (£2.40m in 2018/19) was charged to Business Services.

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

	2018/19	2019/20
	£000	£000
Balance at start of year:		
Gross carrying amounts	13,161	14,239
Accumulated amortisation	(6,596)	(8,997)
Net carrying amount at start of year	**6,565**	**5,242**
Purchases	1,078	1,971
Amortisation for the period	(2,401)	(2,468)
Disposal (Gross carrying amount)	-	(2,714)
Diposal (Accumulated amortisation)	-	2,714
Net carrying amount at end of year	**5,242**	**4,745**
Comprising:		
Gross carrying amounts	14,239	13,496
Accumulated amortisation	(8,997)	(8,751)
Net carrying amount at end of year	**5,242**	**4,745**

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

	Carrying Amount		Remaining Amortisation (Years)
	31 March 2019	31 March 2020	
Description	£000	£000	
LiquidLogic – ASC & Children's clients	1,762	1,132	1 – 3
Virtual Infrastructure	1	1,672	4
Desktop Anywhere – remote access	344	40	1
SAP Software - ERP	416	312	1 – 3
Microsoft Enterprise Solution	284	58	1
Data Centre	218	-	-
People's Network	116	-	-
Czone Platform – education providers	150	100	2
Compliance Management	148	40	1 – 2
Security Incident Management	133	66	1
Web Content Management System	91	46	1
HRMS Financials	95	63	2
Atrium – asset management	101	59	1 – 2
Mapping Outlet	297	238	4
Citrix	452	302	2
SharePoint	48	120	11
Other	586	497	1 – 4
Total	**5,242**	**4,745**	

17. Heritage Assets

The Council has identified the following heritage assets:

- East Sussex Record Office which preserves and makes accessible records relating to the County and its people;
- Schools Library and Museum Service (SLAMS) which provides library services, historical artefacts and advice for all teachers at all schools in East Sussex and Brighton;
- A small art collection within offices at County Hall, Lewes;
- Chattels at Bentley House, Halland;
- Battle Abbey Estate Archives;
- Castle Precints Wall; and
- Listed buildings and monuments owned by the Council or on Council land.

No individual item in the Record Office or SLAMS is valued at more than £20,000 which is the Council's de-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	Chattels at Bentley House	The Sugar Loaf Folly	Battle Abbey Estate Archives	Castle Precincts Wall	Total
Cost or valuation	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
1 April 2018	**13**	**484**	**40**	**116**	**37**	**690**
Additions	-	-	-	-	28	**28**
Revaluation Gain	-	-	20	-	-	**20**
31 March 2019	**13**	**484**	**60**	**116**	**65**	**738**
Additions	-	-	-	-	-	**-**
Revaluation / Impairment Loss	-	-	(21)	-	(65)	**(86)**
31 March 2020	**13**	**484**	**39**	**116**	**-**	**652**

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. A section of the wall collapsed in November 2019.

18. Financial Instruments

A. Categories of Financial Instruments

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

Financial Assets	31 March 2019 £000	31 March 2020 £000
Fair value through profit or loss		
Long Term Investments	4,660	4,493
Long Term Debtors	-	-
Short Term Investments & Cash Equivalents	22,100	18,150
Short Term Debtors	-	-
Total	**26,760**	**22,643**
Amortised Cost		
Long Term Investments	10,001	20,001
Long Term Debtors	4,830	4,960
Short Term Investments	202,148	182,146
Short Term Debtors	28,633	28,137
Total	**245,612**	**235,244**
Total Financial Assets	**272,372**	**257,887**
Non Financial Assets	**22,629**	**33,903**
Total	**295,001**	**291,790**

Financial Liabilities	31 March 2019 £000	31 March 2020 £000
Fair value through profit or loss		
Short & Long Term Borrowings and Creditors	-	-
Amortised Cost		
Long Term Borrowings	(240,559)	(237,923)
Long Term Creditors	(71,740)	(67,051)
Short Term Borrowings	(8,887)	(2,312)
Short Term Creditors	(97,900)	(92,428)
Total Financial Liabilities	**(419,086)**	**(399,714)**
Non Financial Liabilities	**(48,528)**	**(54,747)**
Total	**(467,614)**	**(454,461)**

The balance on Soft Loans at 31 March 2020 was £0.139m (£0.137m at 31 March 2019).

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

The balance of financial assets at 31 March 2020 was £22.64m, an decrease of £4.12m from the previous year. Financial assets include £18.15m low volatility money market funds (LVNAV) and £4.49m property fund (carrying amount £5.00m). Total holdings in the three money market funds have decreased by £3.95m over the year. The value of the Property fund has reduced further by £0.17m during the year.

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

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

C. Income, Expense, Gains and Losses

	2018/19		2019/20	
	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000	Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
Net gains/losses on:				
Financial assets measured at fair value through profit or loss – fair value	340	-	167	-
Financial assets measured at fair value through profit or loss – dividend	(136)	-	(201)	-
Total net (gains) / losses	**204**	-	**(34)**	-
Interest revenue:				
Financial assets measured at amortised cost	(2,185)	-	(2,362)	-
Interest expense:				
Financial assets measured at amortised cost	18,824	-	17,673	-

D. Fair Value

The basis for recurring fair value measurements is:

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

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

Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	As at 31/3/19 £000	As at 31/3/20 £000
Fair Value through Profit or Loss				
Other financial instruments	Level 1	Unadjusted quoted prices in active markets for identical shares	26,760	22,643

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

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

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

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

- For loans from the PWLB payable, under debt redemption procedures, prevailing market rates have been applied to provide the fair value;
- For non-PWLB loans payable, under debt redemption procedures, prevailing market rates have been applied to provide the fair value;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

Financial Liabilities	31 March 2019		31 March 2020	
	Carrying amount £000	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
Financial liabilities held at amortised cost	(240,559)	(329,536)	(237,923)	(309,439)
Long Term Creditors	(82)	(82)	(78)	(78)
PFI and Finance Lease Liabilities	(71,658)	(100,865)	(66,973)	(91,406)
Total Long Term	**(312,299)**	**(430,483)**	**(304,974)**	**(400,923)**
Short Term Borrowings and Creditors	(106,789)	(106,789)	(94,740)	(94,740)
Total Long and Short Term	**(419,088)**	**(537,272)**	**(399,714)**	**(495,663)**

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

This shows a notional future loss, based on economic conditions at 31 March 2020, arising from a commitment to pay interest to lenders above current market rates.

Financial Assets	**31 March 2019**		**31 March 2020**	
	Carrying amount £000	**Fair value £000**	**Carrying amount £000**	**Fair value £000**
Financial assets held at amortised cost	10,001	10,127	20,001	20,383
Long Term Debtors	4,830	4,830	4,960	4,960
Total Long Term	**14,831**	**14,957**	**24,961**	**25,343**
Short Term Investments and Debtors	230,781	230,781	210,283	210,283
Total Long and Short Term	**245,612**	**245,738**	**235,244**	**235,626**

The fair value of the financial assets is higher than the carrying amount because the portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain, based on economic conditions at 31 March 2020, attributable to the commitment to receive interest below current market rates.

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

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

	31 March 2020			
Recurring fair value measurements using:	**Quoted prices in active markets for identical assets (Level 1) £000**	**Other significant observable inputs (Level 2) £000**	**Significant unobservable inputs (Level 3) £000**	**Total £000**
Financial liabilities				
Financial liabilities held at amortised cost	-	(309,439)	-	**(309,439)**
Long Term Creditors	-	(78)	-	**(78)**
PFI and Finance Lease Liabilities	-	-	(91,406)	**(91,406)**
Total	**-**	**(309,517)**	**(91,406)**	**(400,923)**
Financial assets				
Financial assets held at amortised cost	-	20,383	-	**20,383**
Long Term Debtors	-	4,960	-	**4,960**
Total	**-**	**25,343**	**-**	**25,343**

Recurring fair value measurements using:	**31 March 2019** **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				
Financial liabilities held at amortised cost	-	(329,536)	-	**(329,536)**
Long Term Creditors	-	(82)	-	**(82)**
PFI and Finance Lease Liabilities	-	-	(100,865)	**(100,865)**
Total	**-**	**(329,618)**	**(100,865)**	**(430,483)**
Financial assets				
Financial assets held at amortised cost	-	10,127	-	**10,127**
Long Term Debtors	-	4,830	-	**4,830**
Total	**-**	**14,957**	**-**	**14,957**

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

The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions.

Financial Assets

- no early repayment or impairment is recognised;
- estimated ranges of interest rates at 31 March 2020 of 0.3% to 1.7% for loans receivable and 3.9% for property fund, based on new lending rates for equivalent loans at that date;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

Financial Liabilities

- no early repayment is recognised;
- estimated ranges of interest rates at 31 March 2020 of 2.6% to 8.1% for loans payable based on new lending rates for equivalent.

19. Assets Held for Sale

	2018/19	**2019/20**
	£000	**£000**
Balance outstanding at start of year	**4,009**	**3,445**
Assets newly classified as held for sale	1,897	368
Revaluations	(28)	(99)
Assets declassified as held for sale	-	-
Assets sold	(2,433)	(1,090)
Balance outstanding at year end	**3,445**	**2,624**

Assets Held for Sale are valued at fair value which takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. As at 31 March 2020 there are seven assets that were held for sale. During the year, four assets were sold.

20. Current & Long Term Debtors and Payments in Advance

	31 March 2019 £000	31 March 2020 £000
Current		
Debtor System Control	14,713	12,572
HMRC	4,689	4,615
Payments In Advance	4,141	9,237
Council Tax & NNDR	15,040	20,052
Other	12,679	15,564
Total	**51,262**	**62,040**
Long Term		
Higher Education Institution	898	849
South East Local Enterprise Partnership	2,100	1,600
Economic Development	1,759	2,406
Other Entities and Individuals	73	105
Total	**4,830**	**4,960**

Allowance for expected credit losses

The Council makes allowance for impairment of debts based on an assessment of the recoverability of receivables. A decrease in the allowance for credit losses of £0.049m was made in 2019/20, bringing the total allowance for impairment from £1.241m to £1.192m as at 31 March 2020. 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 2020 the Council's share of these allowances amounts to £11.356m (£10.292m at 31 March 2019) out of its share of Council Tax & Business Rates arrears totalling £27.210m (£22.506m at 31 March 2019).

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

	31 March 2019 £000	31 March 2020 £000	Movement £000
Cash in hand	122	113	(9)
Short-term deposits	24,110	18,159	(5,951)
Total Cash and Cash Equivalents	**24,232**	**18,272**	**(5,960)**
Imputed cash adjustment for pooled budget re the purchase of integrated community equipment	(786)	(497)	289
Bank overdraft	(7,263)	(10,164)	(2,901)
Accrued balance at bank and for third parties	1,226	2,236	1,010
Total bank overdraft and accrued balance for third parties	**(6,823)**	**(8,425)**	**(1,602)**
Net cash and cash equivalent balances / (overdrawn)	**17,409**	**9,847**	**(7,562)**

Note 30 sets out some details of the arrangements under which the Council 'hosts' the finances of pooled arrangements for Pooled Budgets (with Clinical Commissioning Boards). These arrangements relate to a number of different organisations and it is necessary to allocate their balance sheets between the different participants. The result of adjusting the balances for debtors, creditors, etc. is to create an imbalance, which represents the difference between the cash actually held by the Council and the share of the arrangements' cash, which is eventually allocable to the Council. This difference is recorded above as 'imputed cash'.

The Council manages and invests its cash balances with the aim of achieving a balance at the bank as close as possible to zero. As it manages cash balances on behalf of its share of Orbis and some trust funds alongside its own balances, the Council allows its own balances to become overdrawn if there is cash held in its own bank accounts on behalf of the other authorities, which results in a notional overdrawn balance because cheques and BACS payments are recorded when they are drawn, rather than when they are presented at the bank.

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

	31 March 2019	31 March 2020
	£000	£000
Orbis	1,546	2,539
Trust Funds (see Note 46)	(320)	(303)
Accrued balance at bank and for third parties	**1,226**	**2,236**

The pooled bank balances at 31 March 2020 include £13.3m (£12.6m at 31 March 2019) relating to bank accounts operated by schools under local management arrangements.

22. Creditors and Income in Advance

	31 March 2019	31 March 2020
	£000	£000
Creditor System Control	12,678	5,086
Income in Advance	20,298	26,419
Pension Schemes	4,437	5,054
HMRC	4,969	5,078
PFI Schemes	4,375	4,692
Council Tax & NNDR	7,434	8,748
East Sussex Fire Authority	23,648	24,348
Other	50,273	49,774
Total	**128,112**	**129,199**

23. Provisions

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

Long Term Provisions	31 March 2019	Additional provisions	Amounts used	31 March 2020
	£000	£000	£000	£000
Insurance claims	2,818	-	(265)	2,553
Closed Landfill Sites	8,943	-	(132)	8,811
Total Long Term	**11,761**	**-**	**(397)**	**11,364**

Short Term Provisions	31 March 2019	Additional provisions	Amounts used	31 March 2020
	£000	£000	£000	£000
Municipal Mutual Insurance (MMI)	141	-	(36)	105
Highways Contract	263	-	(263)	-
NNDR Appeals	1,331	1,919	-	3,250
Adult Social Care	77	1,516	-	1,593
Closed Landfill Sites	490	-	-	490
Redundancy	-	6	-	6
Total Short Term	**2,302**	**3,441**	**(299)**	**5,444**
Total Provisions	**14,063**	**3,441**	**(696)**	**16,808**

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

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

Municipal Mutual Insurance Limited (MMI) was the main Local Authority Insurer up until they entered administration in 1992. Being a mutual company, the members, including the Council, signed up to a 'Scheme of Arrangement', meaning once all claims have been discharged any outstanding assets would be distributed to the members, or conversely, the members would meet the cost of any liabilities, once all assets had been utilised.

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 2020.

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

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

24. Usable Reserves

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

- General Fund & School Balances - The General Fund and School balances shows the resources available to meet future running costs. See Note 10 for school balances.
- Earmarked Reserves - The Council holds a number of earmarked reserves which are used to earmark resources for specific projects/purposes. See Note 10 for a breakdown of General Fund earmarked reserves.
- Capital Receipts Reserve – see note below.
- Capital Grant & Contributions Unapplied Account – see note below.

	31 March 2019 £000	31 March 2020 £000
Usable Capital Receipts Reserve	3,122	3,044
Capital Grants & Contributions Unapplied	18,223	14,132
Earmarked Reserves	78,677	82,539
Earmarked Reserves – Revenue Grants & Contributions	23,754	42,158
General Fund Balances	9,999	9,999
School Balances	14,188	15,041
Total Usable Reserves	**147,963**	**166,913**

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.

	2018/19 £000	2019/20 £000
Balance at 1 April	**1,233**	**3,122**
Amounts receivable during the year	4,511	3,044
Amounts applied to finance new capital investment	(2,622)	(3,122)
Net Transfer to / (from) the Capital Receipts Reserve	1,889	(78)
Balance at 31 March	**3,122**	**3,044**

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.

	2018/19 £000	2019/20 £000
Balance at 1 April	**14,402**	**18,223**
Amounts receivable during the year	60,093	58,512
Amounts applied to finance new capital investment	(56,272)	(62,603)
Net Transfer to / (from) the Capital Unapplied Account	3,821	(4,091)
Balance at 31 March	**18,223**	**14,132**

25. *Unusable Reserves*

	31 March 2019 £000	31 March 2020 £000
Revaluation Reserve	246,588	227,245
Capital Adjustment Account	415,663	417,309
Financial Instruments Adjustment Account	(7,517)	(7,327)
Pooled Investment Funds Adjustment Account	(340)	(507)
Collection Fund Adjustment Account	2,837	4,028
Accumulated Absences Account	(5,179)	(5,179)
Pensions Reserve	(521,412)	(416,868)
Total Unusable Reserves	**130,640**	**218,701**

Revaluation Reserve

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

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

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

	2018/19	2019/20	
	£000	£000	£000
Balance at 1 April	**238,161**		**246,588**
Upward revaluation of assets	39,855	27,442	
Downward revaluation of assets and impairment losses not charged to the Deficit on the Provision of Services	(14,470)	(19,697)	
Surplus on revaluation of non-current assets not posted to the Deficit on the Provision of Services	25,385		7,745
Difference between fair value depreciation and historical cost depreciation	(10,206)	(10,628)	
Accumulated gains on assets sold or scrapped	(6,752)	(16,460)	
Amount written off to the Capital Adjustment Account	(16,958)		(27,088)
Balance at 31 March	**246,588**		**227,245**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction, and enhancement. The Account contains accumulated gains and losses on Investment Properties and revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2018/19 £000	**2019/20 £000**	**2019/20 £000**
Balance at 1 April	**391,697**		**415,663**
IFRS 9 Financial Instruments adjustment	(185)		-
Restated Balance at 1 April	**391,512**		**415,663**
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	(47,509)	(50,548)	
Revaluation losses on non-current assets	(19,885)	(14,073)	
Revaluation losses on assets held for sale	(28)	(98)	
Revaluation loss reversals on non-current assets	5,402	8,213	
Amortisation of intangible assets	(2,401)	(2,468)	
Financial Asset Impairment Losses	24	37	
Revenue expenditure funded from capital under statute	(13,902)	(13,032)	
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	(9,238)	(27,847)	
	(87,537)		**(99,816)**
Adjusting amounts written out of the Revaluation Reserve	16,957		27,088
Net written out amount of the cost of non-current assets consumed in the year	**(70,580)**		**(72,728)**
Capital financing applied in the year			
Use of the Capital Receipts Reserve to finance new capital expenditure	2,622	3,122	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	56,272	62,603	
Statutory provision for the financing of capital investment charged against the General Fund balance	10,112	10,507	
Capital expenditure charged against General Fund balances	23,192	4,618	
	92,198		**80,850**
Movements in the market value of Investment Properties credited or debited to the Comprehensive Income and Expenditure Statement	2,533		(6,476)
Balance at 31 March	**415,663**		**417,309**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2020 will be charged to the General Fund over a specific period.

	2018/19 £000	2019/20 £000
Balance at 1 April	**(23)**	**(7,517)**
Premiums	(7,481)	187
Soft Loan Interest	(13)	3
Balance at 31 March	**(7,517)**	**(7,327)**

Pooled Investment Funds Adjustment Account

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

	2018/19 £000	2019/20 £000
Balance at 1 April	**-**	**(340)**
Fair value of Property Fund	(340)	(167)
Balance at 31 March	**(340)**	**(507)**

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.

	2018/19 £000	2019/20 £000
Balance at 1 April	**(409,788)**	**(521,412)**
Remeasurement of the net defined liability	(77,751)	144,523
Benefits credited to the Provision of Services in the Comprehensive Income and Expenditure Statement	(69,693)	(80,544)
Employer's pension contributions charged to General Fund Balance	35,820	40,565
Balance at 31 March	**(521,412)**	**(416,868)**

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.

	2018/19 £000	2019/20 £000
Balance at 1 April	**4,327**	**2,837**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,784)	511
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	294	680
Net movement in the Collection Fund Adjustment Account	**(1,490)**	**1,191**
Balance at 31 March	**2,837**	**4,028**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	2018/19 £000	2019/20 £000
Balance at 1 April	**(5,364)**	**(5,179)**
Settlement or cancellation of accrual made at the end of the preceding year	5,364	5,179
Amounts accrued at the end of the current year	(5,179)	(5,179)
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	**185**	**-**
Balance at 31 March	**(5,179)**	**(5,179)**

26. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2018/19 £000	2019/20 £000
Net deficit on the provision of services	36,595	45,257

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

Depreciation	(47,509)	(50,548)
Impairment and downward valuations	(14,511)	(5,958)
Amortisation	(2,401)	(2,468)
(Increase) / decrease in creditors	(1,499)	1,753
Increase) / (decrease) in debtors	4,853	10,785
Increase / (decrease) in inventories	(1)	(2)
Movement in pension liability	(33,873)	(39,979)
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(9,238)	(27,847)
Other non-cash items charged to the net deficit on the provision of services	2,848	(9,348)
Total	**(101,331)**	**(123,612)**

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

Proceeds from the sale of PPE, investment property and intangible assets	4,511	3,044
Capital grants credited to deficit on provision of services	60,093	58,512
Total	**64,604**	**61,556**

Net cash flows from operating activities	**(132)**	**(16,799)**

The cash flows for operating activities include the following items:

	2018/19 £000	2019/20 £000
Interest received	(2,034)	(2,348)
Interest paid	19,024	13,376
Dividends received	-	(201)

27. Cash Flow Statement – Investing Activities

	2018/19 £000	2019/20 £000
Purchase of PPE, Investment Property and Intangibles	65,802	83,869
Other payments for investing activities	1,021	646
Proceeds from the sale of PPE, Investment Property and Intangibles	(4,511)	(3,044)
Proceeds from short and long term investments (net)	(7,366)	(8,000)
Other receipts from investing activities	(66,197)	(59,068)
Net cash flows from investing activities	**(11,251)**	**14,403**

28. Cash Flow Statement – Financing Activities

	2018/19 £000	2019/20 £000
Cash payments for the reduction of PFI Liabilities	4,368	4,686
Repayments of short and long term borrowing	26,465	5,272
Net cash flows from financing activities	**30,833**	**9,958**

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

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

	1 April 2018 £000	Financing Cash Flows £000	Non Cash Changes £000	31 March 2019 £000
Long Term Borrowings	(267,513)	26,954	-	**(240,559)**
Short Term Borrowings	(3,465)	(489)	-	**(3,954)**
PFI Liabilities	(76,027)	4,368	-	**(71,659)**
Net cash flows from financing activities	**(347,005)**	**30,833**	**-**	**(316,172)**

30. Pooled Budget and Partnership Arrangements

In 2019/20 the Council participated in partnership schemes involving pooled budget arrangements under Section 75 of the National Health Service Act 2006:

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

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

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

	2018/19			2019/20		
Arrangement	**Expenditure £000**	**Income £000**	**County Council Contribution £000**	**Expenditure £000**	**Income £000**	**County Council Contribution £000**
Integrated Community Equipment	5,636	(5,636)	(2,427)	5,187	(5,187)	(2,593)
Better Care Fund	60,656	(60,656)	(22,486)	69,037	(69,037)	(28,991)

Mental Health Community Forensic scheme

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

Orbis Joint Operating Budget

The expenditure and funding is detailed below:

	2018/19 £000	2019/20 £000
Funding provided to the joint budget:		
- Surrey County Council (55%)	(32,931)	(33,430)
- East Sussex County Council (23%)	(14,112)	(13,644)
- Brighton & Hove City Council (22%)	(12,776)	(13,277)
Total Funding	**(59,819)**	**(60,351)**
Expenditure met from the joint budget	59,819	60,351
Net surplus / deficit on the joint budget	**-**	**-**

31. Members' Allowances

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

	2018/19 £000	2019/20 £000
Salaries - basic allowances	623	639
National Insurance & Pension	58	60
Special responsibility allowances	220	223
Expenses	33	30
Total	**934**	**952**

The table below shows the actual amounts paid to individual members in the 2019/20 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	12,797	-	-	-
Cllr.	Beaver	Matthew	12,797	-	216	17
Cllr.	Belsey	Colin	12,797	6,531	1,023	56
Cllr.	Bennett	Nicholas	12,797	17,980	2,497	33
Cllr.	Bentley	Bill	12,797	15,676	1,681	28
Cllr.	Boorman	Phillip	12,797	-	-	-
Cllr.	Bowdler	Robert	12,797	5,759	1,187	5
Cllr.	Charman	Tania	12,797	-	-	-
Cllr.	Clark	Charles	12,797	-	-	-
Cllr.	Clarke	Martin	12,797	-	839	4
Cllr.	Daniel	Philip	12,797	2,306	-	-
Cllr.	Daniel	Godfrey	12,797	3,585	1,353	127
Cllr.	Davies	Angharad	12,797	6,651	2,210	
Cllr.	Dowling	Christopher	12,797	-	216	-

Member			Members Basic Allowance	Special Responsibility Allowance	Travel by Car	Fares and Subsistence
Cllr.	Dowling	Claire	12,797	14,563	552	7
Cllr.	Earl-Williams	Deidre	12,797	-	-	-
Cllr.	Elford	Simon	12,797	-	-	-
Cllr.	Elkin	David	12,620	14,072	1,486	106
Cllr.	Enever	Nigel	12,797	-	345	27
Cllr.	Ensor	Michael	12,797	-	-	-
Cllr.	Field	Kathryn	12,797	3,394	682	13
Cllr.	Fox	Gerard	12,797	-	-	-
Cllr.	Galley	Roy	12,797	-	499	-
Cllr.	Glazier	Keith	12,300	34,440	3,774	615
Cllr.	Grover	Darren	12,797	-	-	-
Cllr.	Lambert	Carolyn	12,797	-	-	-
Cllr.	Liddiard	Thomas	12,797	-	-	-
Cllr.	Loe	Laurence	12,797	-	-	-
Cllr.	Maynard	Carl	12,797	15,676	2,086	-
Cllr.	O'Keeffe	Ruth	12,797	-	-	-
Cllr.	Osborne	Sarah	12,797	-	137	94
Cllr.	Pragnell	Peter	12,797	1,545	279	-
Cllr.	Rodohan	Patrick	12,797	-	569	-
Cllr.	Scott	Philip	12,797	-	-	-
Cllr.	Sheppard	Jim	12,797	5,230	215	41
Cllr.	Shing	Daniel	12,797	-	50	-
Cllr.	Shing	Stephen	12,797	-	437	-
Cllr.	Shuttleworth	Alan	12,797	-	461	-
Cllr.	Simmons	Rupert	12,797	15,676	1,064	41
Cllr.	Smith	Andy	12,797	-	-	-
Cllr.	Standley	Bob	12,797	15,676	1,679	47
Cllr.	Stogdon	Richard	12,797	6,531	1,321	140
Cllr.	Swansborough	Colin	12,797	6,531	-	-
Cllr.	Taylor	Barry	12,797	-	-	-
Cllr.	Tidy	Sylvia	12,797	15,676	1,634	16
Cllr.	Tutt	David	12,797	13,061	280	-
Cllr.	Ungar	John	12,797	-	-	-
Cllr.	Wallis	Steve	12,797	-	-	-
Cllr.	Webb	Trevor	12,797	2,924	-	34
Cllr.	Whetstone	Francis	12,797	-	-	-
Total			**639,176**	**223,483**	**28,772**	**1,451**

32. *Officers' Remuneration*

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

Senior Employees Remuneration 2019/20

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

Notes:

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

Senior Employees Remuneration 2018/19

	Notes	Salary, Fees and Allowances	Additional duties and Acting up	Expenses Allowances (incl. Benefit in Kind)	Compensation for Loss of Office	Employer's Pension Contribution	Total
		£	£	£	£	£	**£**
Chief Executive - Becky Shaw		194,507	-	-	-	34,719	229,226
Chief Operating Officer		145,061	-	-	-	25,893	170,954
Director of Adult Social Care & Health	1	145,061	10,666	5,789	-	27,797	189,313
Director of Children's Services		145,061	-	459	-	25,893	171,413
Director of Communities, Economy & Transport	2	142,145	-	5,189	-	25,893	173,227
Assistant Chief Executive	3	107,198	8,040	-	-	20,570	135,808
Chief Finance Officer		88,723	-	-	-	15,837	104,560
Director of Public Health	4	73,979	-	-	-	13,205	87,184

Notes:

1. Additional duties and Acting up column displays Honorarium payments of 7.5% for April 17 to March 18, paid in July 2018;
2. Pension Contributions based on salary before CCV salary sacrifice (£2,916) of £145,061;
3. Additional duties and Acting up column displays Honorarium payments of 7.5% for April 18 to March 19, paid in March 2019
4. In post from 16 July 2018.

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	2018/19 Number of employees			2019/20 Number of employees		
	Non Schools	Schools	Total	Non Schools	Schools	Total
£50,000 - £54,999	91	65	156	94	71	165
£55,000 - £59,999	32	41	73	28	43	71
£60,000 - £64,999	21	29	50	27	25	52
£65,000 - £69,999	27	17	44	32	16	48
£70,000 - £74,999	13	7	20	6	18	24
£75,000 - £79,999	3	4	7	2	4	6
£80,000 - £84,999	5	1	6	3	3	6
£85,000 - £89,999	2	2	4	5	1	6
£90,000 - £94,999	-	4	4	1	1	2
£95,000 - £99,999	2	1	3	-	4	4
£100,000 - £104,999	1	1	2	1	1	2
£105,000 - £109,999	-	-	-	3	-	3
£110,000 - £114,999	2	-	2	1	-	1
£115,000 - £119,999	1	-	1	2	-	2
£120,000 - £124,999	-	-	-	1	-	1
£125,000 - £129,999	-	-	-	-	-	-
£130,000 - £134,999	-	-	-	-	-	-
£135,000 - £139,999	-	-	-	-	-	-
£140,000 - £144,999	-	-	-	-	-	-
£145,000 - £149,999	3	-	3	2	-	2
£150,000 - £154,999	-	-	-	1	-	1
£155,000 - £159,999	-	-	-	-	-	-
£160,000 - £164,999	1	-	1	-	-	-
£165,000 - £169,999	-	-	-	1	-	1
£170,000 - £174,999	-	-	-	-	-	-
£175,000 - £179,999	-	-	-	1	-	1
£180,000 - £184,999	-	-	-	-	-	-
£185,000 - £189,999	-	-	-	-	-	-
£190,000 - £194,999	1	-	1	-	-	-

33. Termination Benefits & Exit Packages

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

The Council terminated the contracts of 134 employees during 2019/20, incurring costs of £1.5m (264 terminations at a cost of £3.4m in 2018/19). An analysis of the numbers and amounts broken down by pay band and split between compulsory redundancies and other departures for both 2019/20 and 2018/19 are shown in the tables below.

Exit Packages 2019/20

Exit package cost Band	Compulsory redundancies		Other departures agreed		Total number of exit packages	
	Number of employees	£000	Number of employees	£000	Number of employees	£000
less than £20,000	22	141	90	581	112	722
£20,000 to £39,999	4	135	11	313	15	448
£40,000 to £59,999	5	250	1	41	6	291
£60,000 to £79,999	1	65	-	-	1	65
Total	**32**	**591**	**102**	**935**	**134**	**1,526**

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

Exit Packages 2018/19

Exit package cost Band	Compulsory redundancies		Other departures agreed		Total number of exit packages	
	Number of employees	£000	Number of employees	£000	Number of employees	£000
less than £20,000	82	554	119	1,063	201	1,617
£20,000 to £39,999	18	455	38	1,043	56	1,498
£40,000 to £59,999	2	87	5	229	7	316
Total	**102**	**1,096**	**162**	**2,335**	**264**	**3,431**

34. External Audit Costs

The Council has incurred the following costs in relation to the audit of the accounting statements, certification of grant claims, statutory inspections and for non-audit services provided by the Council's external auditors for services rendered during the year. From 2018/19 the Council's external auditors are Grant Thornton, and previous to this KPMG.

	2018/19 £000	2019/20 £000
Fees payable to with regard to external audit services carried out by the appointed auditor for the year *	64	80
Additional fee relating to the previous year's audit work	-	11
Fees payable the certification of grant claims and returns**	4	8
Fees payable for previous years objection to the accounts (to KPMG)	10	-
Total External auditor remuneration	**78**	**94**
Refund from Public Sector Audit Appointments (PSAA) ***	-	(8)
Total	**78**	**86**

Notes
* For 2019/20 this included an additional agreed charge of £16,000;
**Includes work carried out by Grant Thornton in respect of the Teachers Pension Scheme totalling £5,000;
*** PSAA refund as a result of national refund.

35. Grant Income

The Council credited the following grants, contributions, and donations to the Comprehensive Income and Expenditure Statement in 2019/20:

	2018/19		2019/20	
	£000	£000	£000	£000
Credited to Taxation and Non Specific Grant Income				
Council Tax		278,558		291,195
Business Rates		77,958		85,684
Revenue Support Grant:				
General	14,966		-	
New Homes Bonus	1,231		886	
		16,197		886
Capital grants and contributions recognised		60,093		58,512
Total		**432,806**		**436,277**
Grants Credited to Services				
Dedicated Schools		226,618		225,645
Public Health		27,270		26,550
Better Care Fund		15,022		17,099
COVID-19		-		16,297
Pupil Premium		8,949		8,748
Disabled Facilities		6,635		7,160
Private Finance Initiative		4,755		4,755
Adult Social Care Reform		1,751		4,417
Teachers Pension		-		3,591
Universal Infant Free School Meals		3,715		3,364
16-19 Sixth Form		3,834		3,321
Winter Pressures		924		2,401
Opportunity Areas		3,400		2,200
PE & Sport		2,094		2,073
Teachers Pay		847		1,861
Unaccompanied Asylum Seeking Children		1,095		1,612
Other Grants		13,812		13,221
Total		**320,721**		**344,315**

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

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

	31 March 2019 £000	31 March 2020 £000
Current Liabilities – Receipts in Advance		
Revenue Grants & Contributions	-	-
Long Term Liabilities – Receipts in Advance		
Capital Grants & Contributions	11,492	9,551

36. Dedicated Schools Grant

The Council's expenditure on schools is funded primarily by a grant awarded by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). An element of the DSG is recouped by the Education and Skills Funding Agency to fund academy schools in the Council's area. DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School and Early Years Finance (England) Regulations 2018. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2019/20 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2019/20 before Schools Block Academy recoupment	71,595	294,419	**366,014**
Academy figure recouped for 2019/20	-	(140,684)	**(140,684)**
Total DSG after Academy recoupment for 2019/20	**71,595**	**153,735**	**225,330**
Plus: Brought Forward from 2018/19	3,248	-	**3,248**
Less: Carry forward to 2020/21 agreed in advance	(3,208)	-	**(3,208)**
Agreed initial budgeted distribution in 2019/20	**71,635**	**153,735**	**225,370**
In year adjustments	-	-	**-**
Final budgeted distribution for 2019/20	**71,635**	**153,735**	**225,370**
Less: Actual central expenditure	(65,453)	-	**(65,453)**
Less: Actual ISB deployed to schools	-	(153,735)	**(153,735)**
Plus: Local authority contribution for 2019/20	-	-	**-**
Carry forward to 2020/21	**6,182**	**-**	**6,182**

School Reserve

The total value of the Individual Schools Budget (the budget which is delegated to schools) for 2019/20 was £154.6m. Schools carried forward (reserve) a net total of £15m (9.7%) at the end of the financial year at 31 March 2020, which was an increase of £0.8m compared to 31 March 2019. 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.**	**110**	**10**	**1**	**121**
Total surplus	£000	10,945	4,070	152	**15,167**
All schools with deficits					
Number of schools	**No.**	**4**	**-**	**-**	**4**
Total deficit	£000	(126)	-	-	**(126)**
Carry forward	**£000**	**10,819**	**4,070**	**152**	**15,041**
Less: Capital Loan to Schools	£000	-	-	-	**-**
Net carry forward	**£000**	**10,819**	**4,070**	**152**	**15,041**

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

37. Related Parties

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

Central Government

UK government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from government departments are set out in the subjective analysis in Note 35 on reporting for resources allocation decisions, and further details are shown in Note 35. Grant receipts in advance at 31 March 2020 are shown in Note 35.

Members and Chief Officers

Members of the Council have direct control over the Council's financial and operating policies. None of the Chief Officers and 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 2019/20 is shown in Note 31.

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 2019/20, goods and services to the value of £24,887 were commissioned from this entity.
- Chairman and Member of Ashdown Forest Trust. In 2019/20, rents of the golf course to the value of £70,000 were paid to this entity.

Entities that are controlled or significantly influenced by the Council

The Council acts as sole trustee for the Ashdown Forest Trust (see Note 46), for the balances held by the Council at 31 March 2020.

East Sussex Pension Fund

The East Sussex Pension Fund is administered by East Sussex County Council. The Treasurer of the Pension Fund and members of the County Council have no material transactions with the Pension Fund. The Council incurred costs in administering the fund and charged £1.2m to the fund in 2019/20 (£1.0m in 2018/19). The Council's contribution to the fund was £42.5m in 2019/20 (£45.9m in 2018/19).

East Sussex Fire Authority

East Sussex County Council provides financial services to the East Sussex Fire Authority. The arrangement has been in operation since 1997. The services provided include accounts payable, accounts receivable, payroll, pension administration, treasury management, accountancy and internal audit. The cost of these services was £0.280m in 2019/20 (£0.261m in 2018/19)

Other Public Bodies

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

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

East Sussex County Council have 19% of the voting rights for Woodland Enterprises Ltd. The High Weald Unit of the Economy, Transport and Environment Department rented part of the Woodland Enterprises Centre from Woodland Enterprises Ltd during 2019/20. There were no long term debts to the company at 31 March 2020.

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

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

38. Capital Expenditure and Capital Financing

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

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

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

	2018/19 £000	2019/20 £000
Opening Capital Financing Requirement	**336,316**	**329,085**
Property, Plant and Equipment	69,173	78,852
Investment Properties	-	2
Intangible assets	1,078	1,971
Heritage assets	28	-
Revenue Expenditure Funded from Capital under Statute	13,902	13,032
Total capital investment	**84,181**	**93,857**
Capital receipts	(2,622)	(3,122)
Government grants and contributions	(56,272)	(62,603)
Revenue financing	(23,192)	(4,618)
Total financing other than from loans	**(82,086)**	**(70,343)**
Long Term capital debtors	786	130
Net investment financed from loans		
Minimum Revenue Provision (MRP) for the repayment of loans	(10,112)	(10,507)
Closing Capital Financing Requirement	**329,085**	**342,222**

Explanation of movements in year		
Increase / (decrease) in underlying need to borrow, that is not supported by government financial assistance	**(7,231)**	**13,137**

39. Leases

Authority as Lessee

Finance Leases - As at 31 March 2020, the Council has no assets classed as finance leases. There are 13 properties on the Balance Sheet which are valued as long leasehold however these properties do not have a corresponding liability on the Balance Sheet.

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

The future minimum lease payments payable in future years are:

	31 March 2019 Restated*	31 March 2020
	£000	£000
Not later than one year	2,744	2,822
Later than one year and not later than five years	8,461	6,613
Later than five years	9,556	6,645
Total	**20,761**	**16,080**

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

	2018/19 Restated*	2019/20
	£000	£000
Land and Buildings	2,492	2,051
Schools	782	825
Vehicles	70	71
Total	**3,344**	**2,947**

Other payments for the renting and hiring of facilities in 2019/20 was £0.128m (£0.105m 2018/19).

*The 2018/19 figures were restated to remove the balance relating to a loan that had ceased

Authority as Lessor

Finance Leases - As at 31 March 2020, 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 2019	31 March 2020
	£000	£000
Not later than one year	1,579	1,896
Later than one year and not later than five years	2,602	3,786
Later than five years	7,024	7,718
Total	**11,205**	**13,400**

The total income received from leasing, renting and hiring of facilities in 2019/20 was £2.068m (£1.920m 2018/19).

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

Other Long Term Liabilities in the Balance Sheet consist of:

	31 March 2019	31 March 2020
	£000	£000
Long Term PFI Liabilities	71,658	66,973
Financial Guarantees	61	60
Long Term Creditors	21	18
Total	**71,740**	**67,051**

Schools PFI

The Council has a contract with Peacehaven Schools Ltd (PSL) under the Private Finance initiative to provide a new secondary school and replace or refurbish four primary schools in Peacehaven and Telscombe Cliffs. The first school became operational in January 2000.

Waste PFI

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

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

Peacehaven Schools PFI	**Telscombe Cliffs**	**Meridian**	**Peacehaven Secondary**	**Peacehaven Heights**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
1 April 2019	**7,529**	**242**	**17,514**	**4,605**	**29,890**
Additions	68	-	87	42	**197**
Revaluations	(822)	-	-	460	**362**
Depreciation	-	(10)	-	-	**(10)**
Disposals	-	-	(17,601)	-	**(17,601)**
31 March 2020	**6,775**	**232**	**-**	**5,107**	**12,114**

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 2019	**7,186**	**-**	**8,018**	**15,199**	**29,858**	**23**	**60,284**
Revaluations	-	-	(971)	-	(3,341)	440	**(3,872)**
Depreciation	(384)	-	-	(657)	-	-	**(1,041)**
31 March 2020	**6,802**	**-**	**7,047**	**14,542**	**26,517**	**463**	**55,371**

Notes:

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

(ii) Peacehaven Secondary school transferred to Academy status during 2018/19 and therefore has been de-recognised from the Council's Balance Sheet.

Details of payments to be made under PFI contracts

Waste PFI

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

	Reimbursement of capital expenditure	Interest	Service Charge	Contingent Rent	Lifecycle Maintenance	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Within 1 year: 2020/21	(685)	3,486	16,821	(1,414)	8,534	**26,742**
Within 2 to 5 years: 2021/22 to 2024/25	16,187	12,497	72,821	14,197	-	**115,702**
Within 6 to 10 years: 2025/26 to 2029/30	26,652	10,092	103,587	24,123	-	**164,454**
Within 11 to 15 years: 2030/31 to 2032/33	20,237	2,269	69,213	18,112	-	**109,831**
Total	**62,391**	**28,344**	**262,442**	**55,018**	**8,534**	**416,729**

Peacehaven Schools PFI

Based on actual inflation to 31 March 2020, and assuming a 3.0% inflation rate for the remaining life of the contract, the payments to be made are set out below:

	Reimbursement of capital expenditure	Interest	Service Charge	Contingent Rent	Lifecycle Maintenance	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Within 1 year: 2020/21	1,109	909	1,739	867	373	**4,997**
Within 2 to 5 years: 2021/22 to 2024/25	5,633	2,438	7,492	3,947	1,606	**21,116**
Within 6 to 10 years: 2025/26 to 2026/27	2,533	323	2,880	1,599	617	**7,952**
Total	**9,275**	**3,670**	**12,111**	**6,413**	**2,596**	**34,065**

Operational PFI contracts are accounted for in a manner that is consistent with the adaptation of IFRIC 12 Service Concession Arrangements contained in the government's Financial Reporting Manual. The original recognition of these fixed assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. The deferred liability as at 31 March 2020 is £71.7m (£62.4m for Waste PFI, and £9.3m for Peacehaven Schools PFI), and as at 31 March 2019 was £76.0m (£65.8m for Waste PFI, and £10.2m 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 2019	**65,759**	**10,275**	**76,034**	**4,375**	**71,659**
Lease principal repayment	(3,368)	(1,001)	**(4,369)**	317	(4,686)
Balance outstanding at 31 March 2020	**62,391**	**9,274**	**71,665**	**4,692**	**66,973**

41. Pensions Schemes Accounted for as Defined Contribution Schemes

Teachers' Pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Department for Education. It provides teachers with defined benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2019/20 the Council incurred a total of £15.5m payable to Teachers Pensions Scheme in respect of teacher's pension costs, which represents 16.48% (1/4/19 to 31/8/19 and 23.68% (1/9/19 to 31/3/20) 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 £2.4m. These figures compare to an amount of £12.5m payable in 2018/19 (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 Scheme uses a notional fund as the basis for calculating the employer's contribution rate. However, it is not possible to identify the Council's share of the underlying liabilities of the scheme for its own employees. For the purposes of these accounts, it is therefore accounted for as a defined contribution scheme. The Council is responsible for the costs of the additional benefits awarded upon early retirement, and these benefits are fully accrued in the liability included in the balance sheet.

As at March 2020, the Council owed £2.0m to Teachers Pensions for the employer's and employee's contribution to the Teachers Pensions Scheme (£1.6m at March 2019). The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 42.

NHS Pension Scheme

In 2013/14, NHS staff transferred to the Council. These employees have maintained their membership of the NHS Pension Scheme. The scheme provides these staff with specified benefits upon their retirement and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable pay.

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

In 2019/20, the Council incurred a total of £0.139m payable to the NHS Pension Scheme in respect of former NHS staff retirement benefits, and there was £0.03m contributions remaining payable at the year end. This compares to an amount of £0.117m payable in 2018/19.

42. Defined Benefits Pension Schemes

Participation in Pension Schemes

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

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

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

	2018/19 £000	2019/20 £000
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Service Cost Comprising:		
• current service cost	52,223	67,211
• past service costs	6,112	474
• (gain) / loss from settlements	-	-
Financing and Investment Income and Expenditure		
Net interest expense	11,358	12,859
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	**69,693**	**80,544**
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)	(59,192)	146,603
• Actuarial gains and losses arising on changes in demographic assumptions	-	(50,573)
• Actuarial gains and losses arising on changes in financial assumptions	133,342	(159,336)
• Other (if applicable)	3,601	(81,217)
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	**147,444**	**(63,979)**
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	(111,624)	104,544
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to the scheme	**35,820**	**40,565**

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:

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Present Value of the define benefit obligations: Local Government Pension Scheme	(1,469,360)	(1,671,821)	(1,691,088)	(1,890,390)	(1,666,341)
Fair value of plan assets in the Local Government Pension Scheme	1,052,410	1,256,670	1,281,300	1,368,978	1,249,473
Deficit in the scheme: Local Government Pension Scheme	**(416,950)**	**(415,151)**	**(409,788)**	**(521,412)**	**(416,868)**

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £1,666.3m (£1,890.4m in 2018/19) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £416.9m (£521.4m in 2018/19).

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 2020 is £40.6m (£35.8m in 2018/19).

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 2020 is employee members £531.7m (£766.3m at 31 March 2019), deferred pensioners £365.3m (£398.8m) and pensioners £685.9m (£633.5m). There is also a liability of approximately £40.6m (£44.8m) in respect of LGPS unfunded pensions and £42.8m (£47.0m) 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):

	2018/19 £000	2019/20 £000
Opening balance at 1 April:	**1,691,088**	**1,890,390**
Current Service Cost	52,223	67,211
Interest Cost	45,849	45,700
Contributions by scheme participants	8,841	9,153
Re-measurement (gains) and losses:		
• Actuarial gains / losses arising from changes in demographic assumptions	-	(50,573)
• Actuarial gains / losses arising from changes in financial assumptions	133,342	(159,336)
• Other	3,601	(81,217)
Past Service Cost	6,112	474
Losses / (gains) on curtailment	-	-
Liabilities assumed on entity combinations	-	-
Benefits paid	(45,427)	(49,846)
Unfunded Benefits paid	(5,239)	(5,615)
Closing balance at 31 March	**1,890,390**	**1,666,341**

Reconciliation of fair value of the scheme assets:

	2018/19 £000	2019/20 £000
Opening fair value of scheme asset at 1 April:	**1,281,300**	**1,368,978**
Interest Income	34,491	32,841
Re-measurement gain / (loss):		
• The return on plan assets, excluding the amount included in the net interest expense	59,192	(146,603)
• Other	-	-
The effect of changes in foreign exchange rates	-	-
Contributions from employer	35,820	40,565
Contributions from employees into the scheme	8,841	9,153
Benefits paid	(45,427)	(49,846)
Unfunded benefits paid	(5,239)	(5,615)
Closing fair value of scheme assets at 31 March	**1,368,978**	**1,249,473**

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

The interest income on plan assets in the year was £32.84m (£34.49m in 2018/19).

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets 2018/19 £000	%	Fair value of scheme assets 2019/20 £000	%
Cash and cash equivalents	**54,551**	**4**	**23,100**	**2**
Equity instruments:				
By industry type				
• Consumer	16,289	2	-	-
• Manufacturing	11,200	1	-	-
• Energy and utilities	3,232	-	-	-
• Financial institutions	15,261	1	-	-
• Health and care	2,483	-	-	-
• Information technology	-	-	-	-
• Other	2,670	-	-	-
Sub-total equity	**51,135**	**4**	**-**	**-**
Bonds:				
By sector				
• Government	33,135	2	-	-
• Other	25,347	2	11,026	1
Sub-total bonds	**58,482**	**4**	**11,026**	**1**
Private equity:				
All	84,190	6	82,369	7
Overseas	-		-	-
Sub-total private equity	**84,190**	**6**	**82,369**	**7**
Other investment funds:				
• UK Property	128,224	9	114,692	9
• Overseas Property	-	-	-	-
Sub-total other investment funds	**128,224**	**9**	**114,692**	**9**
Investment funds and unit trusts:				
• Equities	755,684	55	424,115	33
• Bonds	225,274	17	214,759	17
• Hedge Funds	885	-	-	-
• Commodities	2,314	-	-	-
• Infrastructure	8,117	1	22,692	2
• Other	279	-	356,720	29
Sub-total Investment funds and unit trusts	**992,553**	**73**	**1,018,286**	**81**
Derivatives:				
• **Foreign exchange**	**(157)**	**-**	**-**	**-**
Total assets	**1,368,978**	**100**	**1,249,473**	**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 2019 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:

	2018/19	2019/20
Mortality assumptions:		
Longevity at 65 for current pensioners		
Men	22.1	21.6
Women	24.4	23.9
Longevity at 65 for future pensioners		
Men	23.8	22.5
Women	26.3	25.3
Rate of increase in salaries	2.9%	1.9%
Rate of inflation/increase in pensions	2.5%	1.9%
Rate for discounting scheme liabilities	2.4%	2.3%

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 2020:	**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	148,791
0.5% increase in the Salary Increase Rate	1	11,014
0.5% increase in the Pension Increase Rate	8	136,862

At 31 March 2020, the Council owed £3.49m (£3.27m 31 March 2019) 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 2019, can be found on pages 103 to 134.

Impact on the Authority's Cash Flows

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

- to ensure the long-term solvency of the Fund;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund;
- to reflect the different characteristics of different employers in determining contribution rates; and
- to use reasonable measures to reduce the risk from an employer defaulting on its pension obligations.

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

The contributions paid by the Employer are set by the Fund Actuary at each triennial actuarial valuation or at any other time as instructed to do so by the Fund. The contributions payable over the period to 31 March 2021 are set out in the Rate and Adjustments certificate. For further details on the approach adopted to set contribution rates for the Employer, please refer to the 2019 actuarial valuation report (link below) dated March 2020.

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

The weighted average duration of the defined benefit obligation for scheme members as at the date of the 2019 valuation was 17.4 years. The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2021 is £33.453m.

43. Contingent Liabilities

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

44. Contingent Assets

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

45. Nature and extent of risks arising from Financial Instruments

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

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

Overall procedures for managing risk

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

The procedures for risk management are set out through a legal framework based on the Local Government Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and investment guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

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

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 5 February 2019 and is available on the Council website.
The key issues within the strategy were:

- The Authorised Limit for 2019/20 was set at £373m. This is the maximum limit of external borrowings or other long-term liabilities;
- The Operational Boundary was expected to be £353m. This is the expected level of debt and other long-term liabilities during the year;

- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 15% based on the Council's net debt;
- The maximum and minimum exposures to the maturity structure of debt (see table below).

Risk management is carried out by a central treasury team, under policies approved by the Council in the annual treasury management strategy. The Council provides written principles for overall risk management, as well as written policies (covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash

Credit Risk

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

There are significant financial risks of COVID-19 that will be felt into 2020/21 and later years due to the uncertainty surrounding its impact on residents and Council Tax collection rates, the slowdown in house building and the reduction in the Council Tax base and income and on businesses and Business Rates collection rates.

Credit Risk Management Practices

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

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

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

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

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

The full Investment Strategy for 2019/20 was approved by Full Council on 5 February 2019 and is available on the Council's website.

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

The Council's maximum exposure to credit risk in relation to its investments in financial institutions of £225m 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 2020 that this was likely to crystallise.

Amounts Arising from Expected Credit Losses (ECL)

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

	12 Month ECL	Lifetime ECL	Lifetime ECL – Simplified Approach	Total
	£000	£000	£000	£000
Opening balance 1 April 2019	**34**	**153**	**1,539**	**1,726**
Change in credit loss	(1)	(36)	48	**11**
Closing balance 31 March 2020	**33**	**117**	**1,587**	**1,737**

12 Month ECL includes some third party loans. Lifetime ECL includes some third party loans, treasury investments and non debtor system invoices. Lifetime ECL simplified includes debtor system invoices.

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

Liquidity risk

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

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets, excluding sums due from customers £12.57m at 31 March 2020 (£13,47m 31 March 2019), is as follows:

	31 March 2019	31 March 2020
	£000	**£000**
Less than one year	238,168	215,862
Between one and two years	19,491	29,454
Total	**257,659**	**245,316**

Refinancing and Maturity risk

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

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

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

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period (approved by Council in the Treasury Management Strategy:

	Approved Minimum Limit	Approved Maximum Limit	31 March 2019	31 March 2020
	%	**%**	**£000**	**£000**
Less than one year (current liabilities)	0%	25%	113,239	107,640
Between one and two years	0%	40%	18,833	5,568
Between two and five years	0%	60%	40,145	31,844
Between five and ten years	0%	70%	50,224	54,775
More than ten years	0%	90%	196,646	199,887
Total			**419,087**	**399,714**

Market risk

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

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

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

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

According to this assessment strategy, at 31 March 2020, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings (none held)	-
Increase in interest receivable on variable rate investments	182
Impact on Comprehensive Income and Expenditure	**182**

Price risk

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

The Council has a 19% voting rights interest in Woodland Enterprises Ltd, a company limited by guarantee, which was set up to create prosperity in woodland and wood industries through sustainable development. The net assets of the company at 31 March 2019 were £343,404 (£403,393 net liability at 31 March 2018).

The legal liability of the County Council is limited to £4 between its four guarantors. As no amount has been invested in this company, since it is limited by guarantee, and investments are carried at cost, the Council has not recognised any amount as an investment in this company.

The Council does hold £5m in a property asset fund, and it's price varies. The fair value at 31 March 2020 is £4.5m. However, any movement in price will not impact on the General Fund Balance as regulations are in force to ameliorate the impact of fair value movements.

Foreign exchange risk

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

46. *Trust Funds*

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

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

- East Sussex Music Trust: for the provision of music education opportunities for children and young people in East Sussex;
- Robertsbridge Youth Centre: interest from money raised by the sale of land at the youth centre, applied towards youth services in Robertsbridge;
- Lewes Educational Charity: interest from money raised by the sale of former educational premises, applied towards education in Lewes and the surrounding area;
- How Scholarship: assistance to individuals in the Borough of Hastings;
- Wright Legacy: for the purchase of particular classes of books for Eastbourne Library;
- The Ashdown Forest Trust: a registered charity that was set up by a declaration of trust in 1988. The Council is trustee and agrees grants made to the Ashdown Forest conservators, from the Ashdown Forest Trust Fund. An independent examination of the Trust Fund accounts is provided by external auditors.
- Performing Arts Centre, Lewes: the centre is leased to the Council by East Sussex College as trustee of the East Sussex Music Trust.

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

	2019/20			
	Opening Balance £000	**Expenditure £000**	**Income £000**	**Closing Balance £000**
Sole trustee funds				
East Sussex Music Trust	(34)	2	-	(32)
Robertsbridge Youth Centre	(106)	-	(1)	(107)
Lewes Educational Charity	(61)	-	(1)	(62)
Heathfield Youth Centre	(58)	-	-	(58)
How Scholarship	(5)	-	-	(5)
Wright Legacy	(2)	-	-	(2)
Total sole trustee funds	**(266)**	**2**	**(2)**	**(266)**
Comforts funds	(54)	25	(8)	(37)
Total trust funds	**(320)**	**27**	**(10)**	**(303)**
Ashdown Forest Trust	**(1,353)**	65	(70)	**(1,358)**
Performing Arts Centre, Lewes	**(556)**	16	-	**(540)**

47. Closed Landfill Sites

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

To ensure closed landfill sites are safe, they are regularly monitored. The Council currently monitors 19 closed landfill sites of which most are over 30 years old and closed in the 1980's. The Council is responsible for aftercare costs as there is a potential risk from leachate (toxic water) and escaped gases such as methane, carbon dioxide and other gases which may be flammable. In accordance with Environment Agency legislation, the Council has made a provision for a past event of up to 60 years for future aftercare costs for each site. The provision is the best estimate of the expenditure required to settle the obligation. Over the remaining aftercare life for each site, the Council will charge aftercare costs to the provision and so reduce the liability. At 31 March 2020, the liability had reduced to £9.30m (£9.43m at 31 March 2019).

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 35), has recognised the land value in the Balance Sheet. Four of the sites are located on land included elsewhere in the Council's Balance Sheet and the remaining four sites are valued separately as Property, Plant & Equipment at £1.3m at 31 March 2020 (£1.6m at 31 March 2019).

East Sussex Pension Fund Accounts

Introduction

The Local Government Pension Scheme (LGPS) is a statutory pension scheme, whose rules are governed by Parliament in accordance with the Public Services Pensions Act 2013. The rules of the scheme are provided in the Local Government Pension Scheme Regulations that came into force from 1 April 2014 and provide the statutory basis within which the Scheme can operate. Separate transitional regulations provide the link between the old and new scheme provisions.

Although a national pension scheme, mainly set up for the benefit of local government employees, the LGPS is in fact administered locally. The LGPS is open to all non teaching employees of the County Council, District and Borough Councils and Unitary Authorities in East Sussex, as well as Colleges of Further Education, Academies, Town and Parish Councils and a small number of charitable organisations who have applied to be treated as “admission bodies”. In addition, the LGPS allows employees of private contractors to participate in the Scheme where they are providing a service or assets in connection with the functions of a scheme employer, in accordance with the specific requirements of the LGPS Regulations. The scheme is not open to teachers or fire fighters, as these groups of employees have separate pension schemes.

A summary of the provisions of the scheme is given below.

Currently within the East Sussex Pension Fund there are 128 participating employers. A full list of participating employers is given at note 29.

Administering Authority Responsibilities

East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund 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 into a partnership arrangement with Surrey County Council under the umbrella of Orbis to undertake the day to day functions of managing the governance and administration of the ESPF of the LGPS. The main services provided by Orbis include governance, investment, 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 governance and administering the LGPS are under the Orbis umbrella, the County Council takes its statutory responsibility very seriously. The County Council ensures that all the participating employers within the ESPF are aware of their own responsibilities, as well as any changes to the provisions of the Scheme that may be introduced.

A major responsibility of the County Council as the administering authority is to undertake a valuation of the Pension Fund’s assets and liabilities (triennial valuation). The main purpose of this exercise is to assess the size of the Fund’s current and future liabilities against the Fund’s assets, and then set the employer contribution to the Fund for each participating employer for the following three year period. The most recent actuarial valuation of the Fund was carried out as at 31 March 2019 and the next triennial valuation is due in 2022. 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 East Sussex County Council, as administering authority for the East Sussex Pension Fund. The County Council has in place an established annual employers’ pension forum, to update and involve all the participating employers of the East Sussex Pension Fund, which is always well attended.

Asset Pools

The East Sussex Pension Fund has joined with 10 other Local Government Pension Schemes (LGPS) Administering Authorities to form the ACCESS (A Collaboration of Central, Eastern and Southern Shires) Pool. The other members of the ACCESS Pool are:

1. Cambridgeshire
2. Kent
3. Hampshire
4. West Sussex
5. Norfolk
6. Essex
7. Northamptonshire
8. Hertfordshire
9. Suffolk
10. Isle of Wight

Collectively the pool has assets of £44 billion (of which 49% has been pooled) serving 3,534 employers with over 1.1 million members including 288,248 pensioners.

The ACCESS Pool is not a legal entity in itself but is governed by the Inter Authority Agreement signed by each Administering Authority established in 2017. The Inter Authority Agreement sets out the terms of reference and constitution of ACCESS.

East Sussex Pension Fund Accounts

The formal decision-making body within the ACCESS Pool is the ACCESS Joint Committee. The Joint Committee has been appointed by the 11 Administering Authorities under s102 of the Local Government Act 1972, with delegated authority from the Full Council of each Administering Authority to exercise specific functions in relation to the Pooling of Pension Fund assets.

The Joint Committee is responsible for ongoing contract management and budget management for the Pool and is supported by the Section 151 Officers Group, Officer Working Group and the ACCESS Support Unit. More information on the ACCESS pool can be found on there website https://www.accesspool.org/.

Pension Fund Account for the year ended 31 March 2020

Restated 2018/19 £000	£000		Notes	2019/20 £000	£000
		Dealings with members, employers and others directly involved in the fund			
		Contributions	7		
(92,084)		From Employers		(99,018)	
(29,613)		From Members		(31,403)	
	(121,697)				(130,421)
	(6,113)	Transfers in from other pension funds	8		(8,298)
	(127,810)				**(138,719)**
	122,183	Benefits	9		125,670
	3,409	Payments to and on account of leavers	10		8,597
	125,592				**134,267**
	(2,218)	**Net (additions)/withdrawals from dealings with members**			**(4,452)**
	14,038	Management expenses	11		17,333
	11,820	**Net (additions)/withdrawals including fund management expenses**			**12,881**
		Returns on investments			
	(26,191)	Investment income	12		(26,546)
	272	Taxes on income	13a		59
	(234,733)	Profit and losses on disposal of investments and changes in the value of investments	14a		166,725
	(260,652)	**Net return on investments**			**140,238**
	(248,832)	**Net (increase)/decrease in net assets available for benefits during the year**			**153,119**
	(3,383,380)	Opening net assets of the scheme			(3,632,212)
	(3,632,212)	**Closing net assets of the scheme**			**(3,479,093)**

Net Assets Statement for the year ended 31 March 2020

Restated 31 March 2019 £000		Notes	31 March 2020 £000
3,478,924	Investment assets	14	3,401,666
5,362	Other Investment balances	21	340
(10,232)	Investment liabilities	22	(475)
149,156	Cash deposits	14	63,715
3,623,210	**Total net investments**		**3,465,246**
12,153	Current assets	21	16,622
(3,151)	Current liabilities	22	(2,774)
3,632,212	**Net assets of the fund available to fund benefits at the year end**		**3,479,094**

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 2020 and of the movements for the year then ended.

Ian Gutsell

Chief Finance Officer (Section 151 Officer)

Business Services Department

XX XX 2020

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 2018/19 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.

It is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

The Council has delegated its pension functions to the East Sussex Pension Committee. Responsibility for the administration and financial management of the Fund has been delegated to the Chief Finance Officer along with the Head of Pensions. The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with the ongoing compliance of the Fund. The role of the Board is to assist the East Sussex Pension Fund in complying with all the legislative requirements making sure the scheme is being effectively and efficiently governed and managed.

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in illiquid investments such as private equity, infrastructure and private debt. The Committee oversees the management of these investments and meets regularly with the investment managers to monitor their performance against agreed benchmarks.

b) Membership

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

Organisations participating in the East Sussex Pension Fund include:

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

Notes to the East Sussex Pension Fund Accounts

There are 128 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2019	31 March 2020
Number of employers with active members	133	128
Number of employees		
County Council	7,978	7,980
Other employers	15,668	15,855
Total	**23,646**	**23,835**
Number of pensioners		
County Council	9,318	9,500
Other employers	11,085	11,835
Total	**20,403**	**21,335**
Deferred pensioners		
County Council	14,008	13,860
Other employers	16,908	17,762
Total	**30,916**	**31,622**

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 2020. Employee contributions are matched by employers' contributions, which are set, based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently, employer contribution rates range from 0.0% to 49.2% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

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

2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2019/20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector.

Accounting standards issued but not yet adopted - Under the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2020 but not yet adopted by the Code.

There were no amendments for 2019/20 for the accounts of the Pension Fund.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account he actuarial present value of promised retirement benefits The code gives administering authorities the option to disclose this information in the net asset statement, in the notes to the accounts or appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 20.

The Accounts have been prepared on a going concern basis.

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 Pensions team or alternatively are available from - http://www.eastsussex.gov.uk

ACCESS pool – There is no specific accounting policy for the Pool. The ACCESS Pool is not a legal entity in itself but is governed by the Inter Authority Agreement signed by each Administering Authority. The formal decision-making body within the ACCESS Pool is the ACCESS Joint Committee, which has let the management of the asset pool to Link Fund Solutions Ltd, appointed to provide a pooled operator service. There is no direct investment in the third party, only a contractual arrangement to provide services, so no investment balance to carry forward in the net asset statement.

Notes to the East Sussex Pension Fund Accounts

3: Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes, which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body.

Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).

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

c) Investment income

i. Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii. Dividend income

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

iii. Distributions from pooled funds

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

iv. Movement in the net market value of investments

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Management expenses

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the fund on an accruals basis as follows:

i) **Administrative expenses**

All staff costs of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

ii) **Oversight and governance costs**

All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

iii) **Investment management expenses**

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11A and grossed up to increase the change in value of investments.

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

Where an investment manager's fee has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2019/20, £0.3m of fees is based on such estimates (2018/19: £0.2m).

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 in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

h) Foreign currency transactions

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

i) Derivatives

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

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

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

k) Financial liabilities

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised costs are carried at amortised cost i.e. the amount carried in the net asset statement are the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis.

l) Actuarial present value of promised retirement benefits

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

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

m) Additional voluntary contributions

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

Notes to the East Sussex Pension Fund Accounts

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 2015. The value of unquoted private equities at 31 March 2020 was £244.5 million (£206.8 million at 31 March 2019).

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.

Notes to the East Sussex Pension Fund Accounts

The items in the Net assets statement at 31 March 2020 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. As a result of Coronavirus pandeminc there is a increase in the uncertainty around the mortalty provisions within the Fund, however it is too early to assess this figure at the current time so has not been included in our calculations. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2019 Valuation the actuary advised that: • A 0.2% increase in the discount rate assumption would result in a decrease in the pension liability by approximately £113 million (3%). • A 0.2% increase in benefit increases and CARE revaluation would increase the value of liabilities by approximately £95 million (3%). • A 0.25% change in mortality rates would increase the liability by approximately £22 million (0.7%).
Private equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2015). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £244.5 million. There is a risk that this investment may be under or overstated in the accounts depending on use of estimates applied in the valuation models by the fund managers. The sensitivity of this figure is discussed further in Note 16 and Note 18.
Pooled Property Investments	A 'material valuation uncertainty' as per VPGA 10 of the RICS Red Book-Global Standards in respect of the Pooled Property Investments. These investments are valued at 31 March 2020 at £325.92m. The total value of the fund assets at 31 March 2020 is £3,479.1m, so this investment type represents just over 9.4% of total assets	Advice from the Fund Manager of the Pooled Property Portfolio is that the indicative effect of the Covid-19 pandemic on the income generation of the investments could result in a reduction of c. 20% to the reported income at year end (from 3.2% to 2.8%). Our forecasts also indicate that capital values may fall by up to 10% by year-end compared to those quoted at 31 March 2020

6: Events after the balance sheet date

The spread of Coronavirus pandemic had a significant impact on markets in the period prior to year-end and will continue to impact global growth prospects for 2020 and beyond. A unique and challenging landscape has emerged for Governments and their economies to navigate which may impact on the assets and / or liabilities of the Pension Fund.

There have been no events since 31 March 2020, and up to the date when these accounts were authorised that require any adjustments to these accounts.

Notes to the East Sussex Pension Fund Accounts

7: Contributions Receivable

	Restated 2018/19 £000	2019/20 £000
By category		
Employee's contributions	29,613	31,403
Employer's contributions		
Normal contributions	74,626	80,302
Deficit recovery contributions	16,437	17,662
Augmentation contributions	1,021	1,054
Total	**121,697**	**130,421**
By authority		
Scheduled bodies	77,498	83,613
Admitted bodies	3,576	4,303
Administrative Authority	40,623	42,505
Total	**121,697**	**130,421**

8: Transfers in from other pension funds

	2018/19 £000	2019/20 £000
Group transfers	-	-
Individual transfers	6,113	8,298
Total	**6,113**	**8,298**

9: Benefits payable

	Restated 2018/19 £000	2019/20 £000
By category		
Pensions	99,457	104,544
Commutation and lump sum retirement benefits	19,722	18,555
Lump sum death benefits	3,004	2,571
Total	**122,183**	**125,670**
By authority		
Scheduled bodies	69,441	73,625
Admitted bodies	3,778	3,690
Administrative Authority	48,964	48,355
Total	**122,183**	**125,670**

10: Payments to and on account of leavers

	2018/19 £000	2019/20 £000
Refunds to members leaving service	412	389
Group transfers	-	-
Individual transfers	2,997	8,208
Total	**3,409**	**8,597**

Notes to the East Sussex Pension Fund Accounts

11: Management expenses

	2018/19	2019/20
	£000	£000
Administrative costs	916	1,106
Investment management expenses	12,382	15,019
Oversight and governance costs	740	1,208
Total	**14,038**	**17,333**

11a: Investment management expenses

	2018/19	2019/20
	£000	£000
Management fees	11,750	14,746
Custody fees	124	54
Transaction costs*	508	219
Total	**12,382**	**15,019**

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

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are grossed up.

During the year, the Pension Fund incurred management fees which were deducted at source for 2019/20 of £3.7m (£2.3m in 2018/19) on its private equity investments, fees of £1.3m (£1.3m in 2018/19) on its infrastructure investments, fees of £2.6m (£0.0m in 2018/19) on investments in the ACCESS Pool and fees of £3.0m (£2.7m in 2018/19) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

12: Investment income

	2018/19	2019/20
	£000	£000
Income from bonds	1,055	154
Income from equities	8,526	1,507
Private equity income	1,547	1,531
Pooled property investments	11,921	11,972
Pooled investments - unit trusts and other managed funds	2,266	10,705
Interest on cash deposits	856	673
Class Actions	20	4
Total	**26,191**	**26,546**

13: Other fund account disclosures

13a: Taxes on income

	2018/19	2019/20
	£000	£000
Withholding tax – equities	(177)	(59)
Withholding tax – pooled	(95)	-
Total	**(272)**	**(59)**

13b: External audit costs

	2018/19	2019/20
	£000	£000
Payable in respect of external audit for 2018/19	20	3*
Payable in respect of external audit for 2019/20	-	27
Payable in respect of other services	-	5
Total	**20**	**35**

*The final fee for 2018/19 was agreed after the audit opinion was received for 2018/19.

Notes to the East Sussex Pension Fund Accounts

14: Investments

	2018/19 £000	2019/20 £000
Investment assets		
Bonds	499,750	212,331
Equities	153,695	-
Pooled Investments	2,232,435	2,579,793
Pooled property investments	339,442	318,129
Private equity/infrastructure	245,135	291,413
Commodities	6,125	-
Multi Asset	2,342	-
Derivative contracts:		
Forward Currency Contracts	425	-
	3,479,349	**3,401,666**
Cash deposits with Custodian	149,156	63,715
Other Investment balances (Note 21)	4,937	340
Total investment assets	**3,633,442**	**3,465,721**
Investment Liabilities (Note 22)	(9,392)	(475)
Derivative contracts:		
Forward Currency Contracts	(840)	-
Total Investment Liabilities	**(10,232)**	**(475)**
Net investment assets	**3,623,210**	**3,465,246**

14a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2019 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market value 31 March 2020 £000
Bonds	**499,750**	68,143	(379,592)	24,030	**212,331**
Equities	**153,695**	81,336	(244,125)	9,094	**-**
Pooled investments	**2,232,435**	1,055,608	(493,067)	(215,183)	**2,579,793**
Pooled property investments	**339,442**	10,551	(15,342)	(16,522)	**318,129**
Private equity/infrastructure	**245,135**	57,631	(41,228)	29,875	**291,413**
Commodities	**6,125**	992	(7,925)	808	**-**
Multi Asset	**2,342**	6,030	(7,534)	(838)	**-**
	3,478,924	**1,280,291**	**(1,188,813)**	**(168,736)**	**3,401,666**
Derivative contracts					
■ Forward currency contracts	**(415)**	12,995	(12,095)	(485)	**-**
	3,478,509	**1,293,286**	**(1,200,908)**	**(168,221)**	**3,401,666**
Other investment balances:					
■ Cash deposits	**149,156**			2,496	**63,715**
■ Other Investment Balances	**4,937**				**340**
■ Investment Liabilities	**(9,392)**				**(475)**
Net investment assets	**3,623,210**			**(166,725)**	**3,465,246**

Notes to the East Sussex Pension Fund Accounts

	Market value 1 April 2018	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 2019
	£000	£000	£000	£000	£000
Bonds	**497,920**	226,590	(173,971)	(50,789)	**499,750**
Equities	**363,116**	132,273	(370,742)	29,048	**153,695**
Pooled investments	**1,828,109**	1,456,879	(1,262,282)	209,729	**2,232,435**
Pooled property investments	**344,411**	21,721	(33,705)	7,015	**339,442**
Private equity/infrastructure	**200,960**	43,126	(44,550)	45,599	**245,135**
Commodities	**4,487**	10,836	(9,211)	13	**6,125**
Multi Asset	**3,921**	7,763	-	(9,342)	**2,342**
	3,242,924	**1,899,188**	**(1,894,461)**	**231,273**	**3,478,924**
Derivative contracts					
■ Forward currency contracts	**480**	6,452	(8,160)	813	**(415)**
	3,243,404	**1,905,640**	**(1,902,621)**	**232,086**	**3,478,509**
Other investment balances:					
■ Cash deposits	**133,789**			2,647	**149,156**
■ Other Investment Balances	**1,777**				**4,937**
■ Investment Liabilities	**(3,198)**				**(9,392)**
Net investment assets	**3,375,772**			**234,733**	**3,623,210**

Notes to the East Sussex Pension Fund Accounts

14b: Analysis of investments

	2018/19 £000	2019/20 £000
Bonds		
UK		
Corporate quoted	137,675	-
Public sector quoted	295,107	212,331
Overseas		
Public sector quoted	66,968	-
	499,750	**212,331**
Equities		
UK		
Quoted	23,830	-
Unquoted	-	-
Overseas		
Quoted	129,865	-
	153,695	**-**
Pooled funds - additional analysis		
UK		
Unit trusts	288,663	396,834
Overseas		
Unit trusts	1,943,772	2,182,959
	2,232,435	**2,579,793**
Pooled property investments	339,442	318,129
Private equity/infrastructure	245,135	291,413
Commodities	6,125	-
Multi Asset	2,342	-
Derivatives	425	-
	593,469	**609,542**
Cash deposits	149,156	63,715
Other investment balances (Note 21)	4,937	340
	154,093	**64,055**
Total investment assets	**3,633,442**	**3,465,721**
Investment Liabilities (Note 22)	(9,392)	(475)
Derivatives	(840)	-
Total Investment Liabilities	**(10,232)**	**(475)**
Net investment assets	**3,623,210**	**3,465,246**

Notes to the East Sussex Pension Fund Accounts

14c: Investments analysed by fund manager

	Market value 31 March 2019		Market value 31 March 2020	
	£000	%	£000	%
Investments in the ACCESS Pool				
ACCESS - Global Equity (Longview)	274,988	7.6%	238,840	6.9%
ACCESS - Absolute Return (Ruffer)	-	-	418,469	12.1%
ACCESS - Real Return (Newton)	-	-	414,784	12.0%
ACCESS - Corporate Debt (M&G)	-	-	144,259	4.2%
	274,988	**7.6%**	**1,216,352**	**35.2%**
Investments held directly by the Fund				
Prudential M&G	137,680	3.8%	-	-
East Sussex Pension Fund Cash	73,289	2.0%	24,736	0.7%
UBS Infrastructure Fund	19,522	0.5%	16,720	0.5%
Prudential Infracapital	1,969	0.1%	20,676	0.6%
Pantheon	14,770	0.4%	30,109	0.9%
M&G UK Financing Fund	738	0.0%	-	-
Schroders Property*	360,424	9.9%	343,707	9.9%
Harbourvest Strategies	98,066	2.7%	106,192	3.1%
Adams St Partners	115,216	3.2%	122,874	3.5%
M&G Absolute Return Bonds	251,283	6.9%	239,101	6.9%
Ruffer LLP**	402,202	11.1%	-	-
Newton Investment Management	422,002	11.7%	-	-
Longview Partners	349	0.0%	-	-
UBS Passive Funds	1,450,712	40.1%	1,305,987	37.6%
M&G Real Estate Debt VI	-	-	38,793	1.1%
	3,348,222	**92.4%**	**2,248,894**	**64.8%**
	3,623,210		**3,465,246**	

* Schroders mandate is to oversee the East Sussex Pension Fund's investments in a range of underlying property funds this is not a single investment into a Schroders property fund.
** Ruffer LLP managed a segregated mandate for East Sussex Pension Fund, the Fund was invested directly into the underlying assets which Ruffer were responsible for investing.

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

Security	Market Value 31 March 2019	% of total fund	Market value 31 March 2020	% of total fund
	£000		£000	
ACCESS - Absolute Return (Ruffer)	-	0.0%	418,469	12.0%
ACCESS - Real Return (Newton)	-	0.0%	414,784	11.9%
UBS Fundamental Index	429,415	11.9%	363,155	10.4%
M&G Absolute Return Bonds	251,283	6.9%	239,101	6.9%
ACCESS - Global Equity (Longview)	274,988	7.6%	238,840	6.9%
UBS UK Equity	271,296	7.5%	221,992	6.4%
UBS Over 5 year Index Gilt Linked	207,494	5.7%	212,331	6.1%
Newton Real Return (Pooled Fund)	422,001	11.6%	-	0.0%

14d: Stock lending

The East Sussex Pension Fund has not operated a stock lending programme since 13th October 2008.

Notes to the East Sussex Pension Fund Accounts

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
	-	-	-	-	-	-
					-	-
Net forward currency contracts at 31 March 2020						**-**
Prior year comparative						
Open forward currency contracts at 31 March 2019					425	(840)
Net forward currency contracts at 31 March 2019						**(415)**

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

Notes to the East Sussex Pension Fund Accounts

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
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 – Equity and bonds Funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	The valuation is undertaken by the investment manager or responsible entity and advised as a unit or security price. Observable inputs are used. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.	Not Required
Pooled investments – Property Funds	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published Investments in unlisted property funds are valued at the net asset value (NAV). The underlying real estate assets values have been derived by independent valuers on a fair value basis and generally in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards.	The significant inputs and assumptions are developed by the respective fund manager.	Valuations could be affected by the frequency of the independent valuations between the funds.
Unquoted equity – Private Equity / Infrastructure	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	Observable inputs are subject to judgment by the respective manager, but are applied in accordance with the appropriate industry guidelines. Valuations are audited as at 31 December, and the valuations as at 31 March reflect cash flow transactions since 31 December.	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

Notes to the East Sussex Pension Fund 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 2020.

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2020	Value on increase	Value on decrease
		£000	£000	£000
Pooled Investment (a)	7%	30,583	32,759	28,407
Pooled property investments (b)	14%	318,129	362,031	274,227
Private Equity/Infrastructure (c)	27%	307,447	390,458	224,436
Total		**625,576**	**752,489**	**498,663**

(a) All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate assets, the range in the potential movement of 7% is caused by how this value is measured.

(b) All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate assets, the range in the potential movement of 14% is caused by how this value is measured.

(c) All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 27% is caused by how this profitability is measured.

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.

Within the East Sussex Pension Fund's investments those that meet this criterion are the Funds illiquid investments in Pooled property Funds, Private Equity/Infrastructure and some equity investments.

The pricing policies for these investments are set by the Fund's Investment Managers that has invested into these assets.

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 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss	222,079	2,539,802	640,125	3,402,006
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(475)	-	(475)
Net investment assets	**222,079**	**2,539,327**	**640,125**	**3,401,531**

Notes to the East Sussex Pension Fund Accounts

Values at 31 March 2019	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With Significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value through profit and loss	554,112	2,311,927	618,247	3,484,286
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(10,232)	-	(10,232)
Net investment assets	**554,112**	**2,301,695**	**618,247**	**3,474,054**

16b: Transfers between levels 1 and 2

During 2019/20 the fund has not transferred any financial assets between levels 1 and 2.

16c: Reconciliation of fair value measurements within level 3

Period 2019/20	**Market value 1 April 2019** **£000**	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year £000	Sales during the year £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	**Market value 31 March 2020** **£000**
Equities	**33,670**	-	-	4,344	(31,669)	8,716	(15,061)	**-**
Pooled investments	**-**	-	-	44,179	(14,239)	643	-	**30,583**
Pooled property investments	**339,442**	-	-	10,551	(15,342)	(22,256)	5,734	**318,129**
Private Equity/Infrastructure	**245,135**	-	-	57,631	(35,970)	1,863	22,754	**291.413**
Total	**618,247**	**-**	**-**	**116,705**	**(97,220)**	**(11,034)***	**13,427***	**640,125**

*Reconciliation to Change in market value during the year in Note 14a

Level	Unrealised gains/(losses)	Realised gains/(losses)	**Change in market value during the year**
1 and 2	(269,121)	100,003	**(169,118)**
3	(11,034)	13,427	**2,393**
Total	**(280,155)**	**(113,430)**	**(166,725)**

Period 2018/19	**Market value 1 April 2018** **£000**	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year £000	Sales during the year £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	**Market value 31 March 2019** **£000**
Equities	**19,801**	-	-	20,073	-	(6,204)	-	**33,670**
Pooled property investments	**344,411**	-	-	8,621	(20,605)	(904)	7,919	**339,442**
Private Equity/Infrastructure	**201,918**	-	-	43,126	(40,978)	17,473	23,596	**245,135**
Total	**566,130**	**-**	**-**	**71,820**	**(61,583)**	**10,365***	**31,515***	**618,247**

*Reconciliation to Change in market value during the year in Note 14a

Level	Unrealised gains/(losses)	Realised gains/(losses)	**Change in market value during the year**
1 and 2	58,452	134,401	**192,853**
3	10,365	31,515	**41,880**
Total	**68,817**	**165,916**	**234,733**

Notes to the East Sussex Pension Fund Accounts

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.

Restated 31 March 2019				31 March 2020		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial Assets			
499,750	-	-	Bonds	212,331	-	-
153,695	-	-	Equities	-	-	-
2,232,435	-	-	Pooled investments	2,579,793	-	-
339,442	-	-	Pooled property investments	318,129	-	-
245,135	-	-	Private equity/infrastructure	291,413	-	-
6,125	-	-	Commodities	-	-	-
2,342	-	-	Multi Asset	-	-	-
425	-	-	Derivative contracts	-	-	-
-	149,156	-	Cash	-	63,715	-
-	499	-	Cash held by ESCC*	-	1,746	-
4,937	-	-	Other investment balances	340	-	-
-	11,654	-	Debtors *	-	14,876	-
3,484,286	**161,309**	**-**	**Total Financial Assets**	**3,402,006**	**80,337**	**-**
			Financial liabilities			
(840)	-	-	Derivative contracts	-	-	-
(9,392)	-	-	Other investment balances	(475)	-	-
-	-	-	Cash held by ESCC	-	-	-
-	-	(3,151)	Creditors	-	-	(2,774)
(10,232)	**-**	**(3,151)**	**Total Financial Liabilities**	**(475)**	**-**	**(2,774)**
3,474,054	**161,309**	**(3,151)**	**Total Financial Instruments**	**3,401,531**	**80,337**	**(2,774)**

*Reconciliation to Current Assets Note 21

	2018/19	2019/20
	£000	£000
Cash held by ESCC	499	1,746
Debtors	11,654	15,481
Current Assets	**12,153**	**16,622**

17b: Net gains and losses on financial instruments

	31 March 2019	31 March 2020
	£000	£000
Financial assets		
Fair value through profit and loss	225,623	(167,355)
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	2,995	665
Financial liabilities		
Fair value through profit and loss	6,115	(35)
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	-	-
Total	**234,733**	**(150,691)**

Notes to the East Sussex Pension Fund Accounts

18: Nature and extent of risks arising from financial instruments

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole 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 2019/20 reporting period:

Asset Type	Potential Market Movements (+/-)
Index Linked	9%
Other Bonds	7%
UK equities	28%
Global equities	28%
Absolute Return	14%
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.

Notes to the East Sussex Pension Fund Accounts

Asset Type	Values at 31 March 2020	Value on increase	Value on decrease
	£000	£000	£000
Index Linked	212,331	231,441	193,221
Other Bonds	413,943	443,397	384,489
UK equities	221,992	284,150	159,834
Global equities	1,110,605	1,421,574	799,636
Absolute Return	833,253	949,908	716,598
Pooled property investments	318,129	362,031	274,227
Private Equity	228,472	292,444	164,500
Infrastructure funds	62,941	75,529	50,353
Net derivative assets	-	-	-
Total assets available to pay benefits	**3,401,666**	**4,060,474**	**2,742,858**

Asset Type	Values at 31 March 2019	Value on increase	Value on decrease
	£000	£000	£000
Index Linked	207,489	226,163	188,815
Other Bonds	388,958	412,279	365,637
UK equities	272,028	318,273	225,783
Global equities	1,247,034	1,459,030	1,035,038
Absolute Return	779,575	880,920	678,230
Pooled property investments	339,442	386,964	291,920
Private Equity	211,928	271,268	152,588
Infrastructure funds	32,469	38,963	25,975
Net derivative assets	(414)	(414)	(414)
Total assets available to pay benefits	**3,478,509**	**3,993,446**	**2,963,572**

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 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

The fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis point (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment adviser has advised that this is consistent with an annual one standard deviation move in interest rates, where interest rates are determined by the prices of fixed interest UK government bonds.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset type	Carrying amount as at 31 March 2020	Impact of 1% increase	Impact of 1% decrease
	£000	£000	£000
Cash and cash equivalents	63,715	63,715	63,715
Cash balances	1,746	1,746	1,746
Fixed interest securities	413,943	418,082	409,804
Index linked securities	212,331	212,331	212,331
Total change in assets available	**691,735**	**695,874**	**687,596**

Notes to the East Sussex Pension Fund Accounts

Asset type	Carrying amount as at 31 March 2019	Impact of 1% increase	Impact of 1% decrease
	£000	£000	£000
Cash and cash equivalents	149,156	149,156	149,156
Cash balances	499	499	499
Fixed interest securities	404,890	408,939	400,841
Index linked securities	346,143	346,143	346,143
Total change in assets available	**900,688**	**904,737**	**896,639**

Income Source	Interest receivable 2019/20	Value on 1% increase	Value on 1% decrease
	£000	£000	£000
Cash deposits/cash and cash equivalents	673	1,328	18
Fixed interest securities	6,665	6,665	6,665
Index linked securities	169	2,292	(1,954)
Total change in assets available	**7,507**	**10,285**	**4,729**

Income Source	Interest receivable 2018/19	Value on 1% increase	Value on 1% decrease
	£000	£000	£000
Cash deposits/cash and cash equivalents	856	2,353	(641)
Fixed interest securities	2,605	2,605	2,605
Index linked securities	700	4,161	(2,761)
Total change in assets available	**4,161**	**9,119**	**(797)**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances.

Currency risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling. Following analysis of historical data in consultation with the fund investment advisors, the fund considers the likely volatility associated with foreign exchange rate movements not more than 13%. A 13% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Values at 31 March 2020	Potential Market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Overseas unit trusts	2,182,959	218,296	2,401,255	1,964,663
Total change in assets available	**2,182,959**	**218,296**	**2,401,255**	**1,964,663**

Currency exposure - asset type	Values at 31 March 2019	Potential Market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Overseas index linked	51,036	6,635	57,671	44,401
Overseas fixed interest	15,932	2,071	18,003	13,861
Overseas quoted securities	129,865	16,882	146,747	112,983
Overseas unit trusts	1,675,160	217,771	1,892,931	1,457,389
Total change in assets available	**1,871,993**	**243,359**	**2,115,352**	**1,628,634**

Notes to the East Sussex Pension Fund Accounts

b) Credit risk

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

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

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

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

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

Summary	**Asset value as at 31 March 2019 £000**	**Asset value as at 31 March 2020 £000**
UK Treasury bills	86	86
Bank current accounts		
NT custody cash accounts	149,070	63,629
Total overseas assets	**149,156**	**63,715**

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 2020 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 2019. 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 2019 valuation shows the fund has a past service deficit, being 107% funded in respect of past liabilities. This compares with 92% funded at the 2016 valuation.

East Sussex Pension Fund ("the Fund")

Actuarial Statement for 2019/20

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 March 2020. 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);

Notes to the East Sussex Pension Fund Accounts

- 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 have a sufficiently high likelihood of achieving the funding target over 20 years. 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 at least a 71% likelihood that the Fund will achieve the funding target 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 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £3,633 million, were sufficient to meet 107% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2019 valuation was £247 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 2020 to 31 March 2023 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 2019 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 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.0%
Salary increase assumption	2.3%
Benefit increase assumption (CPI)	2.3%

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 2018 model, an allowance for smoothing of recent mortality experience and a 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	22.6 years	23.9 years
Future Pensioners*	22.5 years	25.3 years

*Figures assume members aged 45 as at the 2019 valuation.

Copies of the 2019 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 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Notes to the East Sussex Pension Fund Accounts

20: Actuarial present value of promised retirement benefits

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2019/20 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 2019	31 March 2020
Active members (£m)	2,277	1,634
Deferred pensions (£m)	1,039	1,023
Pensioners (£m)	1,552	1,721
Total	**4,868**	**4,378**

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. 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 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £449m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £125m.

Financial assumptions

Year ended	31 Mar 2019 % p.a.	31 Mar 2020 % p.a.
Pension Increase Rate	2.5%	1.9%
Salary Increase rate	2.9%	1.9%
Discount Rate	2.4%	2.3%

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a 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	22.6 years	23.9 years
Future Pensioners*	22.5 years	25.3 years

*Future pensioners are assumed to be aged 45 at the latest formal valuation as at 31 March 2019.

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:

Notes to the East Sussex Pension Fund Accounts

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% increase in pensions increase rate	9%	384
0.5% increase in salary increase rate	1%	33
0.5% decrease in discount rate	10%	420

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 2019 £000	31 March 2020 £000
Other Investment Balances		
Sales inc Currency	3,313	-
Investment Income Due	1,704	193
Recoverable Taxes	345	147
Total	**5,362**	**340**

	31 March 2019 £000	31 March 2020 £000
Current Assets		
Contributions receivable from employers and employees	10,167	13,436
Sundry Debtors	1,487	1,440
Cash	499	1,746
Total	**12,153**	**16,622**

22: Current liabilities

	31 March 2019 £000	31 March 2020 £000
Investment Liabilities		
Purchases including currency	(8,893)	-
Managers Fees	(1,339)	(475)
Total	**(10,232)**	**(475)**

	Restated 31 March 2019 £000	31 March 2020 £000
Current Liabilities		
Pension Payments (inc Lump Sums)	(574)	(264)
Cash	-	-
Professional Fees	(55)	(434)
Administration Recharge	(1,046)	(1,194)
Sundry Creditors	(1,476)	(882)
Total	**(3,151)**	**(2,774)**

23: Additional voluntary contributions

	Market value 31 March 2019 £000	Market value 31 March 2020 £000
Prudential	16,821	21,221

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2019/20 some members of the pension scheme paid voluntary contributions and transfers in of £2.277m (£2.580m 2018/19) to Prudential to buy extra pension benefits when they retire. £3.050m was disinvested from the AVC provider in 2019/20 (£2.303m 2018/19). 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.

Notes to the East Sussex 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.

	2018/19	2019/20
	£000	£000
East Sussex County Council	4,905	4,899
Brighton & Hove City Council	2,349	2,291
Eastbourne Borough Council	345	304
Magistrates	179	209
Wealden District Council	212	176
Hastings Borough Council	168	174
Rother District Council	104	115
Lewes District Council	78	73
South East Water	61	35
Brighton University	28	26
Mid-Sussex District Council	-	19
Westminster (used to be LPFA)	17	18
East Sussex Fire Authority	16	17
Capita Hartshead	16	16
London Borough of Camden	7	7
London Borough of Southwark	6	6
The Eastbourne Academy	5	6
Eastbourne Homes	3	6
West Midlands Pension Fund	5	5
West Sussex County Council*	1,060	4
Torfaen Borough Council	4	4
Sussex University	3	3
Varndean College	2	2
London Borough of Ealing	2	2
Newhaven TC	1	1
East Sussex College Group	1	1
Plumpton College	-	1
Total	**9,577**	**8,420**

***** 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 were transferred to their administrators March 2019.

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 £1.2m to the fund in 2019/20 (£1.0m in 2018/19). The Council`s contribution to the fund was £42.5m in 2019/20 (£45.9m in 2018/19). All amounts due to the fund were paid in the year. At 31 March 2020 the Pension Fund bank account was in debit by £1.7m. The average throughout the year was £6.0m (£4.3 in 2018/19).

Notes to the East Sussex Pension Fund Accounts

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 2019	31 March 2020
	£000	£000
Short-term benefits	17	18
Post-employment benefits	3	3
Total	**20**	**21**

26: Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2020 totalled £322.0m (31 March 2019: £200.7m).

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 2020, the unfunded commitment was £158.4m for private equity, £133.5m for infrastructure and £30.1 for private debt. The commitments are paid over the investment timeframe of the underlying partnerships. As these partnerships mature they are due to distribute capital back to investors. Commitments are made in US Dollars or Euros and the figures presented here are based on relevant Sterling exchange rates as at 31 March 2020.

Exit Payments

There were 12 employers whose contracts were due to end by the 31 March 2020 where an exit credit may need to be paid out. The Fund needs to obtain final information from the employers and then will need to commission the final cessation report from the actuaries to ascertain if an exit payment is due for these employers.

GMP Reconciliation Project

The Guaranteed Minimum Pension (GMP) Reconciliation project was split into number stages for Local Government Pension Schemes (LGPS). The Fund has nearly completed Stage 2, which reviews data inconsistencies, raised issues with HMRC and agrees outcomes, with 100% of the matching work completed. GMP elements of LGPS pension where State Pension Age is prior to 6 April 2016 has not increased in respect of the period 6 April 1978 to 5 April 1988. While the Post 1988 GMP element in respect of the period 6 April 1988 to 5 April 1997 might be increased up to a maximum of 3%. The Government increase the State Pension for the member fully on the Pre 1988 GMP element and for Post 1988 GMP element has only increased if CPI is above 3%.

The effect of LGPS pensions not showing the correct amount of GMP for its members would mean that their pension might be increased incorrectly. This can result in underpayments and overpayments, at a member specific level. Stage 3 of the GMP Reconciliation Project, i.e., Rectification will amend LGPS pensions in line with the reconciled Stage 2 GMP information. This stage will also involve a significant member communication exercise to explain the changes taking place.

We are not in a position to be able to finalise the GMP reconciliation at this point we received with the final Scheme Reconciliation Service data cut, showing the final position of membership and liabilities held on their records from HMRC in July 2020. The contracted provider Mercers are currently performing a final reconciliation on this data with a report due to go to the November Pension Committee meeting for consideration. As such, we are unable to quantify the under/overpayment liability values as at 31 March 2020.

27: Contingent assets

There are 9 admitted body employers in the Fund that hold insurance bonds to guard against the possibility of them being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. In addition to these bonds, pension’s obligations in respect of 12 other admitted bodies are covered by:

- 8 guarantees by local authorities participating in the Fund;
- 3 Parent company guarantee;
- 1 deposit held by East Sussex County Council

At 31 March 2020, the Fund has invested £367.4 million in private equity funds managed by Adams Street and HarbourVest. The Fund has also invested £29.9 million in the M&G real estate debt fund VI and £71.4 million in the infrastructure funds managed by UBS, Pantheon and Infracapital.

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 2019/20, the fund has not recognised any impairment losses.

Notes to the East Sussex Pension Fund Accounts

29: East Sussex Pension Fund – Active Participating Employers

Employer Name	2019/20		2020/21		2021/22	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	17.1	5,448	20.8	-	20.3	-
East Sussex County Council	17.1	7,254	17.6	6,141	17.6	5,568
East Sussex Fire and Rescue Service	17.0	247	17.9	164	17.9	137
Eastbourne Borough Council	16.9	654	19.9	-	19.4	-
Hastings Borough Council	17.3	594	17.6	538	17.6	508
Lewes District Council	18.0	551	24.1	-	23.6	-
Rother District Council	17.3	596	26.1	-	25.6	-
University of Brighton	16.75	741	18.2	-	17.7	-
Wealden District Council	17.2	655	17.6	576	17.6	538
Other Scheduled Bodies						
Arlington Parish Council	22.6	-	22.1	-	21.6	-
Battle Town Council	17.4	6	22.1	-	21.6	-
Berwick Parish Council	22.6	-	22.1	-	21.6	-
Buxted Parish Council	22.6	-	22.1	-	21.6	-
Camber Parish council	22.6	-	22.1	-	21.6	-
Chailey Parish Council	22.6	-	22.1	-	21.6	-
Chiddingly Parish Council	22.6	-	22.1	-	21.6	-
Conservators of Ashdown Forest	17.4	17	22.1	-	21.6	-
Crowborough Town Council	17.4	14	22.1	-	21.6	-
Danehill Parish Council	22.6	-	22.1	-	21.6	-
Ditchling Parish Council	22.6	-	22.1	-	21.6	-
Ewhurst Parish Council	22.6	-	22.1	-	21.6	-
Fletching Parish Council	22.6	-	22.1	-	21.6	-
Forest Row Parish Council	17.4	4	22.1	-	21.6	-
Frant Parish Council	22.6	-	22.1	-	21.6	-
Hadlow Down Parish Council	22.6	-	22.1	-	21.6	-
Hailsham Town Council	17.4	17	22.1	-	21.6	-
Hartfield Parish Council	22.6	-	22.1	-	21.6	-
Heathfield & Waldron Parish Council	17.4	5	22.1	-	21.6	-
Herstmonceux Parish Council	22.6	-	22.1	-	21.6	-
Hurst Green Parish Council	22.6	-	22.1	-	21.6	-
Icklesham Parish Council	22.6	-	22.1	-	21.6	-
Isfield Parish Council	22.6	-	22.1	-	21.6	-
Lewes Town Council	17.4	19	22.1	-	21.6	-
Maresfield Parish Council	17.4	1	22.1	-	21.6	-
Newhaven Town Council	17.4	6	22.1	-	21.6	-
Newick Parish Council	22.6	-	22.1	-	21.6	-
Peacehaven Town Council	17.4	10	22.1	-	21.6	-
Pett Parish Council	22.6	-	22.1	-	21.6	-
Plumpton Parish Council	22.6	-	22.1	-	21.6	-
Ringmer Parish Council	22.6	-	22.1	-	21.6	-
Rye Town Council	17.4	2	22.1	-	21.6	-
Salehurst & Robertsbridge Parish Council	22.6	-	22.1	-	21.6	-
Seaford Town Council	17.4	8	22.1	-	21.6	-
Sussex Inshore Fisheries & Conservation Authority	22.6	-	22.1	-	21.6	-
Telscombe Town Council	17.4	5	22.1	-	21.6	-
Uckfield Town Council	17.4	17	22.1	-	21.6	-
Wartling Parish Council	22.6	-	22.1	-	21.6	-

Employer Name	2019/20		2020/21		2021/22	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Westham Parish Council	17.4	2	22.1	-	21.6	-
Willingdon and Jevington Parish Council	17.4	2	22.1	-	21.6	-
Wivelsfield Parish Council	17.4	2	22.1	-	21.6	-
Academy Schools						
Annecy Catholic Primary Academy	15.3	-	15.5	-	15.0	-
Aquinas Trust	21.5	-	21.0	-	20.5	-
ARK Schools Hastings	21.1	-	20.6	-	20.1	-
Aurora Academies Trust	20.9	-	20.4	-	19.9	-
Beacon Academy	23.5	-	23.0	-	22.5	-
Bexhill Academy	23.4	-	22.9	-	22.4	-
Bilingual Primary School	16.1	-	15.6	-	15.1	-
Breakwater Academy	17.5	-	17.0	-	16.5	-
Burfield Academy (Hailsham Primary)	20.5	-	20.0	-	19.5	-
Cavendish Academy	21.0	-	20.5	-	20.0	-
Diocese of Chichester Academy Trust	24.9	-	24.4	-	23.9	-
Eastbourne Academy	21.7	-	21.2	-	20.7	-
Falmer (Brighton Aldridge Community Academy)	20.5	-	20.0	-	19.5	-
Gildredge House Free School	20.1	-	19.6	-	19.1	-
Glyne Gap Academy	21.9	-	21.4	-	20.9	-
Hailsham Academy	20.5	-	20.0	-	19.5	-
Hawkes Farm Academy	16.9	-	16.4	-	15.9	-
High Cliff Academy	20.5	-	20.0	-	19.5	-
Jarvis Brook Academy	15.0	-	14.5	-	14.0	-
King's Church of England Free School	16.7	-	16.2	-	15.7	-
Langney Primary Academy	14.7	-	13.4	-	12.9	-
Ore Village Academy	19.0	-	18.5	-	18.0	-
Parkland Infant Academy	15.9	-	14.8	-	14.3	-
Parkland Junior Academy	15.2	-	14.4	-	13.9	-
Pebsham Academy	20.0	-	19.5	-	19.0	-
Phoenix Academy	20.9	-	20.4	-	19.9	-
Portslade Aldridge Community Academy	20.4	-	19.9	-	19.4	-
King's Academy Ringmer	21.3	-	20.8	-	20.3	-
SABDEN Multi Academy Trust	24.1	-	23.6	-	23.1	-
Seaford Academy	21.6	-	21.1	-	20.6	-
Seahaven Academy	22.0	-	21.5	-	21.0	-
Shinewater Primary Academy	15.3	-	14.5	-	14.0	-
Sir Henry Fermor Academy	15.3	-	14.8	-	14.3	-
The South Downs Learning Trust	12.7	-	12.2	-	11.7	-
The Southfield Trust	14.9	-	14.4	-	13.9	-
Torfield & Saxon Mount Academy Trust	23.1	-	22.6	-	21.1	-
University of Brighton Academies Trust	20.5	-	20.0	-	19.5	-
White House Academy	18.0	-	17.5	-	17.0	-
Colleges						
Bexhill College	16.6	38	21.2	-	21.2	-
Brighton, Hove & Sussex Sixth Form College	17.2	38	19.8	-	19.8	-
East Sussex College Group	17.2	171	20.7	-	20.7	-
Plumpton College	16.7	73	18.9	-	18.9	-
Varndean Sixth Form College	17.5	25	19.8	-	19.8	-
Admission Bodies						
BHCC - Wealden Leisure Ltd	21.2	-	33.0	11	33.0	-
Biffa Muncipal Ltd	-	-	28.8	-	28.8	-

Notes to the East Sussex Pension Fund Accounts

Employer Name	2019/20		2020/21		2021/22	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Brighton and Hove CAB	28.7	-	0.0	-	0.0	-
Brighton Dome & Festival Limited (Music & Arts Service)	20.7	-	0.0	-	0.0	0.0
Care Outlook Ltd	35.0	-	0.0	-	0.0	0.0
Care Quality Commission	41.6	231	49.2	92	49.2	92
De La Warr Pavilion Charitable Trust	43.7	207	4.8	-	4.8	-
Eastbourne Homes - SEILL	21.9	-	19.2	-	19.2	-
Eastbourne Leisure Trust	25.8	18	0.0	-	0.0	0.0
East Sussex Energy, Infrastructure & Development Ltd (ESEIDL)	24.5	2	29.2	13	29.2	13
EBC - Towner	11.5	-	31.0	7	31.0	7
ESCC - Care at Home Services	-	-	0.0	-	0.0	0.0
ESCC - NSL Ltd	-	-	3.6	-	3.6	-
Grace Eyre	27.5	-	0.0	-	0.0	0.0
Halcrow Group Ltd	23.6	-	5.4	-	5.4	-
Hardings Catering Ltd	-	-	32.4	1	32.4	-
Just Ask Estates Ltd	31.4	-	32.6	3	32.6	-
Optivo	39.2	1,221	45.8	920	45.8	920
Sussex County Sports Partnership	21.0	-	48.6	97	48.6	97
Sussex Housing & Care	35.9	67	0.0	-	0.0	-
Telent Technology Services Ltd	24.9	-	20.8	-	20.8	-
Wave Leisure - Newhaven Fort	18.0	-	0.0	-	0.0	-
Wave Leisure Trust Ltd	9.0	-	0.0	-	0.0	-
WDC - Wealden Leisure Ltd	27.1	91	15.8	-	15.8	-
Wealden Leisure Ltd - Portslade Sports Centre	12.3	-	0.0	-	0.0	-
White Rock Theatres Hastings Ltd	6.7	-	0.0	-	0.0	-

Notes to the East Sussex Pension Fund Accounts

30: Investment Performance

The County Council uses an independent Investment performance measurement service, provided by Pensions & Investment Research Consultants Ltd (PIRC), which measures the performance of the Fund compared with 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	(4.3)	1.6	5.1	6.8
Benchmark	(5.0)	1.2	4.4	5.8
Relative	0.7	0.4	0.7	1.0

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	(4.3)	1.6	5.1	6.8
Local Authority Average	(4.8)	1.9	5.2	6.9
Relative	0.5	(0.3)	(0.1)	(0.1)

The Fund outperformed the (weighted) average local authority fund over the year by 1.3% (0.7% outperformance 2018/19), ranking the East Sussex Fund in the 48nd percentile (23rd 2018/19) in the local authority universe. Over three years the fund performed inline (0.7% underperformance 2018/19) and was placed in the 55th percentile (65th 2018/19). Over five years the fund outperformed by 0.1% (0.2% outperformance in 2018/19) and was placed in the 37th percentile (32nd 2018/19). Over ten years the fund years, the fund underperformed by 0.1% (0.3% underperformance 2018/19) and was placed in the 45th percentile (60th 2018/19).

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.

Notes to the East Sussex Pension Fund Accounts

31: Prior Period Adjustments

Fund Account

The 2018/19 contributions from employers and benefits totals have been restated to £92,084k and £122,183k respectively. The net (additions)/withdrawals from dealings with members, net (additions)/withdrawals including fund management expenses, net (increase)/decrease in net assets available for benefits during the year and the closing net assets of the schemes have all been adjusted by £651k to £2,218, £11,820, £248,832 and £3,632,212 respectively. This is due to the removal of unfunded pension payments from the Fund Account and a liability raised for this in the Net Asset Statement.

2018/19 £000	2018/19 £000		Restated 2018/19 £000	Restated 2018/19 £000	Change £000
		Dealings with members, employers and others directly involved in the fund			
		Contributions			
(101,093)		From Employers	(92,084)		9,009
(29,613)		From Members	(29,613)		-
	(130,706)			(121,697)	-
	(6,113)	Transfers in from other pension funds		(6,113)	-
	(136,819)			(127,810)	9,009
	130,541	Benefits		122,183	(8,358)
	3,409	Payments to and on account of leavers		3,409	-
	133,950			125,592	(8,358)
	(2,869)	**Net (additions)/withdrawals from dealings with members**		**(2,218)**	**651**
	14,038	Management expenses		14,038	-
	11,169	**Net (additions)/withdrawals including fund management expenses**		**11,820**	**651**
		Returns on investments			
	(26,191)	Investment income		(26,191)	-
	272	Taxes on income		272	-
	(234,733)	Profit and losses on disposal of investments and changes in the value of investments		(234,733)	-
	(260,652)	**Net return on investments**		**(260,652)**	**-**
	(249,483)	**Net (increase)/decrease in net assets available for benefits during the year**		**(248,832)**	**651**
	(3,383,380)	Opening net assets of the scheme		(3,383,380)	-
	(3,632,863)	**Closing net assets of the scheme**		**(3,632,212)**	**651**

Notes to the East Sussex Pension Fund Accounts

Net Assets Statement

The 31 March 2019 balances for current liabilities and net assets of the fund available to fund benefits at the year end have been restated due to the removal of unfunded pensions from the Fund Account to £3,151k and £3,632,212k respectively a movement of £651k.

31 March 2019 £000		Restated 31 March 2019 £000	Change £000
3,478,924	Investment assets	3,478,924	-
5,362	Other Investment balances	5,362	-
(10,232)	Investment liabilities	(10,232)	-
149,156	Cash deposits	149,156	-
3,623,210	**Total net investments**	**3,623,210**	-
12,153	Current assets	12,153	-
(2,500)	Current liabilities	(3,151)	(651)
3,632,863	**Net assets of the fund available to fund benefits at the year end.**	**3,632,212**	**(651)**

Note 7

The 2018/19 employers normal contributions have been restated to £74,626k with the breakdown by Scheduled bodies, Admitted bodies and Administrative Authority have been restated to £77,498k, £3,578k and £40,623k respectively. Due to the removal of reimbursements for unfunded pension payments from the Fund Account.

	2018/19 £000	Restated 2018/19 £000	Change £000
By category			
Employee's contributions	29,613	29,613	-
Employer's contributions			
Normal contributions	83,635	74,626	9,009
Deficit recovery contributions	16,437	16,437	0
Augmentation contributions	1,021	1,021	0
Total	**130,706**	**121,697**	**9,009**
By authority			
Scheduled bodies	81,178	77,498	3,680
Admitted bodies	3,582	3,576	6
Administrative Authority	45,946	40,623	5,323
Total	**130,706**	**121,697**	**9,009**

Note 9

The 2018/19 pensions and commutation and lump sum retirement benefits have been restated to £99,457k and £19,722K respectively. The breakdown by scheduled bodies, admitted bodies and administrative authority have been restated to £69,441k, £3,778k and £48,964k respectively. Due to the removal of unfunded pension payments from the Fund Account.

	2018/19 £000	Restated 2018/19 £000	Change £000
By category			
Pensions	107,805	99,457	8,348
Commutation and lump sum retirement benefits	19,732	19,722	10
Lump sum death benefits	3,004	3,004	-
Total	**130,541**	**122,183**	**8,358**
By authority			
Scheduled bodies	72,886	69,441	3,445
Admitted bodies	3,808	3,778	30
Administrative Authority	53,847	48,964	4,883
Total	**130,541**	**122,183**	**8,358**

Note 17

Notes to the East Sussex Pension Fund Accounts

The 2018/19 creditors balance has been changed to £3,151k due to the creation of a creditor for unfunded pension payments.

31 March 2019 Fair value through profit and loss £000	31 March 2019 Assets at amortised cost £000	31 March 2019 Liabilities at amortised cost £000		Restated 31 March 2019 Fair value through profit and loss £000	Restated 31 March 2019 Assets at amortised cost £000	Restated 31 March 2019 Liabilities at amortised cost £000	Change £000
			Financial Assets				
499,750	-	-	Bonds	499,750	-	-	-
153,695	-	-	Equities	153,695	-	-	-
2,232,435	-	-	Pooled investments	2,232,435	-	-	-
339,442	-	-	Pooled property investments	339,442	-	-	-
245,135	-	-	Private equity/infrastructure	245,135	-	-	-
6,125	-	-	Commodities	6,125	-	-	-
2,342	-	-	Multi Asset	2,342	-	-	-
425	-	-	Derivative contracts	425	-	-	-
-	149,156	-	Cash	-	149,156	-	-
-	499*	-	Cash held by ESCC*	-	499	-	-
4,937	-	-	Other investment balances	4,937	-	-	-
-	11,654*	-	Debtors *	-	11,654	-	-
3,484,286	**161,309**	**-**	**Total Financial Assets**	**3,484,286**	**161,309**	**-**	-
			Financial liabilities				
(840)	-	-	Derivative contracts	(840)	-	-	-
(9,392)	-	-	Other investment balances	(9,392)	-	-	-
-	-	-	Cash held by ESCC	-	-	-	-
-	-	(2,500)	Creditors	-	-	(3,151)	(651)
(10,232)	**-**	**(2,500)**	**Total Financial Liabilities**	**(10,232)**	**-**	**(3,151)**	**(651)**
3,474,054	**161,309**	**(2,500)**	**Total Financial Instruments**	**3,474,054**	**161,309**	**(3,151)**	**(651)**

Note 22

The 2018/19 sundry creditors balance has been changed to £1,476k due to the creation of a creditor for unfunded pension payments.

	31 March 2019 £000	Restated 31 March 2019 £000	Change £000
Current Liabilities			
Pension Payments (inc Lump Sums)	(574)	(574)	-
Cash	-	-	-
Professional Fees	(55)	(55)	-
Administration Recharge	(1,046)	(1,046)	-
Sundry Creditors	(825)	(1,476)	(651)
Total	**(2,500)**	**(3,151)**	**(651)**

Glossary

Academy Schools

Academies are independently-managed, all-ability schools which operate outside the control of the local authority.

Accounting Standards

A set of rules about how accounts are to be kept. By law, local authorities must follow "proper accounting practices" which are set out both in acts of parliament and in professional codes and statements of recommended practice.

Accruals

Provision made at the year-end to bring into account outstanding debtors, creditors, etc., in order to show income and expenditure as it is earned or incurred.

Actuarial Gains and Losses

The change in pension liabilities since the previous year, caused either by events differing from the previous forecast, or a change in actuarial assumptions.

Actuarial Valuation

A review of the Pension Fund normally carried out at 3-year intervals, which assesses the contributions required from employing bodies in order to maintain the Fund's ability to pay benefits in future years to pensioners, contributors and their dependants.

Admitted Bodies

Bodies whose staff can become members of the Pension Fund by virtue of an admission agreement made between the Pension Fund and the relevant body (contrasting with Scheduled Bodies – see below).

Amortisation

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

Bad Debt Provision (Impairment)

Amount of money set aside to meet cost of monies owed to the Council that are not expected to be repaid.

Balances

A working balance maintained as a cushion against unexpected expenditure during the year. It is the amount of money left over at the end of the year after allowing for all expenditure and income that has taken place. These are also known as financial reserves.

Business Rates Retention

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

Capital / Capital Expenditure / Capital Receipts

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

Cash Equivalents

These are investments, which amount to short term deposits.

Community Assets

These are assets, which the County Council intends to hold in perpetuity and have no determinable finite useful life.

Community Schools

In a community school, the local education authority owns the land and buildings, but the governing body is responsible for running the school. The local education funds the school, employs the staff, provides support services and determines and administers the admissions policy. The pupils have to follow the national curriculum.

Contingent Assets and Liabilities

A statement of a possible gain or loss to the Council, which is contingent upon the outcome of an event, which is not known for certain when the accounts are drawn up.

Corporate and Democratic Core (CDC)

Corporate and Democratic Core is defined as the two divisions of Democratic Representation and Management and Corporate Management.

Glossary

Corporate Management

Corporate management concerns those activities and costs that provide the infrastructure that allows services to be provided, whether by the Council or not, and the information that is required for public accountability. Activities that relate to the provision of services, even indirectly, are overheads on those services. There are no subdivisions recommended for corporate management.

General Fund

The main revenue fund of the County Council into which is paid income from the council tax precept, grants and charges for services and from which is met the cost of providing services.

Creditors

Amounts owed by the County Council but not paid at the date of the Balance Sheet.

Currencies

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

Curtailments

This heading covers the additional cost arising from the early payment of pension benefits when an employee is made redundant. The full estimated discounted cost is charged immediately to the Comprehensive Income and Expenditure Statement, under the heading of 'non-distributed costs', but this is offset by a transfer from the Pensions Reserve.

Debtors

Amounts owed to the County Council but unpaid at the date of the Balance Sheet.

Defined Benefit and Contribution Pension Schemes

Pension schemes generally fall into one of these two categories. Defined Benefit schemes are those such as the Local Government Pension Scheme, where the benefits to employees are based on their final salaries, and where employers' contributions have to be adjusted to match estimates of future liabilities. Defined Contribution schemes are those where the employer's liability is restricted to the amount that they contribute. As the Teachers' Pension Scheme is administered nationally, it is treated in local authority accounts as a Defined Contribution scheme, but is actually a defined benefits scheme.

Democratic Representation and Management

This includes all aspects of members' activities in that capacity, including corporate, programme and service policy making and more general activities relating to governance and the representation of local interests. To give authorities maximum flexibility in reflecting their own constitutional arrangements, there are no recommended subdivisions of service.

Depreciation

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

External Audit

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources. The auditor Grant Thornton was appointed by the Public Sector Audit Appointments Ltd to carry out an audit of the Council's accounts.

Equities

Ordinary shares issued by companies.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. The concept of fair value is used in many accounting standards including the IFRS covering acquisition, valuation of assets, and financial instruments, but it is not limited to these.

Foundation Schools

In foundation schools, the land and buildings are owned by a governing body, who are also responsible for running the school. The local education authority funds the school. The governing body employs the staff and buys in and administers most of the support services. The pupils have to follow the national curriculum. The admissions policy is determined and administered by the governing body, in consultation with the local education authority.

Heritage Assets

Heritage assets are assets that are held by the Council principally for their contribution to knowledge or culture. The heritage assets held by the Council are the collections of assets and artefacts either exhibited or stored in the local authority museum.

Glossary

Impairment

Impairment to assets may be physical in nature, such as damage by fire, or caused by a general or specific reduction in prices during the financial year.

Infrastructure

This term covers capital investment on assets such as carriageways, footways, structures and street lighting.

Intangible Assets

This term includes such items as development expenditure or goodwill, but for local authorities it usually only covers licences for the use of computer software.

IFRS

International Financial Reporting Standards.

Leasing

A method of obtaining the use of assets: a rental charge is paid for a specified period, but under operating lease conditions the asset remains the property of the lessor and the County Council has no rights to purchase. Finance leases transfer substantially all the risks and rewards of ownership.

Levies

A contribution which the County Council is required to make towards the costs of the Environment Agency (for flood defence), Ashdown Forest Conservators and the Sussex Inshore Fisheries & Conservation Authority.

Liabilities

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

Local Council Tax Support (LCTS)

As part of the major changes to the Welfare Benefits system, from 1 April 2013, Council Tax Benefit ended and was replaced by a new scheme called Localised Support for Council Tax or Council Tax Support. Both systems are means tested which means that they compare your income and capital against an assessment of your needs.

Minimum Revenue Provision

An amount set aside from revenue for the redemption of debt.

Net Book Value (NBV)

The amount at which fixed assets are included in the Balance Sheet. The NBV is the historical cost or current value less any accumulated depreciation.

Net Worth

The total of all assets less the total of all liabilities. It helps to determine the value of an entity and is also known as Total Net Assets or Total Equity.

Non-Distributed Costs

These are costs which the County Council has to bear, but which do not support any statutory services. This includes three elements of the pension cost (Past Service Cost, Settlements, and Curtailments) which are defined elsewhere, and the costs of properties, which have been declared surplus and are awaiting disposal.

Non-Domestic Rates

A charge on commercial and industrial buildings fixed by the Government and reallocated to local authorities.

Post Balance Sheet Events

A statement of the financial implications of an event taking place after the Balance Sheet date, which has a material effect on the County Council’s financial position at the balance sheet date.

Prior Period Adjustments

Material adjustments that is applicable to prior years and which arise from changes in accounting policy or the correction of material errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Private Equity

Investments into new and developing companies and enterprises, which are not publicly traded on a recognised stock exchange.

Private Finance Initiative (PFI)

A long-term contractual public-private partnership, under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to agreed standards of performance.

Glossary

Property, Plant and Equipment (PPE)

Property, plant and equipment covers all assets with physical substance (tangible assets) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period. PPE is a summation of all the Council's purchases of property, plant, and pieces of equipment to that point in time, less any depreciation.

Provisions

Provisions are made for liabilities and losses which have already been incurred at the date of the balance sheet, and for which the amount or dates on which they will arise can be reliably measured.

Public Works Loan Board (PWLB)

A Government agency, which provides the main source of borrowing for local authorities.

Related Parties

This term covers individuals or bodies with which the County Council has a close economic relationship. It includes Members and Chief Officers, Government departments that provide funding, and other bodies that are involved in partnerships with the County Council.

Reserves

Internal reserves set aside to finance future expenditure for purposes falling outside the definition of provisions.

Revenue

Recurring expenditure principally on pay, running costs of buildings, equipment, and capital financing costs.

Revenue Expenditure Funded from Capital Under Statute (Refcus)

Expenditure which may properly be charged to capital but does not result in a tangible asset.

Scheduled Bodies

Local authorities and other similar bodies whose staff automatically qualify to become members of the Pension Fund.

Service Reporting Code of Practice for Local Authorities (SeRCOP)

The code gives a mandatory definition of total cost and the divisions of service at which total cost must be aggregated when presenting cost based information and performance indicators in a published format. SeRCOP provides guidance to support the objective to establish the widest range of financial reporting requirements, in order that data consistency and comparability are achieved. SeRCOP particularly aims to meet the demands of both the Best Value and the Transparency initiatives and its various stakeholders. (Following the changes introduced by the 2016/17 Code to reflect the Telling the Story Review of the Presentation of Local Authority Financial Statements, the Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates).

Settlements

These are adjustments to the County Council's pension liability arising from bulk transfers of employees. The full estimated discounted cost or gain is charged immediately to the Comprehensive Income and Expenditure Statement, under the heading of 'non-distributed costs', but this amount is offset by a transfer from the Pensions Reserve.

Unusable Reserves

This include unrealised gains and losses, particularly in relation to the revaluation of property, plant and equipment (e.g. the Revaluation Reserve) adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. the Capital Adjustment Account and the Pensions Reserve).

Usable Reserves

This includes the revenue and capital resources available to meet future expenditure (e.g. General Balances, Earmarked Reserves, and the Capital Receipts Reserve).

Voluntary Schools

These schools are also called religious or faith schools and there are two types: voluntary controlled and voluntary aided. In a voluntary controlled school, the land and buildings are owned by a charity often a religious organisation such as a church. The charity appoints some of the members of the governing body, but the local education authority is responsible for running the school. The school is funded by the local education authority who also employs the staff and provides support services and determine the admissions policy. The pupils have to follow the national curriculum. With a voluntary aided school, the governing body is responsible for running the school, the school is funded partly by the local education authority, partly by the governing body and partly by the charity. The governing body employs the staff and the pupils have to follow the national curriculum. The admissions policy is determined and administered by the governors in consultation with the local education authority.

Business Services Department

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East Sussex
BN7 1UE

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East Sussex County Council

Grant Thornton UK LLP
110 Bishopsgate
LONDON
EC2N 4AY

Date 10 November 2020

when responding please contact | our ref | your ref

direct line

Dear Sirs

East Sussex County Council
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of East Sussex County Council (the Council) for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vi. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Council has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We believe that the Council’s financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council’s needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

xvi. We have communicated to you all deficiencies in internal control of which management is aware.

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

xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxv. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Governance Committee at its meeting on 10 November 2020.

Yours faithfully

Name: Keith Glazier
Position: Leader – East Sussex County Council
Date:

Name: Ian Gutsell
Position: Chief Finance Officer
Date:

Report to:	**Audit Committee**
Date:	**6 November 2020**
By:	**Chief Finance Officer**
Title of report:	**Review of the Grant Thornton (GT) report to those charged with governance and Pension Fund Annual Report for 2019-20**
Purpose of report:	**For the Committee to note the Independent Auditor's (GT) report to those charged with governance.**

RECOMMENDATIONS: The Committee is asked to:

1) note the report and its appendices; and.

2) note management actions detailed on page 13 of the Independent Auditor's report to those charged with governance.

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1. Background

1.1 This report summarises the key findings arising from the audit work of Grant Thornton (GT) in relation to the Pension Fund Annual Report, in compliance with the requirement for administering authorities to produce a pension fund annual report and for the pension fund audit to be separate from the audit of the Council's accounts.

2. Supporting Information

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

2.2 It is the role of the Pension Committee to approve the Pension Fund annual report/accounts having considered whether appropriate accounting policies have been followed and any issues raised by GT from the audit.

2.3 The GT report to those charged with governance is attached at Appendix 1 and the Pension Fund annual report for 2019/20 is attached at Appendix 2.

2.4 The audit of the 2019/20 Pension Fund Annual Report has now been completed. Whilst there remain a few outstanding items to finalise the audit, I am pleased to be able to report that GT will be issuing an unqualified "true and fair" audit opinion. The accounts will include an "Emphasis of Matter" paragraph which highlights the "valuation material uncertainties" in relation to a pooled property fund operated by Schroders, one of the investment managers for the Pension Fund, as a consequence of the impact of COVID-19 on market valuations. This note does not change the numbers within the accounts but gives the reader of the accounts a better understanding of the potential uncertainty in providing valuation information used to produce the accounts and annual report.

2.5 A small number of presentational adjustments arising from normal audit work have been noted, discussed, and resolved as stated in the reports to those charged with governance, and GT has made recommendations, which have been discussed and responses included on page 15-16 of the GT report.

2.6 2 areas considered for improvement were:

- *Material Uncertainty around Investment Valuations:* during the testing of the valuation of investments, GT challenged investment managers as to their approaches taken; out of this came the material uncertainty, set out in 2.4. GT would expect that with these "difficult-to-value" investments the Fund Team would undertake independent challenge of the process of investment valuation, particularly in a COVID-19 climate. In responding to this, management has reflected that the Pension Fund Team has been through a period of restructure and recruitment is underway to roles that will be able to provide the challenge recommended by GT.

- *Investment valuation movements not posted to the accounting system during the year*: during testing it was identified that movements in investments, provided by investment managers on a quarterly basis, were not reflected in the general ledger until the year end. In order, to improve management oversight, movements should be posted to the general ledger during the year. In responding to this, management has reflected that the Pension Fund Team has been through a period of restructure and recruitment is underway to roles that will be able to ensure more timely input into the general ledger of investment movements.

3. Conclusion and reasons for recommendations

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

- The findings made by the external auditors as a result of audit of the 2019/20 accounts;

IAN GUTSELL
Chief Finance Officer

Contact Officer:	Ian Gutsell, Chief Finance Officer
Tel. No.	01273 481399
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Local Member(s): All

Background Documents: None

The Audit Findings for East Sussex Pension Fund

Year ended 31 March 2020

6 November 2020

Appendix 1

Contents

Your key Grant Thornton team members are:

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Page 204

Section	Page
1. Headlines	3-4
2. Financial statements	5-11
3. Independence and ethics	12

Appendices	
A. Action plan	13
B. Follow up of prior year recommendations	14
C. Audit adjustments	15
D. Fees	16
E. Audit Opinion	17-18

Headlines

This table summarises the key findings and other matters arising from the statutory audit of East Sussex Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for the Audit Committee as those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund and has impacted the Finance Team who like many other employees have had to adapt to working from home at short notice. Agile working had been established successfully at the Council for several years, and therefore teams were well prepared to adapt smoothly into working from home. Senior pension fund officers have also had to manage additional risk to investment value due to uncertainties in global financial markets, although the impact of this will largely be felt after the year end which is currently being reported on due to when the Covid-19 pandemic impacts really started to be felt by the markets. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	We reported our audit risk assessment including the impact of the pandemic on our audit in our audit plan reported to you on 30 April 2020, and to the Pension Fund Committee on the 22 June 2020. In our plan we reported an additional financial statement risk in respect of Covid-19. Further detail is set out on page 6. Restrictions for non-essential travel and home working during the pandemic have meant both Authority and audit teams have had to perform the audit entirely remotely. This has required the audit team to use regular video calls to ensure that both teams kept in close contact as we would when carrying out fieldwork on site. The audit team have also had to consider alternative approaches to obtaining audit evidence to corroborate transactions, estimates and judgements in the financial statements. Remote working also requires our teams to carry out additional tests to corroborate the completeness and accuracy of information produced by the Council which we would otherwise have performed in person on site (for example viewing a report being run from Council systems by the officer). The above has proved more time consuming than carrying out an audit under normal circumstances. There have been challenges for both the audit team and the Council's team to conduct the audit virtually during the pandemic with additional complexity that both teams had to face and address within a short space of time. However, we have worked together to overcome these issues to meet a tight audit timeframe. We started the audit in July 2020. Draft financial statements were provided to the audit team on the 9th July 2020. An updated set of statements (the statements which were published for inspection) were subsequently provided on 6th August 2020. There were some key working papers that we required for our audit work to progress efficiently which were not available at the start of the audit, and some audit samples and evidence responses took some time to turn around due to internal capacity issues. These issues did delay audit progress at the start of the agreed timeframe.

Headlines (continued)

Financial Statements

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

- give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed remotely during July-October . Our findings are summarised on pages 6-11. We have identified one adjustment to the financial statements that resulted in an adjustment (reduction) of £0.65m to the Pension Fund's closing net assets reported financial position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters:

- Closing minor queries coming out of our audit sample testing;
- Completion of our valuations testing of Pension Fund investments, including closing some of our valuation queries with investment managers and the custodian;
- Completion of our work in agreeing certain non-material disclosures and agreeing disclosures relating to Covid-19 are sufficient;
- Consideration of adequacy of going concern disclosures in the accounts;
- Finalising quality reviews of the audit file which could potentially raise additional audit queries;
- receipt of management representation letter;
- review of the Annual Report; and
- review of the final set of financial statements.

Our anticipated audit report opinion will be unqualified but will include an 'Emphasis of Matter' paragraph highlighting the 'valuation material uncertainties' in relation to a pooled investment fund as discussed on page 6.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

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

We have not had to alter our audit plan, as communicated to you on 30 April 2020.

Conclusion

We have substantially completed our audit of your financial statements and subject to the outstanding matters on page 4 being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 6 November 2020, as detailed in (Appendix E).

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan.

	Pension Fund (£)	Qualitative factors considered
Materiality for the financial statements	£36n	We have determined financial statement materiality based on a proportion of the net assets of the Council for the financial year.
Performance materiality	£27m	The maximum amount of misstatement the audit team could accept in an individual account or group of related accounts. This is less than materiality due to "aggregation risk".
Trivial matters	£1.8m	We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid–19 Risk description unchanged from that reported in our audit plan.	We have: • worked with management to understand the implications the response to the Covid-19 pandemic had on the pension fund's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 9th July 2020; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic. Including management's assessment of the impact of Covid-19 upon employer covenants and forecast cashflows; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the asset valuations and management's fair value hierarchy disclosure; and • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. As a result of the Covid-19 pandemic, the property market remains very uncertain. As a result of this, in our testing of the valuation of investments we carried out extensive discussion and challenge of investment managers to establish if there was any significant uncertainty over the valuations at year end and whether any funds had been suspended for trading due to the overall market uncertainties. As a result of our additional inquiries, one of the investment managers for the Pension Fund, Schroders has declared a material valuation uncertainty around a pooled property fund. These investments were valued at 31 March 2020 at £325.92m. The total value of the fund assets at 31 March 2020 is £3,479.1m, so this investment type represents just over 9.4% of total assets. We discussed this with the finance team and it was agreed that this material uncertainty should be disclosed in the accounts within Note 5 Assumptions made about the future and other major sources of estimation uncertainty. This has been added to disclosure changes agreed during the audit Appendix C. Subject to completion of the work on page 4, our work against this risk has not raised further issues.
Improper revenue recognition Risk description unchanged from that reported in our audit plan.	As documented in the Audit Plan, we considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including East Sussex County Council as the Administering Authority of East Sussex Pension Fund, mean that all forms of fraud are seen as unacceptable.

Significant audit risks (continued)

Risks identified in our Audit Plan	Auditor commentary
Management override of controls Risk description unchanged from that reported in our audit plan.	We have: • evaluated the design effectiveness of management controls over journals; • obtained a full listing of journal entries which was then analysed to identify and test high risk unusual journals; • tested unusual journals recorded during the year and post year end for appropriateness and corroboration; • considered the reasonableness of significant accounting estimates and critical judgements made by management; and • evaluated the rationale for any changes in accounting policies or significant transactions. Our work against this risk has not raised and issues with respect to management override of controls.
The valuation of Level 3 investments is incorrect Risk description unchanged from that reported in our audit plan.	**Auditor commentary** We have: • gained an understanding of your process for valuing Level 3 investments and evaluating the design of the associated controls; • reviewed the nature and basis of estimated Level 3 valuations and considered what assurance management has over the year end valuations provided for these investments, against the requirements of the Code; • independently requested year-end confirmations from investment managers and custodian; • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period; • in the absence of available audited accounts, we evaluated the competence, capabilities and objectivity of the valuation expert; • tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register; and • where available reviewed investment manager service auditor report on design effectiveness of internal controls. Due to the additional uncertainty around investments caused by the Covid-19 pandemic we made further challenge and inquiries to the investment managers about their assumptions made in relation to movements in the intervening period between the latest audited accounts date for individual investments and the year end. In particular we established where property was the asset underlying the investment and where this was the case we challenged the investment managers to provide further explanation and corroboration as to the investment valuations given that particular types of property (retail and office for instance) would be likely to decline in value. This line of inquiry and challenge resulted in one of the investment managers disclosing a material uncertainty. See page 6 for further information. We have made a control recommendation in relation to management's processes in challenging themselves the investment valuations at year end, see Appendix A. We have shown our detailed analysis and review of the estimation process in the key judgement and estimates section. Subject to completion of the work on page 4, our work against this risk has not raised any further issues.

Significant findings – going concern

Our responsibility

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

Going concern commentary

Management's assessment process

Management have assessed that the Fund has sufficient resources to meet its liabilities as they fall due for the foreseeable future.

The Pension Fund undertakes a valuation of the Pension Fund's assets and liabilities using management's expert actuary. The fund is fully valued on a triannual basis and interim year valuations are prepared on the roll forward assumption basis. This is used 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 to ensure that the Pension Fund remains funded.

Management annually prepare a business plan and budget for the Pension Fund which primarily sets out anticipated costs for pensions administration, oversight and governance and investment management.

Management, with oversight from the Pension Fund Committee, assess the level of assets and liabilities annually and also at very regular intervals during the year to monitor any significant variances.

Auditor commentary

We are satisfied regarding the appropriateness of management's process for formulating their going concern assessment.

We have considered the financial position of the Fund and undertaken a review to identify any possible indicators of any circumstances or events that could indicate that the Fund is no longer a going concern.

Given the market uncertainties, our view was that although assessment process was sufficient, given the potential impact of Covid-19 on the economy and financial markets, it would be appropriate to expand going concern disclosures to explain why this is satisfied rather than the existing disclosure in the accounts that simply stated the assumption. We are still in discussion with management about the agreed wording of this disclosure.

Conclusion

We have not identified any events or conditions in the course of the audit that we consider may cast significant doubt on the pension fund's ability to continue as a going concern. We plan to issue an unmodified audit report in respect of going concern, subject to completion of the work on page 3.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	The Pension Fund has investments in equities, pooled property investment and private equity that in total are valued on the balance sheet as at 31 March 2020 at £640m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management place reliance on the valuation provided by their fund managers. The value of the investment has increased/decreased by £22m in 2019/20, due to both changes in market value but also due to movements in sales/purchases in the year.	We have: • Assessed the independence, objectivity and expertise of management's experts which management use to estimate the value of the Level 3 investments. Management's experts are the investment managers; • assessed the valuation method, key assumptions and the appropriateness of the underlying information used to determine the estimate. We have confirmed that the valuation method and significant assumptions are in line with those generally accepted in the field; • We have obtained service auditor reports on design effectiveness of internal controls at each of the investment managers to confirm that these are effectively designed and operating effectively; • agreed level 3 investments to year-end confirmations from investment managers of the valuations at the year end together with a statement of transactions for the period; and • Tested a sample of investments obtaining and reviewing the audited accounts (confirming the expertise of the auditor) at latest date for individual investments and agreeing these to the investment manager reports at that date. Where there was a gap between the accounting period end for the audited accounts and the Pension Fund year end/investment valuation date, we reconciled the difference in value to known movements in the intervening period to confirm the difference was reasonable.	

Page 211

Assessment

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

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 2 investments	The Pension Fund have investments in unquoted bonds and pooled investments that in total are valued on the balance sheet as at 31 March 2019 at £2,540m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management place reliance on the valuation provided by both their investment managers and custodian. The value of the investment has decreased by £238m in 2019/20 due to both changes in market value but also due to movements in sales/purchases in the year.	We have: • Assessed the independence, objectivity and expertise of management's experts which management use to estimate the value of the Level 2 investments. Management's experts are both the investment managers and the custodian (who value the investments independently of the investment managers); • assessed the valuation method, key assumptions and the appropriateness of the underlying information used to determine the estimate. We have confirmed that the valuation method and significant assumptions are in line with those generally accepted in the field; • We have obtained service auditor reports on design effectiveness of internal controls at each of the investment managers to confirm that these are effectively designed and operating effectively; and • agreed level 2 investments to year-end confirmations from investment managers and the custodian of the valuations at the year end together with a statement of transactions for the period.	

Assessment

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

Page 212

Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the management and the Audit Committee. We have not been made aware of any significant incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to your fund managers, custodians and other institutions with which you held bank or investment balances at the year end. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation, with the exception of Newton and UBS asset management. We are continuing to chase these confirmations requests with assistance from your officers and in the meanwhile will undertake alternative procedures to verify whether these balances are materially fairly stated as at 31 March 2020.
Disclosures	Our review found no material omissions in the financial statements. We agreed some amendments to existing disclosures which are detailed in Appendix C.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report subsequent to the signing and issue of our auditor's report.

Page 213

Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following services were identified which were charged from the beginning of the financial year to November 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Provision of IAS 19 Assurances to Scheme Employer auditors	£5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £27,487 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

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

Action plan

We have identified two recommendation for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	**Material Uncertainty around Investment Valuations** As discussed on page, in our testing of the valuation of investments we carried out extensive discussion and challenge of investment managers to establish if there was any significant uncertainty over the valuations at year end and whether any funds had been suspended for trading due to the overall market uncertainties. This led to the disclosure by the investment manager that some funds underlying the pooled investment had been suspended at 31 March 2020, and that there was a material valuation uncertainty over the full pooled investment at that date. This was not known to the Pension Fund finance team. We would expect that particularly around Level 3 investments, management should undertake their own independent challenge process of investment valuations by making set inquiries at the year end relating to market uncertainties. The need for this check is particularly acute in the Covid-19 climate, but would also be a reasonable control in less uncertain years.	We would recommend that to gain their own assurance that the investments are materially correctly stated, management undertake their own independent challenge process of investment valuations by making set inquiries at the year end relating to market uncertainties. **Management response** A restructure of the Pension Fund Team was approved and started over the summer. Recruitment to this new structure is underway and once in place will provide an increased capacity within the team to provide further challenge to the processes of investment valuations by making set enquiries at the year-end relating to market uncertainties.
Medium	**Investment valuation movements not posted to the accounting system during the year** During our analytical review testing of investment movements during the year, it became apparent that although the Pension Fund receives investment manager reports quarterly, these are not posted to the general ledger until the year end. Our view is that to aid and evidence management oversight/control of investments, these quarterly reports of investment valuation movements/purchases/sales should be posted to the general ledger.	We would recommend that the quarterly investment manager report movements in investments are posted to the general ledger. **Management response** A restructure of the Pension Fund Team was approved and started over the summer. Recruitment to this new structure is underway and once in place will provide an increased capacity within the team to ensure the quarterly investment manager movements in investments are posted to the general ledger.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of East Sussex County Council's 2018/19 financial statements, which resulted in 2 recommendations being reported in our 2018/19 Audit Findings report. *We have followed up on the implementation of our recommendations and the actions taken by management are as follows:*

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Access to client maintenance functionalities (SCC4) (SAP access providing virtually full system rights)** 13 users with firefighter ID's have access to using SCC4. Improper execution of client administration transactions could result in a loss of entire client (SAP system), including information, data and configured functionalities.	We recommended that the profile should be reserved for use within an emergency and the number of firefighter type ID should be monitored with access being regularly reviewed. We have confirmed that users are being regularly reviewed and have been reduced to 3 at the March 2020 year end. We regard this as being a reasonable number of this type of profile.
✓	**Journals with no descriptions** We identified journal entries being prepared and recorded with no descriptions, increasing the potential for erroneous or fraudulent posting to go unnoticed.	We recommended that management should consider running exception reports to identify and review journal entries with no narrative included As part of our testing of journals for 2019/20 we have run an extraction report from the full listing of journals for any with no description. There were none reported, so we were satisfied that this is not an issue for the 2019/20 year.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Pension Fund Account £'000	Restatement of opening Net Asset Statement £' 000	Impact on total net assets £'000
Correction of the brought forward unfunded benefits and unfunded contributions. This related to a sum of income of £9,008k and expenditure of £8,358k which should have been treated accounted for as an agent/principal relationship transaction under the Code and therefore accounted for on the balance sheet only. These amounts were not income and expenditure of the Pension Fund. This brings the 2018/19 accounting treatment into line with how the Pension Fund has treated these amounts in 2019/20 for consistency. Associated disclosures of the reason for the restatement were updated and the comparative column headings were updated to make clear the values are restated.	Nil	DR 2018/19 Current liabilities £9,008 CR 2018/19 Current assets (£8,358)	Nil
Overall impact	**Nil**	**CR (reduction)opening net assets (£650)**	**Nil**

Audit adjustments (continued)

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Pooled investment fund material valuation uncertainty	The investment manager has a material uncertainty over the pooled investment fund valuation due to uncertainties in the property market caused by the Covid-19 pandemic.	We recommended that Note 5 Assumptions made about the future and other major sources of estimation uncertainty was updated to include the disclosure of the material uncertainty declared by the investment manager, and in line with Code guidance to include some information as to the sensitivity of the estimate, so users of the accounts could further understand the level of uncertainty. **Management response** This was amended in the accounts.	✓
Fee payable to auditor in respect of other services	This fee omitted the fee payable for the audit related services of £5k as shown on page 12.	We recommended the fee was updated so that the fee disclosures per the accounts agree to our Audit Plan and Audit Findings report. **Management response** This was amended in the accounts.	✓

Fees

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

Audit fees	Proposed fee	Final fee
Pension Fund	27,487	TBC
Total audit fees (excluding VAT)	**£27,487**	**TBC**

There is additional work which was necessary to be carried out during the audit work due to the added complexities of the impact of Covid-19. We are still completing this work and the extent of this fee will be discussed and proposed to the Chief Finance Officer.

Non-audit fees for other services	Proposed fee	Final fee
Provision of IAS 19 Assurances to Scheme Employer auditors	5,000	5,000
Total non- audit fees (excluding VAT)	**£**5,000	**£**5,000

We have not yet completed the work for these other services. We do not expect the final fees to differ from the proposed fees based on our estimate of the amount and complexity of the work involved.

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report:

Page 220

Independent auditor's report to the members of East Sussex County Council on the pension fund financial statements of the Pension Fund Annual Report

Opinion

We have audited the financial statements of East Sussex Pension Fund (the 'pension fund') administered by East Sussex County Council (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Finance Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom

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2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As disclosed in Note 5 to the financial statements, as a result of the coronavirus impact, the property market remains uncertain and capital and rental values may change rapidly in the short to medium term. A material valuation uncertainty was therefore disclosed in the pension fund's property valuation reports in respect of the pooled property investments. Our opinion is not modified in respect of this matter.

Other information

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

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

Matters on which we are required to report by exception

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

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

Grant Thornton UK LLP. 2

Audit opinion

- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

[Signature]

Darren Wells, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]

eastsussex.gov.uk

East Sussex Pension Fund Annual Report and Accounts

2019-2020

Contents

1. Chairmans report..3
2. Independent adviser's report..5
3. Introduction..6
4. Overall Fund Management..7
5. Financial performance..13
6. Investment policy and performance..16
5. Scheme Administration..23
6. Actuarial report on funds..26
7. Fund account, net assets statement and notes..32
   a. East Sussex Pension Fund Account..32
   b. Net Assets Statement for the year ended 31 March 2019..33
   c. Notes to the East Sussex Pension Fund Accounts for the year ended 31 March 2019 34
8. Asset pools..68
9. Pensions administration strategy report..72
10. Funding strategy statement..73
11. Investment strategy statement..74
12. Communications policy statement..78
14. External auditor's report..79

1. Chairmans report

Welcome to the East Sussex Pension Fund Annual Report for 2019/20

As Chairman of the East Sussex Pension Fund (ESPF) Committee, I have the pleasure in introducing the Pension Fund's Annual Report and Accounts for 2019/20. I cannot do so without reflecting on the continuing COVID-19 pandemic that is having a devastating impact nationally and globally. The accounts focus on the financial implications of activity in 2019/20 and beyond, but the impact on humanity is truly beyond anything we have all experienced. I send my thoughts to all who have been affected by the pandemic.

The membership of the ESPF at March 2020 was 76,792 people (active – 23,835, deferred – 31,622 and pensioners – 21,335) and in the region of 130 employer organisations, with £3.496bn funds under management at 31 March 2020 to meet the accrued benefits.

This year saw the latest triennial actuarial valuation for the Fund. Hymans Robertson calculated the Fund's assets at 31 March 2019 at £3.6bn. When compared to the projected liabilities of the Fund at £3.4bn, this represented a 107% funding level, indicating a strong solvency position, and reflecting strong investment returns. COVID-19 has negatively impacted on the Fund's valuation, as the global economy struggles to understand and respond to the pandemic. However, the long-term 20-year assumptions within the valuation put the Fund in a strong position to weather the current uncertainties.

The Pension Committee is responsible for managing the Fund, with the assistance of the Pension Board, East Sussex County Council officers, external advisors and fund managers. In responding to the national review of Good Governance, undertaken by Hymans Robertson, reporting to the Scheme Advisory Board and the Ministry of Housing, Communities and Local Government, the Committee, during 2019, established programme to work to review its own governance arrangements. The Committee has subsequently approved revised terms of reference for the Pension Board and itself, together with refreshing a range of policies and strategies, including Communication and Administration. The review also recognised that the number of officers supporting the Fund needed to be expanded; a new structure has been approved and recruitment is underway to fill new roles. All these actions place the ESPF in a great position to move forward and tackle the challenges ahead.

The ESPF has experienced some stakeholder and external pressures to divest from companies involved in the production of fossil fuels. The Pension Committee's Investment and Environmental, Social and Governance (ESG) Working Group, together with Hymans Robertson, have undertaken a review of the Fund's Investment Strategy. This has reflected on the impact of the pandemic and helped to explore and frame the Fund's approach to better aligning its investments with the risks and opportunities presented by sustainability and the energy transition. As a consequence, the Fund has made a number of substantial changes to its investment approach, raising its commitment to infrastructure assets, including renewable assets, acquiring exposure to Impact Funds who invest in companies addressing some of the world's major challenges, and adopting an approach to passive index funds better aligned with the goals of the Paris Agreement. The Committee has also updated its investment beliefs, which are set out in its Investment Strategy Statement, and more fully articulated its Responsible Investment Policy.

The Committee believes in applying long-term thinking in pursuit of long-term sustainable returns from well governed assets; while using evidence based long-term investment appraisal to inform decision making in the implementation of its responsible investment principles, consistent with its fiduciary responsibilities. It will continue to evaluate and manage the Fund's carbon exposure in order to mitigate risks associated with Climate Change, while seeking to reconcile its need for income to pay pensions with the fact that many of the more carbon intensive companies and sectors provide a significant proportion of the market's dividend income.

ESPF continues to favour engagement with companies and sectors over blanket divestment as it believes that this is the most effective strategy for promoting change and protecting its long run investment interests. However, the extent of its exposure to them will reflect an ongoing assessment of progress in engaging with the energy transition, and the associated risks and rewards of holding these assets in the Fund. The Fund does not own stocks directly but seeks to influence company and sector policies via its chosen investment managers. Its Climate engagement is broadly aligned with that of the Institutional Investor Group on Climate Change (IIGCC), representing over $33 trillion in assets, of which it is a member.

East Sussex has continued to be an active member in the ACCESS (A Collaboration of Central, Eastern and Southern Shires) investment pool, together with 10 partner LGPS Funds. By the end of 2019/20 a total of £21.4bn (49%) was invested on the ACCESS platform, in the following assets:

	£ billion
Passive investments*	10.5
UK Equity Funds	1.6
Global Equity Funds	7.2
UK Fixed Income	0.8
Diversifed Growth	1.3
Total Pooled Investments	**21.4**

*The passive investment funds are held on a pool governance basis under one investment manager as these assets are held in life fund policies, which cannot be held within an authorised contractual scheme.

The Pension Committee and Pension Board have worked tirelessly to transform the ESPF landscape. I would like to take this opportunity to express my thanks for all the support and input provided by Committee and Board members and officers. I look forward to continuing to work with members and officers in the new financial year as the Fund seeks to meet the challenges of an ever-changing national and global environment.

In presenting the Annual Report, I hope you find it helpful in underspending the Fund.

Councillor Gerard Fox

Chairman of the East Sussex Pension Fund

September 2020

2. Independent adviser's report

The Fund receives formal advice on investment matters from its actuarial and investment consultants. My role as Independent Advisor is primarily to act as a separate source of insight to Officers and Committee members. Our collective objective is, of course, to invest the Fund's assets to pay members' pensions in full and on time. I am additionally able to provide stakeholders with some independent assurance that the Fund is being appropriately and properly managed.

Last year I ended my report by saying that the fund was in a good position financially, but that the Fund's increasing maturity makes it likely that net cashflow will deteriorate over time and this would require increasing attention. At March 2019 the actuarial valuation found that the Fund's assets were well in excess of its liabilities, which is undoubtedly a healthy position. On the other hand, member and employers' contributions were slightly less than pension pay-outs and the gap was made up by investment income. I make further comments on this below.

I said last year that the onus for maintaining economic prosperity would for political reasons increasingly fall on fiscal rather than monetary policy. I expected interest rates to stay ultra-low and I viewed the combination as a positive fundamental background for financial assets. I commented that valuations were historically high and that the risk of unpleasant surprises remained, but I thought damage from these sources would be limited by the US Federal Reserve's willingness to keep monetary policy loose.

In 2019 this played out as expected and, by the end of January this year, markets were reaching new highs. In the last few months of the financial year the decision by the authorities in many countries to slow the spread of COVID-19 by enforcing social isolation has precipitated both a sudden recession and also significant stress in financial markets. It has been exacerbated by the halving of the oil price at the same time as a result of the collapse of the OPEC-led oil cartel. Your Fund was not immune from these events, which will have had an adverse impact on the Fund's funding level, but I should emphasise that it still stands at a high level.

Authorities round the world reacted swiftly to mitigate the economic risks of this policy by announcing a rise in spending of an order not seen since the Second World War. At the same time, where possible, central banks reduced interest rates to almost zero in order to protect the financial system. However, there is little more they can do on this front and so economic recovery is now largely dependent on how quickly the fiscal measures take effect.

Looking forward, at the time of writing it is not clear how or when recovery will take place. Whatever happens, the Fund will suffer a significant and immediate reduction in investment income from dividend cuts and real estate rents as companies struggle to conserve cash. As the Fund's funding position can be considered solvent, there is no cause for immediate alarm, but the need for careful cashflow planning has become paramount.

It is too early to give definitive views what this means in the longer term. It looks as if government will play a substantially larger role in society and there may be some retreat from globalisation. This probably means higher inflation and higher bond yields, though that has not happened yet and it may take some years to come through. From the Fund's perspective there will be winners and losers, which underlines the importance of investing in a genuinely diversified portfolio.

I commented in my last report on governance matters, both internally and in respect of shared service providers such as the ACCESS investment implementation pool and the administration service provider, Orbis. Over the last year both the Pension Committee and Pension Board have spent considerable time on this, culminating in two governance reviews, one to bring the Fund's procedures into line with the LGPS Scheme Advisory Board's 2019 recommendations on good governance, and the second focused more narrowly on investment governance. Internal Audit have also, in a separate report, identified a number of internal shortcomings requiring improvement.

These are all important reviews, because the Fund depends heavily on these shared service providers to administer the Fund on your behalf. It is good to see progress, but it is also important that the recommendations made in these three reviews are implemented as fully as possible. Good governance costs money but the value of having well thought-out processes in place is shown when, like now, times are turbulent. It is the best assurance you can have that the Committee and Officers will continue to make good decisions even when events are trying to throw them off course.

I attend every Committee meeting and I see that the Committee members, supported by Officers, consider in detail possible courses of action. In this year in particular they have spent substantial time outside meetings on the sometimes very complex issues before them. In my view they are performing their duties carefully and conscientiously in circumstances which are far from easy.

William Bourne

Independent Advisor

3. Introduction

Local Government Pension Scheme

The LGPS is a statutory scheme, established by an Act of Parliament, the Superannuation Act 1972 and, since April 2014 the Public Service Pensions Act 2013. The Local Government Pension Scheme Regulations 2013 came into force on 1 April 2014. Membership of the LGPS is open to all employees of local authorities except teachers, fire fighters and police, who have their own separate schemes. It is also open to employees of other employers specified within the legislation.

The LGPS is a registered public service pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 meaning that members receive tax relief on contributions. The Scheme complies with the relevant provisions of the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004.

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.

A major responsibility of the County Council as the administering authority is to undertake a valuation of the Pension Fund’s assets and liabilities (triennial valuation). The main purpose of this exercise is to assess the size of the Fund’s current and future liabilities against the Fund’s assets, and then set the employer contribution to the Fund for each participating employer for the following three-year period. The most recent actuarial valuation of the Fund was carried out as at 31 March 2019. The funding level at this at this valuation is 107%.

It is important to note that ultimate responsibility for both the administration of the Pension Fund and the investment of all monies associated with the Fund remains with East Sussex County Council, as administering authority for the East Sussex Pension Fund. This has been delegated to the East Sussex Pension Committee supported by the East Sussex Pension Board.

4. Overall Fund Management

Scheme management and advisers

Responsibility for the East Sussex Pension Fund is delegated to the County Council's Pension Committee Members with support from the East Sussex Pension Board. The Pension Board comprises members representing employers and members in the Fund with an Independent Chairman. The Pension Committee receives advice from the County Council's Chief Finance Officer, Actuary, Investment Consultants and an independent Investment Advisor.

2019/20 PENSION COMMITTEE MEMBERS		
EAST SUSSEX COUNTY COUNCILLORS:	Gerard Fox (Chairman)	Conservative
	Simon Elford	Conservative
	Nigel Enever	Conservative
	David Tutt	Liberal Democrates
	Trevor Webb	Labour
2019/20 PENSION BOARD MEMBERS		
INDEPENDENT CHAIRMAN:	Ray Martin	
EMPLOYER REPRESENTATIVES:	Councillor Carmen Appich	Brighton & Hove City Council
	Councillor Chris Collier	Districts & Borough Councils
	Stephen Osborn	Educational Bodies
MEMBER REPRESENTATIVES:	Niki Palermo	Active & Deferred
	Diana Pogson	Pensioners
	Lynda Walker	Active & Deferred
SCHEME ADMINISTRATOR:	East Sussex County Council	
ADMINISTRATION PROVIDER:	Orbis Business Operations	
BANKERS TO THE FUND:	NatWest Bank	
AUDITOR:	Grant Thornton	
PENSION FUND OFFICERS		
TREASURER:	Ian Gutsell Chief Finance Officer (Section 151 Officer) East Sussex County Council	
HEAD OF PENSION FUND:	Michelle King (Interim)	Michelle.King@eastsussex.gov.uk
HEAD OF INVESTMENTS:	Russell Wood	Russell.Wood@eastsussex.gov.uk
LGPS GOVERNANCE AND STATUTORY COMPLIANCE:	Michelle King (Interim)	Michelle.King@eastsussex.gov.uk
PENSION ADMINSTRATOR:	Paul Punter	Paul.Punter@eastsussex.gov.uk

ADVISORS TO THE FUND

ACTUARY:	Hymans Robertson 20 Waterloo Street Glasgow G2 6DB
LEGAL ADVISORS:	Appointed from National LGPS Framework for Legal Services
INVESTMENT ADVISER:	Hymans Robertson
INDEPENDENT ADVISER:	William Bourne
ASSET POOL:	ACCESS Pool
ASSET POOL OPERATOR:	Link Funds Solution
FUND MANAGERS:	Adams Street Partners Harbourvest Longview Partners* M&G** Newton* Pantheon Ruffer* Schroders UBS
CUSTODIAN:	Northern Trust
AVC PROVIDER:	Prudential

BODIES TO WHICH THE FUND IS MEMBER, SUBSCRIBER OR SIGNATORY:

Pensions and Lifetime Savings Association
Local Authorities Pension Fund Forum
CIPFA Pensions Network
Club Vita
Local Government Association (LGPC)
Local Government Pension Scheme National Framework:

- Passive Investments,
- Legal Services,
- Actuarial and,
- Investment Consultants
- Stewardship Advisory Services

Principles for Responsible Investing
Institutional Investors Group on Climate Change
Climate Action 100+

* Appointed through the ACCESS Pool operator
** Coporate Bonds mandate appointed through ACCESS other mandates directly appointed.

Risk management

Risk management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods of controlling or responding to them. The Administering Authority has an active risk management programme in place. The Fund's approach is to manage risk rather than eliminate it entirely.

Risk is identified and managed as follows:

Covid 19 Risk – The onset of Coronavirus and Covid19 is placing significant pressures on both Employers to the Fund and the Pension Administration Service. The increased demand for Pension Administration Services may increase the likelihood of breaching service performance targets and presents resourcing constraints since staff may be subject to the illness themselves. In addition, the migration to remote working has seen an increase in the likelihood of Cyber Scams and Data Protection.

The Pension Regulator issued a notice on the 2 April 2020 to Scheme Managers of Public Service Pension Schemes to carry out a risk assessment of their Pension Administrator in relation to Covid 19. The Scheme Manager is required to assess whether the ESPF business continuity plan is still adequate and to establish from the Pension Administrator what contingency plan is in place to mitigate their impact of increases in work volumes or unavailable staff.

A collaborative approach is required to work with your administrators to make sure they deliver critical processes: reducing the burden by limiting any non-critical demands and queries; and, confirm the priorities of activities to be carried out, in the order set out below:

- paying members' benefits
- retirement processing
- bereavement services, as well as any administrative functions required to support these
- any processes needed to ensure benefits are accurate

This includes the agreement of changes in operating procedures such as allowing electronic signatures and documents and encouraging other third-party providers to do the same. The legal validity of electronic signatures has been endorsed in a recent statement from government.

The Chancellor, Rishi Sunak, in his March Statement advised a suite of financial relief measures to alleviate economic duress arising from the global lockdown and the corresponding liquidity squeeze. It is clear that despite attempts by the Government to prevent a permanent structural impact, a number of companies that existed prior to the lockdown will not exist after the lockdown due to the severity of this economic shock. It follows that the ESPF has seen an increase in employers advising they need to defer the payment of employer contributions to the Fund, noting that employee contributions are legally prohibited from deferral. The Fund is working on a policy on the deferral of employer contributions and has managed the early requests on a case by case basis.

In managing the economic consequence of a global lockdown and the increasing need to build up cash reserves has given rise to dividend retention. This impacts the cashflow balances of pension funds which are required to service pension promises. The ESPF has therefore commenced cashflow modelling to ensure it can manage within its cash envelope and to mitigate against forced sales of assets to service pension promises.

Covid 19 has also impacted the progress of the Data Improvement Programme and the Annual Benefit Statement exercise for 2019/20. It has been difficult to make contact with employers in lockdown and those staff are generally redirected to business critical tasks of the employer.

In summary, the Covid 19 Risk is a global risk affecting a number of risk indicators, so it has been necessary to rebalance both the pre-mitigation and post mitigation response as set out in summary in the table below.

Management Risk - A significant risk is the potential insolvency of scheme employers, leaving outstanding liabilities in the Fund. To this end the Fund requires all admission bodies that wish to join the Fund to be guaranteed by a scheme employer(s) or to provide a bond to protect the Fund in the event of insolvency. In the monitoring of employers, consideration is given to the Funding Strategy Statement (FSS), which outlines the Fund's approach to how employer liabilities are measured, and one of the aims of the FSS is to reduce the risk from employers defaulting on its pension obligations. The Fund monitors the financial sustainability of the scheme employers and takes this into account in the valuation exercise. Some funding risks can be mitigated by the Investment Strategy and the funding and investment strategies focus on the expected real returns from the assets, thus mitigating the effect of inflation on the value of the pension liabilities.

This risk can manifest itself in several ways:

- Failure to process pensions
- Failure to collect contributions
- Failure to have proper business continuity plans in place
- Fraud or misappropriation
- Failure to maintain up-to-date and accurate data and hold it securely
- Failure to maintain expertise or over-reliance on key staff

- Failure to communicate effectively with members and employers
- Failure to provide the service in accordance with sound equality principles

Benefits Administration Risk- Relates mainly to the inability of the Fund to meet its obligations and pay benefits accurately and on time as agreed with employers or under statute. These could include non- or late payment of members' benefits, incorrect calculation of benefits, breach of Data Protection Regulations and the failure to comply with Freedom of Information Act requests or Disclosure of Information requirements

All of the above could lead to adverse publicity, loss of reputation and ultimately statutory fines. In addition, the Fund is dependent on a sole supplier of pension administration software. There are processes in place to mitigate administration risks.

Internal Control Framework - Internal controls and processes are in place to manage administration, financial and other operational risks. The East Sussex County Council's Internal Audit assesses the Fund's internal control processes in order to provide independent assurance that adequate controls are in place.

Financial/Funding Risk - This is essentially the risk that the funding level drops and/or contribution rates must rise due to one or more of the following factors:

- Investment Risk – This is the risk that the investment assets underperform the level assumed in the Triennial Actuarial Valuation. This can occur due to poor economic/market conditions, the wrong investment strategy or poor selection of investment managers. Investment risk is regularly considered by Members and Officers, advised by the East Sussex Pension Fund (ESPF) Investment Consultants. The annual investment strategy meeting reviews the current ESPF strategy and looks at risk in more detail. The main investment risks to the Fund are from interest rates, inflation and market volatility.
- Liability Risk – This is the risk that there is a fall in the so-called "risk free" returns on Government bonds, which form the basis of assumptions about future investment returns. The assumed future investment return is used to "discount" future liabilities (i.e. over the next 0-80 years) back to today's values (net present value). Therefore, falling bond yields means higher liabilities.
- Inflation Risk – Notwithstanding other factors, Pension Fund liabilities increase in line with inflation, because the CPI is applied to pensions annually. Therefore, rising inflation causes the liabilities to increase.
- Insufficient Funds Risk - This is the risk that there is insufficient money in the Fund to pay out pensions as they become due.

The ESPF Investment Strategy Statement (see page 69), sets out the governance requirements for the ESPF and it is reviewed annually by members. The Pension Fund receives external assurance reports from Investment Managers and the Custodian, detailing their internal control systems, scrutinised by their external auditors. Each report is reviewed when available and the conclusion of each was that the control procedures are suitably designed and operated during the 12-month period under review.

Demographic Risk - This is the risk of that the pensioners live longer and therefore the liabilities of the Fund increase.

Regulatory Risk - This risk could manifest itself in several ways. For example, it could be the risk that the liabilities will increase due to the introduction of an improved benefits package, or that investment returns will fall due to tighter regulation being placed on what can be invested in. It could also arise through a failure to comply with LGPS or other regulations.

Governance Risk - This is the risk that governance arrangements of the Fund are sub-optimal. For example, this could arise through a lack of expertise on the Committee arising from insufficient training. Another possibility is that potential conflicts of interest between the Fund and the Council are not managed sufficiently well.

Employer Risk - This is the risk that an employer is unable to meet its financial obligations to the Fund, either during its membership of the Fund, or at its ceasing when the last contributing member leaves. Where a guarantor is in place they will pick up the cost of any default, but where there is not one, the cost must be spread across all employers in the Fund.

Third Party Risk - Contribution payments are monitored closely for accuracy and timeliness. A reporting process is in place to escalate any late/inaccurate payments to ensure all payments are received.

A Risk Register has been formally adopted by the East Sussex Pension Committee and a report of the key highlights is reported to the Pension Board at each quarterly meeting.

Some of the risks highlighted are shown in the table below - please note that this is not an exhaustive list. The full risk register can be seen within the quarterly Pensions Committee papers.

EAST SUSSEX PENSION FUND - RISK REGISTER – SNAPSHOT OF KEY RISKS								
Reference	**Risk**	**Pre Mitigation**			**Risk Control / Response**	**Post Mitigation**		
		Impact	**Likelihood**	**Risk Score**		**Impact**	**Likelihood**	**Risk Score**
Pensions Administration								
1	**Pension contributions:** ● Non-collection ● Miscoding ● Non-payment If not discovered results inaccurate: ●employer FRS102/IAS19 & Valuation calculations ● final accounts ● cash flow	3	3	9	● Employer contribution monitoring ● Additional monitoring at specific times ● SAP / Altair quarterly reconciliation ● Annual year end checks ● Fines imposed for late payment and late receipt of remittance advice.	3	2	6
2	**Poor or inadequate delivery of Pensions Administration by service provider** ● Members of the pension scheme not serviced ● Statutory deadlines not met ● Employers dissatisfied with service being provided + formal complaint ● Complaints by members against the administration (these can progress to the Pensions Ombudsman) ● Data interruption from system changeover	4	3	12	● Key Performance Indicators ● Internal Audit ● Reports to Pension Board / Committee ● Service Review meetings with business operations management ● Awareness of the Pension Regulator Guidance ● Procurement of new Pension Administration System to replace Heywoods ● Project managers being sourced risk not yet mitigated.	4	3	12
Pensions Investment and Governance								
3	**Coronavirus and Covid 19** ● Employers unable to pay employer contributions Ceding Employers unable to find additional funds to support outsourced operations ● Revised dividend policies reducing income to pension funds ● Remote working presenting data protection risks ● Administration service unable to service demand ● Increased criminal activity from cyber scams and phishing ● investment environment changes radically, and Fund is slow to respond, leading to lower solvency	4	4	16	● investment working group created to actively review investment strategy on an ongoing basis ● Data improvement Programme and ABS Working Group monitoring employers and administration service in relation to data cleansing and end of year returns for the ABS. ● Covenant reviews underway and review of all high risk employers in the fund. ● Contribution deferral policy submitted to committee for consideration in June 2020.	4	3	12
4	**2019 Triennial actuarial valuation outcome** ● An increase in liabilities, which is higher than the previous actuarial valuation estimate. ● The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities. ● Significant rises in employer contributions due to increases in liabilities or fall in assets.	3	2	6	● The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases. ● The Committee receiving training on understanding liabilities ● Hymans Robertson commission to produce an Asset Liabilities Model. ● Life expectancy assumptions are reviewed at each valuation. ● Reviewing of the each triennial valuation assumptions and challenge actuary as required. ● Funding Strategy Statement and Investment Strategy Statement updated and approved,	3	1	3

EAST SUSSEX PENSION FUND - RISK REGISTER – SNAPSHOT OF KEY RISKS								
Reference	**Risk**	**Pre Mitigation**			**Risk Control / Response**	**Post Mitigation**		
		Impact	**Likelihood**	**Risk Score**		**Impact**	**Likelihood**	**Risk Score**
					● Actuary attendance at Pension Fund Committee to cover triennial valuation issues and expectations ● The Fund holding discussions with employers through the Pension Employers Forum. Using actuary that makes significant possible assumptions and recommends appropriate recovery period and strategy;			
LGPS Pooling - ACCESS Pool								
5	**LGPS Investment Pooling & Sub Fund Issues** ● Increase in investment risk taken to access higher returns ● There can be size restrictions on certain investments. ● Weaker control leading to poorer governance. ● There is a risk that an investment may not transition to the ACS if Link cannot resolve on-going issues relating to the operating model for the planned Feeder fund structure.	3	3	9	● ACCESS Support Unit function to provide support. ● Officers have agreed Link should be allowed a reasonable time period to resolve issues, e.g., until ending of August. The ACCESS Contracts Manager will monitor Link's progress closely. If Link cannot resolve issues in a reasonable timeframe then alternative options may be considered, e.g. Funds may continue to hold the sub fund outside the ACS	3	2	6
6	**Asset transition costs** • Asset transition costs are greater than forecast. • Failure to control operational risks and transaction costs during the transition process • An increase in the initial set-up costs forecast by the pooling proposal.	3	3	9	• Consultant has analysed the creation of sub-funds and transitioning of our current assets into the pool, under a variety of scenarios. • There may also be the opportunity to transfer securities in 'specie'. • A transition manager will be appointed, with the objective of preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled.	2	2	4

Page 234

The risk scores are calculated using the risk matrix below:

LIKELIHOOD					
	4				
	3				
	2				
	1				
		1	2	3	4
		IMPACT			

5. Financial performance

Analytical Review

The following tables provide a brief review of the major movements in the Fund Account and the Net Assets Statement for the financial year. More detail is provided in the Investment Policy and Performance report on pages 16 to 22.

	Restated 2018/19 £000	2019/20 £000
Fund Account		
Net (Contributions)/withdrawals	(2,218)	(4,452)
Management Expenses	14,038	17,333
Return on Investments	(260,652)	140,238
Net Increase in Fund	**(248,832)**	**153,119**

	Restated 2018/19 £000	2019/20 £000
Net Asset Statement		
Bonds	499,750	212,331
Equities	153,695	-
Pooled Funds	2,825,479	3,189,335
Cash	149,156	63,715
Other	(4,870)	(135)
Total Investment Assets	**3,623,210**	**3,465,246**
Non-Investment Assets	9,002	13,848
Net assets of the fund available to fund benefits at the year end.	**3,632,212**	**3,479,094**

Analysis of pension contributions

The table below shows the number of primary pension contributions received late in the financial year 2019/20.

Month	Payments Due	Payments Received Late
April	127	5
May	127	6
June	126	4
July	126	3
August	126	3
September	124	6
October	123	6
November	122	4
December	123	9
January	122	3
February	121	5
March	120	13

No interest was charged on any of the late payments.

Forecasts

The following tables show the forecasts and outturn for the Fund Account and the Net Asset Statement.

Fund Account	**Restated 2018/19 Forecast £000**	**Restated 2018/19 Actual £000**	**2019/20 Forecast £000**	**2019/20 Actual £000**	**2020/21 Forecast £000**
Contributions	(136,900)	(127,810)	(141,600)	(138,719)	(118,600)
Payments	133,200	125,592	137,600	134,267	134,700
Administration expenses	1,086	916	940	1,106	1,080
Oversight and governance costs	733	740	709	1,208	1,365
Investment expenses:					
fees invoiced to the fund	4,650	6,138	5,100	4.370	1,350
fees deduced at source	-	6,244	-	10,649	-
Net investment income	(39,300)	(25,919)	(27,000)	(26,487)	(27,200)
Change in market value	(231,700)	(234,733)	(206,300)	166,725	(134,600)
Net increase in the Fund	**(268,231)**	**(248,832)**	**(230,551)**	**153,119**	**(141,953)**

Contributions and payments are based on current expectations; the administration and investment management expenses are based on current budgets; and the net investment income and change in market value are based on the long-term forecast returns for each asset class.

Net Asset Statement	**2018/19 Forecast £000**	**2018/19 Actual £000**	**2019/20 Forecast £000**	**2019/20 Actual £000**	**2020/21 Forecast £000**
Equities	2,341,400	2,134,847	2,273,600	1,332,597	1,403,200
Bonds	530,800	751,032	781,100	595,691	611,600
Property	373,000	339,442	356,400	318,129	329,600
Alternatives	222,700	245,135	265,200	321,996	341,000
Cash	135,800	149,156	195,200	63,715	43,900
Other	3,800	3,598	3,800	833,118	869.700
Total Investment Assets	**3,607,500**	**3,623,210**	**3,875,300**	**3,465,246**	**3,599,000**

The forecasts for total investment assets are based on the underlying assets within the pooled funds multiplied by the historic long-term returns for each asset class used. Net contributions, less administration and investment management expenses and oversight and governance costs, are added to the Cash figure to reflect new money into the Fund. The forecasts do not take into account potential additions or disposals of investments within these asset classes during the period as potential changes are not known with any degree of certainty.

Management Expenses

	2018/19		2019/20		2020/21
	Forecast £000	**Actual £000**	**Forecast £000**	**Actual £000**	**Forecast £000**
Orbis Finance Support Services	51	69	45	40	-
Orbis Business Operations Support Services	935	809	854	952	935
Supplies and Services	100	38	41	114	145
Administration total	**1,086**	**916**	**940**	**1,106**	**1,080**
Oversight and governance costs					
Orbis Finance Support Services	263	210	234	267	385
Supplies and Services	470	529	475	941	980
Third Party Payments	150	100	130	97	150
Other Income	(150)	(98)	(130)	(97)	(150)
Oversight and governance total	**733**	**741**	**709**	**1,208**	**1,365**
Investment Management					
Investment expenses:					
fees invoiced to the fund	4,650	6,138	5,100	4.370	1,350
fees deduced at source*	-	6,244	-	10,649	-
Investment Management Total	**4,650**	**12,382**	**5,100**	**15,019**	**1,350**
Management Expenses Total	**6,469**	**14,038**	**6,749**	**17,333**	**3,795**

* During the year, the Pension Fund incurred management fees which were deducted at source for 2019/20 of £3.7m (£2.3m in 2018/19) on its private equity investments, fees of £1.3m (£1.3m in 2018/19) on its infrastructure investments, fees of £2.6m (£0.0m in 2018/19) on investments in the ACCESS Pool and fees of £3.0m (£2.7m in 2018/19) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

Pension overpayments

When an overpayment of pension benefits has been identified the recovery of this debt needs to be persued. The details of the debt is collated and an invoice is raised to the relevant party for payment. The Fund follows the East Sussex County Councils procedure for recovering income which has escalation points set if the debt remains unpaid with the final stage this is passed on to the East Sussex legal team to persue. The table below shows the pension overpayments and recovieries for the past 5 years:

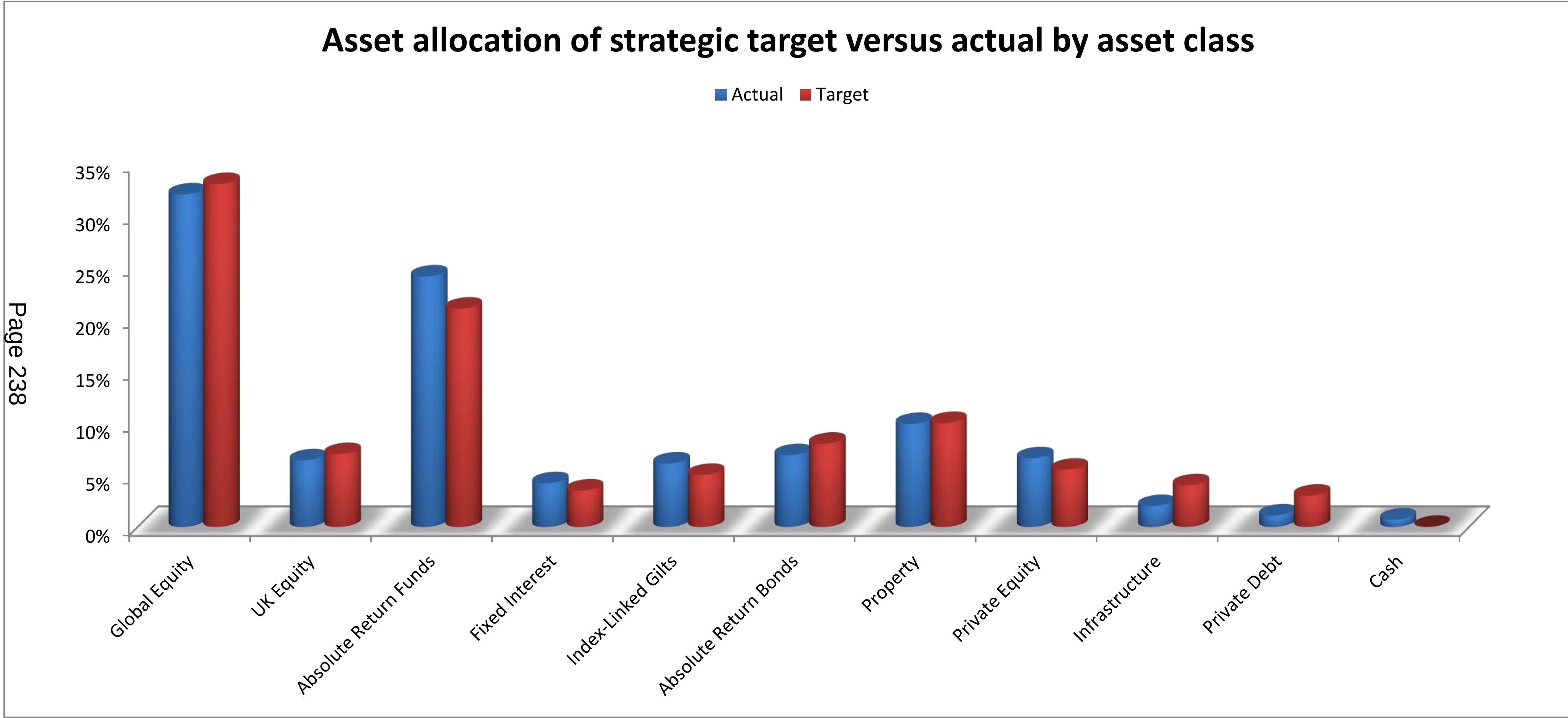
Year		Overpaid Pensioners	Recoveries	Write Off	Outstanding
2019/20	Number	10	8	0	2
	Value £000	6	4	0	2
2018/19	Number	30	21	1	8
	Value £000	70	59	6	5
2017/18	Number	52	41	3	8
	Value £000	52	42	1	9
2016/17	Number	73	45	2	26
	Value £000	61	30	4	27
2015/16	Number	44	38	-	6
	Value £000	34	23	-	11

The Fund's administrator this year introduced mortality screening of the active pensioners each month and this has reduced the number of overpayments significantly over the year. Recently the tell us once initiative has also been implemented with the aim to further reduce the overpayments made by the Fund.

6. Investment policy and performance

Investment Policy

The Fund's strategic asset allocation was unchanged during the year to 31 March 2020, set out below, strategic target and actual allocations, at the end of the 2019/20 financial year.



Page 238

During the year, the Committee agreed to commit £40m to the UBS Archmore International Infrastructure Fund and £20m to the M&G InfraCapital Greenfield Partners II LP. These commitments were made to enable the Fund to meet its 4% target allocation to infrastructure.

Mandate	Value (£m) Q1 2019	Proportion (%) Actual	Proportion (%) Target	Value (£m) Q1 2020	Proportion (%) Actual	Proportion (%) Target
Investments in the ACCESS Pool						
ACCESS - Global Equity (Longview)	275.0	7.6%	7.0%	238.8	6.9%	7.0%
ACCESS - Absolute Return (Ruffer)	-	-	-	418.5	12.0%	10.5%
ACCESS - Real Return (Newton)	-	-	-	414.8	11.9%	10.5%
ACCESS - Corporate Debt (M&G)	-	-	-	144.3	4.1%	3.5%
Total Investments held in ACCESS	**275.0**	**7.6%**	**7.0%**	**1216.4**	**35.2%**	**31.5%**
Investments held directly						
Equities						
Passive						
UBS - Fundamental Indexation	429.4	11.9%	11.5%	363.2	10.4%	11.5%
UBS - Global Emerging Markets	41.7	1.2%	1.5%	36.2	1.0%	1.5%
UBS - Regional Equities	331.2	9.2%	8.0%	312.4	9.0%	8.0%
UBS - UK Equities	271.3	7.5%	7.0%	221.9	6.4%	7.0%
UBS - Climate Aware	169.7	4.7%	5.0%	160.0	4.6%	5.0%
Total Equities	**1,243.3**	**34.5%**	**33.0%**	**1093.7**	**31.5%**	**33.0%**
Absolute Return						
Newton	422.0	11.6%	10.5%	-	-	-
Ruffer	402.2	11.1%	10.5%	-	-	-
Total Absolute Return	**824.2**	**22.7%**	**21.0%**	**-**	**-**	**-**
Bonds						
UBS - 5yr ILG	207.5	5.7%	5.0%	212.3	6.1%	5.0%
M&G - Corporate Bonds	137.7	3.8%	3.5%	-	-	-
M&G - Absolute Return	251.3	6.9%	8.0%	239.1	6.9%	8.0%
Total Bonds	**596.5**	**16.4%**	**16.5%**	**451.4**	**13.0%**	**13.0%**
Other Investments						
Schroder - Property	360.4	9.9%	10.0%	343.7	9.9%	10.0%
M&G - Infrastructure Fund	2.0	0.1%	1.0%	20.7	0.6%	1.0%
Pantheon - Infrastructure Fund	14.8	0.4%	2.0%	30.1	0.9%	2.0%
UBS - Infrastructure	19.5	0.5%	1.0%	16.7	0.5%	1.0%
Adams Street - Private Equity	115.2	3.2%	2.8%	122.9	3.5%	2.8%
HarbourVest - Private Equity	98.1	2.7%	2.7%	106.2	3.1%	2.7%
M&G Real Estate Debt VI	-	-	-	38.8	1.1%	3.0%
M&G - UK Financing Fund	0.7	0.0%	3.0%	-	-	-
Cash account	73.5	2.0%	0.0%	24.6	0.7%	0.0%
Total Other Investments	**684.2**	**18.8%**	**22.5%**	**703.7**	**20.3%**	**22.5%**
Total	**3,623.2**	**100.0%**	**100.0%**	**3,465.2**	**100.0%**	**100.0%**

Page 239

An analysis of fund assets as at the reporting date

	UK £m	Non-UK £m	Global £m	Total £m
Equities	222	472	638	1,332
Bonds	357	-	239	596
Property (direct holdings)	-	-	-	-
Alternatives	349	-	291	640
Cash and cash equivalents	41	23	-	64
Other	-	-	833	833
Total	**969**	**495**	**2,001**	**3,465**

An analysis of investment income accrued during the reporting period

	UK £000	Non-UK £000	Global £000	Total £000
Equities	4,344	1,145	-	5,489
Bonds	32	376	6,425	6,833
Property (direct holdings)	-	-	-	-
Alternatives	11,973	-	1,531	13,504
Cash and cash equivalents	455	218	-	673
Other	-	-	47	47
Total	**16,804**	**1,739**	**8,003**	**26,546**

In the above tables:

'Alternatives' are taken to mean holdings in private equity, hedge funds, pooled property funds, infrastructure funds and derivatives.

'Other' denotes assets not falling into any other category, such as investments in vehicles where the underlying investments may comprise of assets of more than one type.

'Global' holdings are those that include an element of both overseas and UK listed assets.

Investments in pooled funds have been allocated to categories based on the nature and domicile of the underlying assets.

Responsible Invesment

The Fund understands the urgency of the need to address climate change following the release of the Intergovernmental Panel on Climate Change (IPCC) Special Report on Global Warming in 2019[1]. This sets out the likely consequences of global warming of 1.5ºC and the additional damage that global warming of 2ºC could cause. Following the publication of this report there is understandable interest in what pension funds and other financial market participants are doing to uphold their responsibility to help reduce carbon emissions.

In order to provide a general framework for investment decision-making, the Pensions Committee has developed a set of investment beliefs. These are set out in the Fund's ISS and are reviewed by the Committee on a regular basis. A number of these beliefs – set out below - apply specifically to the consideration of ESG issues and Responsible Investment (RI) in its wider sense.

We will apply long-term thinking to deliver long-term sustainable returns.

We will seek sustainable returns from well-governed assets.

We will use an evidence-based long term investment appraisal to inform decision-making in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.

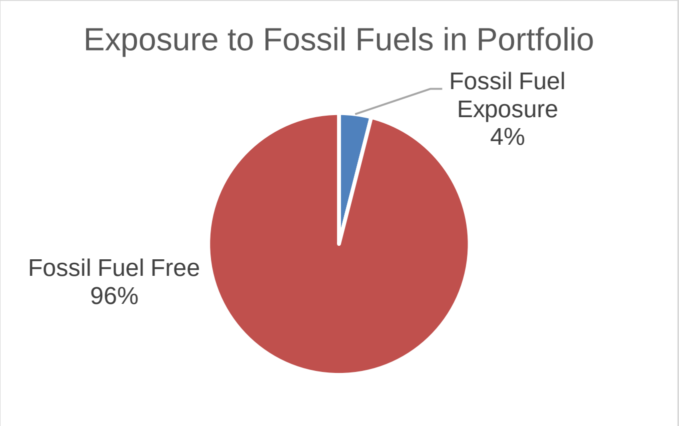
We will evaluate and manage carbon exposure in order to mitigate risks to the Fund from climate change.

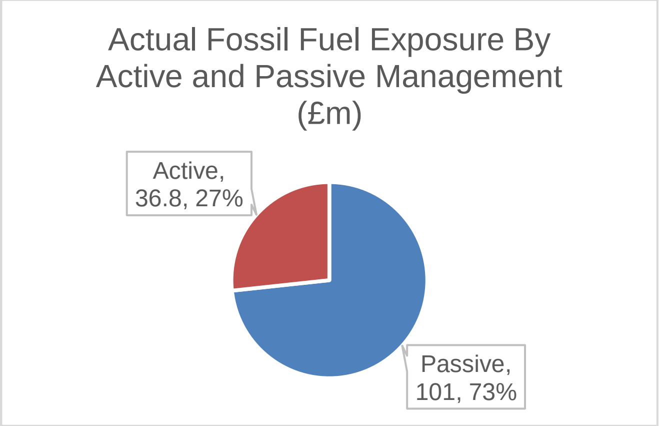
In light of these beliefs, and given the legal, regulatory, and practical constraints noted above, the Committee with its advisers has considered a number of possible routes to reduce carbon exposure within the Fund, including divestment, engagement, the use of low carbon indices and allocating to actively managed 'sustainable' funds.

The Committee currently regards full divestment from fossil fuels as an inferior option, as it is only possible as a one-off action and is likely to have limited effect. When shares in the relevant companies are sold, the Fund loses its ability to influence the company to change its business model, and the new shareholders are likely to be less interested in putting pressure on the company.

While the Fund is actively looking to reduce the carbon exposure from its passive investments, it will only do so when it is able to evaluate all the risks involved from partial or total exclusions. It continues actively to engage with fossil fuel companies collaboratively with other investors, and is considering a search for an active sustainable mandate in the expectation of making some positive financial return from climate change.

At the end of 2019/20 the ESPF had 4% of it holdings exposed to fossil fuel companies, the fund expects to reduce this exposure through its work programmes in the next financial year as part of its work on Responsible investment.





[1] https://www.ipcc.ch/sr15/

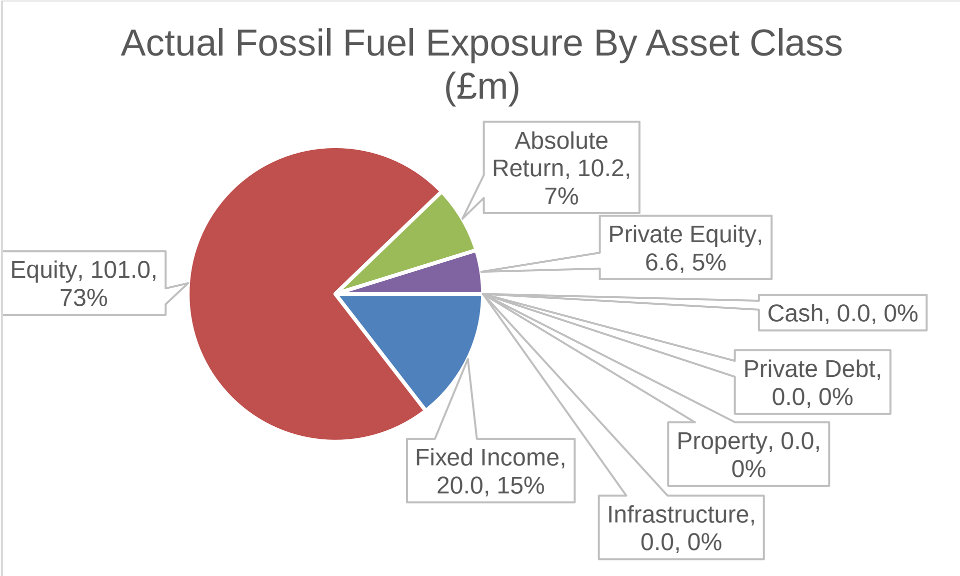


Table 1: Fund's Fossil Fuel exposure

	Actual Fossil Fuel Exposure (%)	Actual Fossil Fuel Exposure* (£m)	Benchmark Fossil Fuel Exposure (%)	Relative (%)	Management Style
UBS – North America	4.9	7.7	5.0	-	Passive
UBS – Europe (ex UK)	5.9	7.1	6.0	(0.1)	Passive
UBS – Japan	5.4	1.0	5.4	-	Passive
UBS – Asia Pacific (ex Japan)	9.5	1.6	9.9	(0.4)	Passive
UBS – Emerging Markets	9.7	3.5	9.8	(0.2)	Passive
UBS – UK	13.9	30.8	14.5	(0.1)	Passive
UBS – RAFI	11.4	41.3	11.5	(0.2)	Passive
UBS – Climate Aware	5.0	8.0	6.0	(1.1)	Passive
Longview - Global Equity	-	-	6.9	(6.9)	Active
Harbourvest - Private Equity	3.3	3.6	6.9	(3.6)	Active
Adams Street - Private Equity	2.2	3.0	6.9	(4.7)	Active
Newton - Absolute Return	1.2	5.1	-	-	Active
Ruffer - Absolute Return	1.2	5.1	-	-	Active
Schroders - Property	-	-	-	-	Active
UBS - Infrastructure	-	-	-	-	Active
Pantheon - Infrastructure	-	-	-	-	Active
M&G (InfraCapital) - Infrastructure	-	-	-	-	Active
M&G – Real Estate Debt	-	-	-	-	Active
M&G - UK Financing Fund	-	-	-	-	Active
M&G - Absolute Return Credit	2.6	6.1	10.3	(7.7)	Active
M&G - Corporate Bonds	9.6	13.9	-	9.6	Active
UBS - Over 5 Year IL Gilt Fund	-	-	-	-	Passive
Cash	-	-	-	-	Active
Total Fund	4.0	137.8	-	-	-

ESPF Asset Managers

The Fund employs a number of managers with differing styles and management approaches. This is a deliberate policy to avoid over-dependence on the fortunes of a single manager and to concentrate on managers' particular areas of expertise. All managers are expected to maintain well diversified portfolios. The Fund’s structure is broadly as follows:

- UBS are the Fund’s largest single equity manager; all assets are managed passively against UK and Global equity market benchmarks. The allocation to the UBS All World Equity Fundamentally Weighted Index Fund offers additional diversification from the market capitalisation based passive management approach. In addition, the Fund invests in the UBS Climate Aware Fund which tracks an index with a climate change overlay.
- The Fund has one active global equity manager (Longview). The Committee maintains the belief that a blend of active and passive management of equity mandates offer the most efficient way to access world equity markets.
- The two absolute return managers are expected to add diversification away from the Fund’s other mandates, due to their flexible, unconstrained management approach and wide range of underlying assets.
- A single property manager is employed (Schroders); however, the “fund of fund” approach provides manager diversification within the underlying holdings.
- Corporate bonds and absolute return credit assets are managed by M&G. Index-linked bonds are managed passively by UBS.
- The Fund’s allocations to infrastructure and unquoted equities are currently divided between five managers, three within infrastructure and two within unquoted equities.
- M&G has been appointed to manage a real estate debt investment and starting drawing capital during the year.

Custodian

A specialist provider of Custodian Services, Northern Trust, is employed by the East Sussex Pension Fund.

The responsibilities of the Custodian are:

- Collection of investment income.
- Arranging for the custody of the schemes assets in compliance with the custody agreement.
- Providing quarterly valuations of the schemes assets, details of all transactions and investment accounting.
- Responsibility for cash management and investing the daily cash balances in a “Triple A” rated cash pool.

Investment Performance

Actual and benchmark performance for each of the Fund's mandates is provided in the table below, over 12 months 3 years and 5 years[1]. Results are considered by the Pension Committee on a quarterly basis and the Fund members on an annual basis as part of this report.

Mandate	1 year			3 year (p.a.)			5 year (p.a.)		
	Fund	Benchmark	Relative*	Fund	Benchmark	Relative*	Fund	Benchmark	Relative*
ACCESS Pool									
Equities									
Longview – Global	(13.2)%	(6.7)%	(6.4)%	(9.8)%	(2.6)%	(7.2)%	-	-	-
Absolute Return									
Newton	(10.3)%	0.7%	(11.0)%	-	-	-	-	-	-
Ruffer	1.9%	1.1%	0.7%	-	-	-	-	-	-
Bonds									
M&G – Corporate	(7.5)%	(8.1)%	0.6%	-	-	-	-	-	-
Equities									
UBS – UK Equity	(18.2)%	(18.5)%	0.3%	(9.1)	(9.1)%	(0.1)%			
UBS – Regional	(6.5)%	(6.5)%	(0.1)%	(0.2)%	(0.2)%	0.0%	-	-	-
UBS - Fundamental Indexation	(15.4)%	(14.8)%	(0.6)%	(5.8)%	(5.2)%	(0.5)%	-	-	-
UBS – Climate Aware	(5.7)%	(5.4)%	(0.3)%	(1.5)%	(1.5)%	(0.1)%	-	-	-
Bonds									
UBS - 5yr ILG	2.3%	2.4%	(0.1)%	6.3%	6.3%	0.0%	-	-	-
M&G - Absolute Return	(4.9)%	4.0%	(8.8)%	(0.4)%	2.4%	(2.8)%	1.1%	1.7%	(0.3)%
Other Investments									
Schroder – Property	(1.3)%	0.0%	(1.3)%	4.8%	4.9%	(0.1)%	5.5%	6.0%	(0.4)%
M&G – Infrastructure	3.2%	3.5%	(0.3)%	7.0%	3.3%	3.6%	-	-	-
Pantheon – Infrastructure	8.2%	3.5%	4.7%	6.1%	3.5%	2.6%	-	-	-
UBS – Infrastructure	5.8%	3.5%	2.3%	3.7%	2.0%	1.7%	5.4%	1.4%	3.9%
Adams Street - Private Equity	9.5%	(5.5)%	15.0%	12.2%	2.5%	9.6%	13.6%	6.5%	7.1%
HarbourVest - Private Equity	11.8%	(5.5)%	17.3%	13.7%	2.5%	11.2%	15.2%	7.2%	8.0%
M&G – Real Estate Debt VI	0.9%	4.8%	(3.9)%	-	-	-	-	-	-
Cash account	0.3%	0.6%	(0.4)%	(1.9)%	0.5%	(2.3)%	(1.4)%	0.4%	(1.8)%

*Relative performance is calculated on a geometric basis 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.

[1] The table shows since inception returns in place of one year, three year and five-year performance for some of the managers, if the mandate has been in place for a shorter period.

5. Scheme Administration

Service Delivery

East Sussex County Council as Administering Authority for the East Sussex Pension Fund undertake the day to day pensions administration through Orbis, which is a shared services partnership currently covering the three councils of East Sussex, Surrey and Brighton and Hove.

The Orbis pensions administration team are responsible for

- administering the LGPS Scheme on behalf of the ESPF scheme employers in accordance with relevant legislation and Pension Committee decisions, also provision of services in connection with the uniformed fire officers;
- calculation of pensions and lump sums for retiring members of the LGPS and provision of early retirement estimates;
- maintenance of the database of pension scheme members and provision of annual benefit statements and deferred benefit statements;
- administration of new starters, including transfers in;
- administration and calculations relating to leavers;
- payment of pensions and other entitlements.

Communication to employers and members of administration is carried out where possible through access to the MyPensionsPortal for members to view their Annual benefit statements, nominations, personal details and carry out benefit calculations. The Orbis team also send annual newsletters to scheme member and employers.

The Pension Fund website www.eastsussexpensionfund.org provides scheme members and employers access to up to date information on the LGPS. Alongside this website, the East Sussex County Council also provides information on their website around how the Pension Fund is governed www.eastsussex.gov.uk/yourcouncil/pensions/governance/

Administration of the pensions fund is discussed quarterly at Pensions Committee to ensure the service is managed and governed well and key performance indictors reviewed at each meeting. In addition, Pensions Board consider the activities of the Pensions Administration team at each meeting. During 2019/20 ESPF set up an annual benefit working group as part of its Data Improvement Programme to deliver cleansing of employer common and specific data to ensure complete and accurate membership records. The ESPF looks to achieve value for money in the administration of the Fund by providing the service in a cost effective and efficient manner utilising technology appropriately. Achievement of KPIs and high services levels helps the fund monitor the effectiveness of the fund.

Internal Dispute Resolution Procedure

The LGPS is required by statute to make arrangements for the formal resolution of any disagreements on matters in relation to the scheme that may arise between, the managers of the Scheme and the, active, deferred and pensioner members of their representatives.

There is access to a two-stage dispute resolution procedure. This procedure consists of an initial application to the person or persons appointed by the individual's employer to consider the matter. If the complainant is still dissatisfied with the decision, they then have the right to refer the matter to the County Council to consider the matter under dispute. The person appointed for this role in the East Sussex Pension Fund is the Assistant Chief Executive.

In addition to the dispute procedure, the Social Security Act 1990 and the Pensions Act 1995 have created a framework of national organisations to control occupational and personal pension schemes, to which LGPS members have access.

The following table summarises the number of disputes made through the Fund's Internal Dispute Resolution Procedure at each stage of appeal:

	2019/20
First Stage	5
Upheld	4
Declined	1
Ongoing	-
Second Stage	-
Upheld	-
Declined	-
Ongoing	-

Key administration performance indicators

Performance Indicator	Impact	Measure	Target %	Achieved by Fund %
Death notification acknowledged, recorded and documentation sent	Medium	within 5 days	95%	100%
Award dependent benefits (Death Grants)	High	within 5 days	95%	98%
Retirement notification acknowledged, recorded and documentation sent	Medium	within 5 days	95%	97%
Payment of lump sum made	High	within 5 days	95%	98%
Calculation of spouses benefits	Medium	within 5 days	90%	99%
Transfers In - Quote (Values)	Low	within 10 days	90%	98%
Transfers In - Payments	Low	within 10 days	90%	99%
Transfers Out - Quote	Low	within 25 days	90%	99%
Transfers Out - Payments	Low	within 25 days	90%	98%
Employer estimates provided	Medium	within 7 days	95%	90%
Employee projections provided	Low	within 10 days	95%	93%
Refunds	Low	within 10 days	95%	99%
Deferred benefit notifications	Low	within 25 days	95%	100%

	2018/19	2019/20
Number Of Complaints	9	5

Financial indicators of administrative efficiency

Unit Costs Per Member	East Sussex Pension Fund 2018/19 £	East Sussex Pension Fund 2019/20 £	Benchmark Unit Costs £
Excluding investment management expenses	22.09	30.07	38.69
Including investment management expenses	187.26	225.65	228.26

Key staffing indicators

At 31 March 2019, staffing numbers within Pension Administration were 17.6 full time equivalent members of staff.

This provides the fund with a staff to fund member ratio of 1:4,363.

With an average cases per member of staff of 1:499

Membership

The East Sussex Pension Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and fire fighters, for whom separate arrangements exist. A number of other bodies also participate in the Scheme. These include Parish and Town Councils, Further Education Colleges, Academy Schools, Police and Fire Authorities (non-uniformed staff only) and Admitted Bodies. Admitted Bodies are those which are able to apply for membership of the Scheme under the Regulations. If the Pension Fund Committee agrees to the application, an Admission Agreement is drawn up admitting the body into the Scheme.

Note 28 to the accounts provide a list of all organisations currently contributing to the Fund. It includes their contribution rates, expressed as a percentage of employees' pensionable pay, and additional annual payments for those participating bodies which would otherwise have a shortfall in contributions by the end of the recovery period.

Below is a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some deferred members and pensioners).

	Active	Ceased	Total
Scheduled body	95	13	108
Admitted body	33	21	54
Total	**128**	**34**	**162**

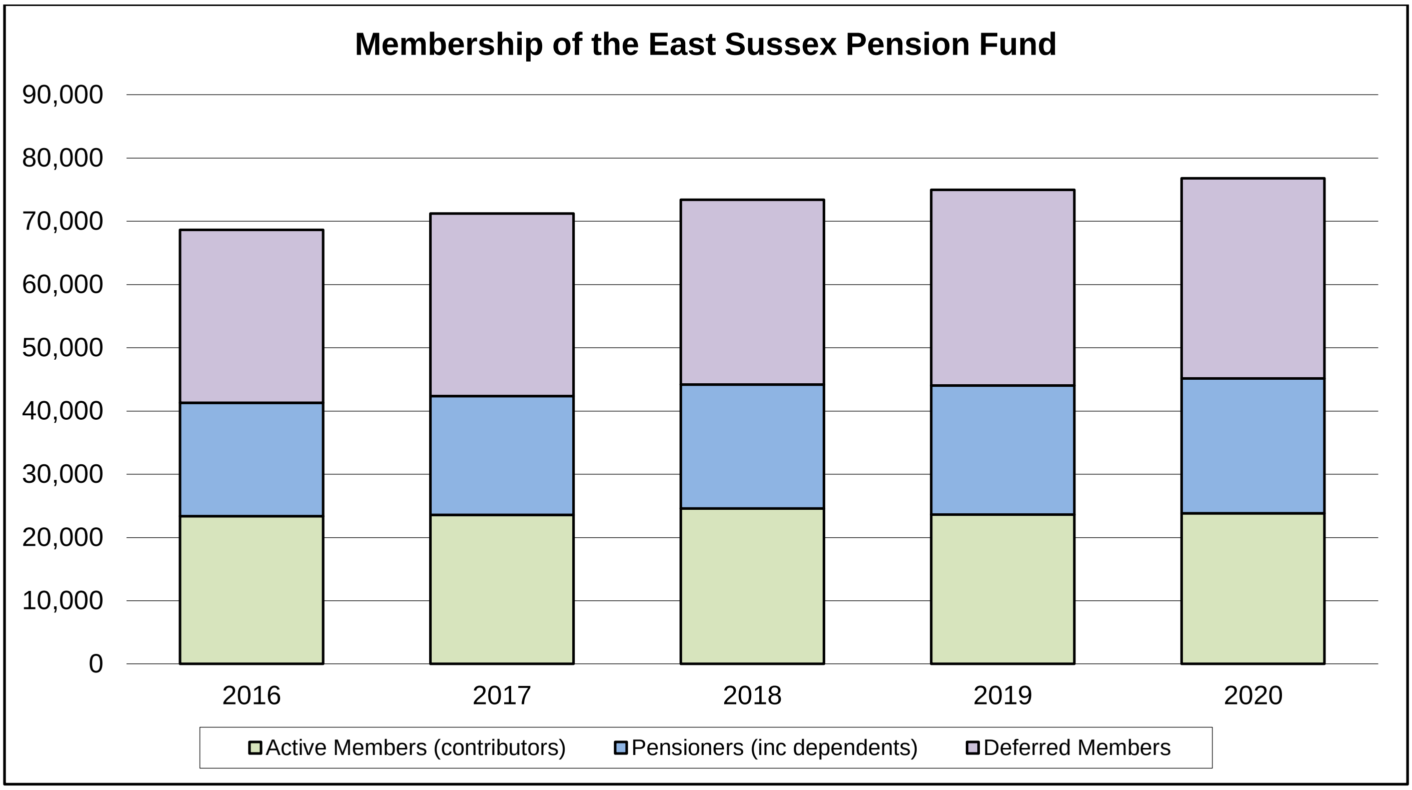
During 2019/20 the number of contributing members within the Pension Fund increased by 0.8% from 23,646 to 23,835. In summary, the number of members contributing to the Scheme is:

	2018/19	2019/20
East Sussex County Council	7,978	7,980
Scheduled Bodies	15,332	15,561
Admitted Bodies	336	294
Total	**23,646**	**23,835**

The number of pensioners in receipt of payments from the Fund increased from 20,403 to 21,335 (or 4.6%).

The following table and bar chart provide a summary of contributing members, pensioners in payment and deferred pensioners over the last five years:

	March 2016	March 2017	March 2018	March 2019	March 2020
Active Members (contributors)	23,367	23,567	24,570	23,646	23,835
Pensioners (inc dependents)	17,942	18,812	19,597	20,403	21,335
Deferred Members	27,344	28,853	29,253	30,916	31,622
Total	**68,653**	**71,232**	**73,420**	**74,965**	**76,792**

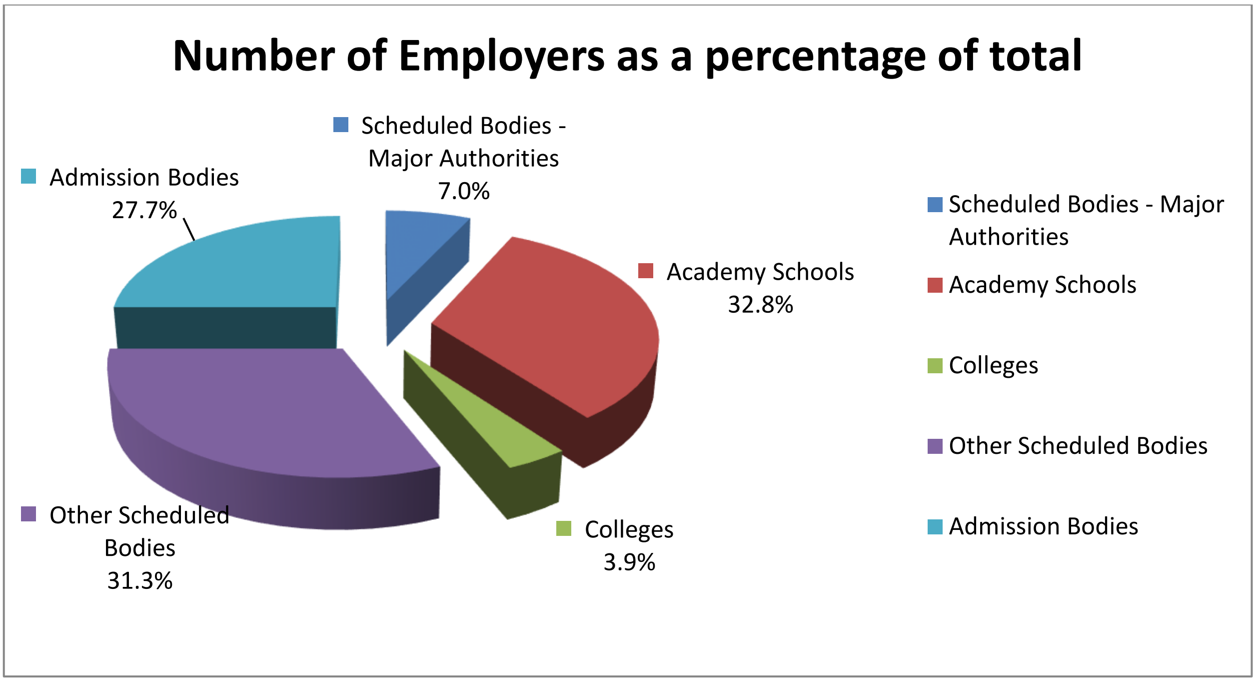


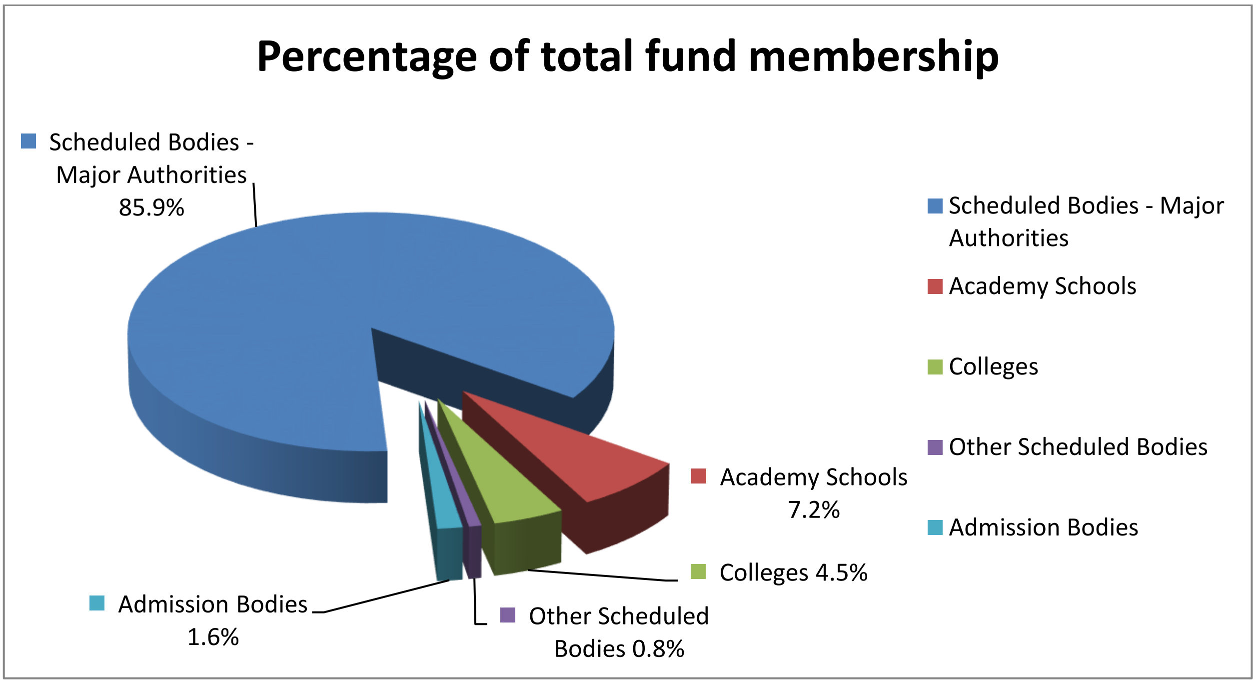
Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, the East Sussex County Council administers the Pension Fund for approximately 76,000 individuals employed by 128 different organisations. Underpinning everything we do is a commitment to putting our members first, demonstrating adherence to good practices in all areas of our business and controlling costs to ensure we provide outstanding value for money.

Employer statistics by Employer type

Employer Type	Number of Employers as a percentage of total	Percentage of total fund membership	Number of Employers in Group
Scheduled Bodies - Major Authorities	7.0%	85.9%	9
Academy Schools	32.8%	7.2%	42
Colleges	3.9%	4.5%	5
Other Scheduled Bodies	31.3%	0.8%	40
Admission Bodies	25.0%	1.6%	32

Note - all percentages have been rounded to the nearest one decimal place





New pensioners by pensioner type

New pensioner type	Number of new pensioner in group
Normal Retirments	452
Redundancies	141
Ill Helath	57
Employee's Choice of Early Pensnsion	616
Total New Pensioners	1,266

6. Actuarial report on funds

The East Sussex County Council ("the Administering Authority") carried out an actuarial valuation of the East Sussex Pension Fund. ("the Fund") as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations").

The actuarial valuation is a risk management exercise with the purpose of reviewing the current funding plans and setting contribution rates for the Fund's participating employers for the period from 1 April 2020 to 31 March 2023. The report can be downloaded here which summarises the outcomes of the valuation and the underlying advice provided to the Administering Authority throughout the valuation process.

For the purpose of reporting a funding level and an associated funding surplus/deficit for the 2019 valuation, an investment return of 4.0% p.a. has been used. It is estimated that the Fund's assets have a 75% likelihood of achieving this return.

The resulting funding position is as follows:

Valuation Date	31 March 2016	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	994	1,061
Deferred Pensioners	604	736
Pensioners	1,414	1,588
Total Liabilities	**3,012**	**3,386**
Assets	**2,771**	**3,633**
Surplus / (Deficit)	**(240)**	**247**
Funding Level	**92%**	**107%**

There has been an improvement in the reported funding level since 31 March 2016 from 92% to 107% and a change in the funding deficit from £240m to a surplus of £247m.

A breakdown of the key factors that have influenced the reported funding position from 31 March 2016 to 31 March 2019 are detailed below.

Change in the surplus/deficit position	Assets (£m)	Liabilities (£m)	Surplus / (Deficit) (£m)
Last valuation at 31 March 2016	**2,771**	**3,012**	**(240)**
Cashflows			
Employer contributions paid in	290		290
Employee contributions paid in	86		86
Benefits paid out	(376)	(376)	0
Net transfers into / out of the Fund*	(23)		(23)
Other cashflows (e.g. Fund expenses)	(5)		(5)
Expected changes in membership			
Interest on benefits already accrued		376	(376)
Accrual of new benefits		339	(339)
Membership experience vs expectations			
Salary increases greater than expected		21	(21)
Benefit increases less than expected		(1)	1
Early retirement strain (and contributions)	0	12	(12)
Ill health retirement gain		(5)	5
Early leavers greater than expected		0	0
Pensions ceasing greater than expected		(1)	1
Commutation less than expected		10	(10)
Other membership experience		10	(10)
Changes in market conditions			
Investment returns on the Fund's assets	890		890
Changes in future inflation expectations		95	(95)
Changes in actuarial assumptions			
Change in demographic assumptions (excl. longevity)		(5)	5
Change in longevity assumptions		(94)	94
Change in salary increase assumption		(18)	18
Change in discount rate		12	(12)
This valuation at 31 March 2019	**3,633**	**3,386**	**247**

7. Governance

Pensions Committee

East Sussex County Council (Scheme Manager) operates a Pensions Committee (the “Pensions Committee”) for the purposes of facilitating the administration of the East Sussex Pension Fund, i.e. the Local Government Pension Scheme that it administers. Members of the Pensions Committee owe an independent fiduciary duty to the beneficiaries of the Pension Fund. Such members are therefore required to carry out appropriate levels of training to ensure they have the requisite knowledge and understanding to properly perform their role.

Pension Board

The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with the ongoing compliance of the Fund. The Pension Board is constituted under the provisions of the Local Government Pension Scheme (Governance) Regulations 2015 and the Public Service Pensions Act 2013. Members of the Pension Board should also receive the requisite training and development to enable them to properly perform their compliance role.

ACCESS Pool Joint Committee

The ACCESS Pool operates a Joint Committee which has been set up through an Inter Authority Agreement (IAA) which was formalised and executed by each Individual Authority between May and June 2017 and came into effect on the 31 July 2017 at the first formal Joint Committee meeting. The role of the ACCESS Joint Committee, which has one representative from each Fund is to:

- Ensure pool delivers value for money;
- Appointment and termination of the Operator;
- Ensures pool meets needs of individual funds e.g. sub-funds the operator must provide to support individual fund strategies;
- Set pool level policies e.g. sharing of costs;
- Monitor Operator performance against KPIs;
- Monitor investment performance;

Committee membership and attendance

During the year ended 31 March 2020 there were 5 meetings of the Pension Committee, 3 meetings of the Pension Board and one annual employers forum.

Member attendance at committee meetings during 2019/20

2019/20 Pension Committee Members		
		Nos. of meetings attended
East Sussex County Councillors:	Gerard Fox (Chairman)	5/5
	Simon Elford	3/5
	Nigel Enever	5/5
	David Tutt	3/5
	Trevor Webb	2/5

Member attendance at Board meetings during 2019/20

2019/20 Pension Board Members		
		Nos. of meetings attended
Independent Chairman:	Ray Martin	3/3
Employer Representative:		
Brighton & Hove City Council	Councillor Carmen Appich	2/3
Districts & Borough Councils	Councillor Chris Collier*	1/1
	Councillor Doug Oliver*	1/1
Educational Bodies	Stephen Osborn	3/3
Employee Representative:		
Active & Deferred	Niki Palermo	3/3
Active & Deferred	Lynda Walker	3/3
Pensioners	Diana Pogson	3/3

*Councillor Doug Oliver was replaced by Concillor Chris Collier during the year, one meeting took place when this post was vacant.

Member attendance at ACCESS Pool joint committee meetings during 2019/20

2019/20 Joint Committee Members		
		Nos. of meetings attended
East Sussex County Councillors:	Gerard Fox	3/4

The Knowledge and Skills Framework

Objectives The Funds' objectives relating to knowledge and understanding are to:

- Ensure the Fund is appropriately managed and those individuals responsible for its management and administration have the appropriate knowledge and expertise;
- Ensures that there is the appropriate level of internal challenge and scrutiny on decisions and performance of the Fund
- Ensure the effective governance and administration of the Fund; and
- Ensure decisions taken are robust and based on regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Housing, Communities and Local Government.

CIPFA Knowledge and Skills Framework – Pension Fund Committees Although there is currently no legal requirement for knowledge and understanding for members of the Pension Committee it is the Fund's opinion that members of the Pension Committee should have no less a degree of knowledge and skills than those required in legislation by the Local Pension Board. As at date of writing, the ongoing SAB 'good governance' project signals a much stronger requirement on Pension Committee members knowledge and understanding.

The CIPFA framework, that was introduced in 2010, covers six areas of knowledge identified as the core requirements:

- Pensions legislative and governance context;
- Pension accounting and auditing standards;
- Financial services procurement and relationship development;
- Investment performance and risk management;
- Financial markets and products knowledge; and
- Actuarial methods, standards and practice.

Under each of the above headings the Framework sets out the knowledge required by those individuals responsible for Fund's management and decision making.

CIPFA Technical Knowledge and Skills Framework – Local Pension Boards CIPFA extended the Knowledge and Skills Framework in 2015 to specifically include Pension Board members, albeit there is an overlap with the original Framework. The 2015 Framework identifies the following areas as being key to the understanding of local pension board members;

- Pensions Legislation;
- Public Sector Pensions Governance;
- Pensions Administration;
- Pensions Accounting and Auditing Standards;
- Pensions Services Procurement and Relationship Management;
- Investment Performance and Risk Management;
- Financial markets and product knowledge;
- Actuarial methods, standards and practices.

Links to The Scheme Advisory Board's Good Governance project In February 2019 the Scheme Advisory Board commissioned Hymans Robertson to consider options for enhancing LGPS governance arrangements to ensure that the Scheme is ready for the challenges ahead and at the same time retains local democratic accountability. Following extensive consultation and engagement with the LGPS community the SAB published 2 reports. The following recommendations from the second report relate directly to the attainment of knowledge and skills;

- Key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
- A requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.
- Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
- Relevant professional bodies to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.

The findings of the Good Governance Review have yet to be formally adopted in statutory form, however, this Training Strategy recognises the principles behind the recommendations and seeks to embed them into the culture of the East Sussex Pension Fund.

The Pensions Regulator’s E-learning toolkit The Pensions Regulator has developed an online toolkit to help those running public service schemes understand the governance and administration requirements set out in its code of practice 14 Governance and administration of public service pension schemes.

The toolkit covers 7 short modules, which are:

- Conflicts of Interests;
- Managing Risk and Internal Controls;
- Maintaining Accurate Member Data;
- Maintaining Member Contributions;
- Providing Information to Members and Others;
- Resolving Internal Disputes;
- Reporting Breaches of the Law.

The modules of the Regulator’s toolkit are by their very nature generic, having to cater for all public service pension schemes. While they give a minimum appreciation of the knowledge and understanding requirements set out in the Code of Practice they do not cater for the specific requirements of the individual public service schemes.

As a result the Regulator’s toolkit does not cover knowledge and skills requirements in areas such as Scheme regulations, the Fund’s specific policies and the more general pension’s legislation.

Pension Committee under the constitution of East Sussex County Council, has the responsibility “To make arrangements for the investment, administration and management of the Pension Fund”.

Members of the Committee must, therefore, have an understanding of all aspects of running the Fund and how to exercise their delegated powers effectively.

Members of the Pension Committee require an understanding of:

- their responsibilities as delegated under the constitution of East Sussex County Council as the administering authority for the fund;
- the requirements relating to pension fund investments;
- the management and administration of the Fund;
- controlling and monitoring the funding level; and
- effective governance and decision making in relation to the management and administration of the Fund.

There also exists a specific requirement under MiFID II, that those making investment decisions, must be able to demonstrate that they have the capacity to be treated as professional investors.

Expectations on Pension Committee Members

The role of Pension Committee member is an important one and there are certain expectations on those undertaking the role. These include;

- A commitment to attend and participate in training events and to adhere to the principles of the Training Strategy
- The ability to use acquired knowledge to participate in meetings and to ask questions constructively of the information provided by officers, advisers and others

- Judge the information provided in a fair and open minded way that avoids pre-determining outcomes
- Operate within the terms of reference for the Pension Committee and the elected member code of conduct

Local Pension Board Under the constitution the Local Pension Board is required;

To provide assistance to East Sussex County Council as the LGPS Scheme Manager in securing compliance with:

- LGPS Regulations and any other legislation relating to the governance and administration of the LGPS
- requirements imposed in relation to the LGPS by The Pensions Regulator
- the agreed investment strategy
- any other matters as the LGPS regulations may specify.

The role of the Local Pension Board is to provide assistance to the administering authority to ensure that the fund is well run and complies with its legal responsibilities and best practice. The Local Pension Board does not replace the administering authority or make decisions which are the responsibility of the administering authority.

Local Pension Board members must be conversant with:

- the relevant LGPS Regulations and any other regulations governing the LGPS;
- guidance issued by The Pensions Regulator and other competent authorities, relevant to the LGPS;
- any policy or strategy documents as regards the management and administration of the Fund; and
- the law relating to pensions and such other matters as may be prescribed.

8. Fund account, net assets statement and notes

a. East Sussex Pension Fund Account

Restated 2018/19 £000	£000		Notes	2019/20 £000	£000
		Dealings with members, employers and others directly involved in the fund			
		Contributions	7		
(92,084)		From Employers		(99,018)	
(29,613)		From Members		(31,403)	
	(121,697)				(130,421)
	(6,113)	Transfers in from other pension funds	8		(8,298)
	(127,810)				**(138,719)**
	122,183	Benefits	9		125,670
	3,409	Payments to and on account of leavers	10		8,597
	125,592				**134,267**
	(2,218)	**Net (additions)/withdrawals from dealings with members**			**(4,452)**
	14,038	Management expenses	11		17,333
	11,820	**Net (additions)/withdrawals including fund management expenses**			**12,881**
		Returns on investments			
	(26,191)	Investment income	12		(26,546)
	272	Taxes on income	13a		59
	(234,733)	Profit and losses on disposal of investments and changes in the value of investments	14a		166,725
	(260,652)	**Net return on investments**			**140,238**
	(248,832)	**Net (increase)/decrease in net assets available for benefits during the year**			**153,119**
	(3,383,380)	Opening net assets of the scheme			(3,632,212)
	(3,632,212)	**Closing net assets of the scheme**			**(3,479,093)**

b. Net Assets Statement for the year ended 31 March 2020

Restated 31 March 2019 £000		Notes	31 March 2020 £000
3,478,924	Investment assets	14	3,401,666
5,362	Other Investment balances	21	340
(10,232)	Investment liabilities	22	(475)
149,156	Cash deposits	14	63,715
3,623,210	**Total net investments**		**3,465,246**
12,153	Current assets	21	16,622
(3,151)	Current liabilities	22	(2,774)
3,632,212	**Net assets of the fund available to fund benefits at the year end.**		**3,479,094**

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 2020 and of the movements for the year then ended.

Ian Gutsell

Chief Finance Officer (Section 151 Officer)

Business Services Department

XX September 2020

c. Notes to the East Sussex Pension Fund Accounts for the year ended 31 March 2020

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 2019/20 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.

It is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

The Council has delegated its pension functions to the East Sussex Pension Committee. Responsibility for the administration and financial management of the Fund has been delegated to the Chief Finance Officer along with the Head of Pensions. The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with the ongoing compliance of the Fund. The role of the Board is to assist the East Sussex Pension Fund in complying with all the legislative requirements making sure the scheme is being effectively and efficiently governed and managed.

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in illiquid investments such as private equity, infrastructure and private debt. The Committee oversees the management of these investments and meets regularly with the investment managers to monitor their performance against agreed benchmarks.

b) Membership

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

Organisations participating in the East Sussex Pension Fund include:

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

There are 128 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2019	31 March 2020
Number of employers with active members	133	128
Number of employees		
County Council	7,978	7,980
Other employers	15,668	15,855
Total	**23,646**	**23,835**
Number of pensioners		
County Council	9,318	9,500
Other employers	11,085	11,835
Total	**20,403**	**21,335**
Deferred pensioners		
County Council	14,008	13,860
Other employers	16,908	17,762
Total	**30,916**	**31,622**

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 2020. Employee contributions are matched by employers' contributions, which are set, based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. Currently, employer contribution rates range from 0.0% to 49.2% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

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

2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2019/20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector.

Accounting standards issued but not yet adopted - Under the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2020 but not yet adopted by the Code.

There were no amendments for 2019/20 for the accounts of the Pension Fund.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account he actuarial present value of promised retirement benefits The code gives administering authorities the option to disclose this information in the net asset statement, in the notes to the accounts or appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 20.

The Accounts have been prepared on a going concern basis.

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 Pensions team or alternatively are available from - http://www.eastsussex.gov.uk

ACCESS pool – There is no specific accounting policy for the Pool. The ACCESS Pool is not a legal entity in itself but is governed by the Inter Authority Agreement signed by each Administering Authority. The formal decision-making body within the ACCESS Pool is the ACCESS Joint Committee, which has let the management of the asset pool to Link Fund Solutions Ltd, appointed to provide a pooled operator service. There is no direct investment in the third party, only a contractual arrangement to provide services, so no investment balance to carry forward in the net asset statement.

3: Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes, which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body.

Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).

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

c) Investment income

i) Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Movement in the net market value of investments

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) Management expenses

The fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the fund on an accruals basis as follows:

i) **Administrative expenses**

All staff costs of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

ii) **Oversight and governance costs**

All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

iii) **Investment management expenses**

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11A and grossed up to increase the change in value of investments.

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

Where an investment manager's fee has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2019/20, £0.3m of fees is based on such estimates (2018/19: £0.2m).

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 in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

h) Foreign currency transactions

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

i) Derivatives

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

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

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

k) Financial liabilities

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised costs are carried at amortised cost i.e. the amount carried in the net asset statement are the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis.

l) Actuarial present value of promised retirement benefits

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

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

m) Additional voluntary contributions

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

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

n) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

4: Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using International Private Equity and Venture Capital Valuation Guidelines 2015. The value of unquoted private equities at 31 March 2020 was £244.5 million (£206.8 million at 31 March 2019).

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 2020 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. As a result of Coronavirus pandeminc there is a increase in the uncertainty around the mortalty provisions within the Fund, however it is too early to assess this figure at the current time so has not been included in our calculations. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2019 Valuation the actuary advised that: • A 0.2% increase in the discount rate assumption would result in a decrease in the pension liability by approximately £113 million (3%). • A 0.2% increase in benefit increases and CARE revaluation would increase the value of liabilities by approximately £95 million (3%). • A 0.25% change in mortality rates would increase the liability by approximately £22 million (0.7%).
Private equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2015). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £244.5 million. There is a risk that this investment may be under or overstated in the accounts depending on use of estimates applied in the valuation models by the fund managers. The sensitivity of this figure is discussed further in Note 16 and Note 18.
Pooled Property Investments	A 'material valuation uncertainty' as per VPGA 10 of the RICS Red Book-Global Standards in respect of the Pooled Property Investments. These investments are valued at 31 March 2020 at £325.92m. The total value of the fund assets at 31 March 2020 is £3,479.1m, so this investment type represents just over 9.4% of total assets	Advice from the Fund Manager of the Pooled Property Portfolio is that the indicative effect of the Covid-19 pandemic on the income generation of the investments could result in a reduction of c. 20% to the reported income at year end (from 3.2% to 2.8%). Our forecasts also indicate that capital values may fall by up to 10% by year-end compared to those quoted at 31 March 2020

6: Events after the balance sheet date

The spread of Coronavirus pandemic had a significant impact on markets in the period prior to year-end and will continue to impact global growth prospects for 2020 and beyond. A unique and challenging landscape has emerged for Governments and their economies to navigate which may impact on the assets and / or liabilities of the Pension Fund.

There have been no events since 31 March 2020, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7: Contributions Receivable

	Restated 2018/19 £000	2019/20 £000
By category		
Employee's contributions	29,613	31,403
Employer's contributions		
Normal contributions	74,626	80,302
Deficit recovery contributions	16,437	17,662
Augmentation contributions	1,021	1,054
Total	**121,697**	**130,421**
By authority		
Scheduled bodies	77,498	83,613
Admitted bodies	3,576	4,303
Administrative Authority	40,623	42,505
Total	**121,697**	**130,421**

8: Transfers in from other pension funds

	2018/19 £000	2019/20 £000
Group transfers	-	-
Individual transfers	6,113	8,298
Total	**6,113**	**8,298**

9: Benefits payable

	Restated 2018/19 £000	2019/20 £000
By category		
Pensions	99,457	104,544
Commutation and lump sum retirement benefits	19,722	18,555
Lump sum death benefits	3,004	2,571
Total	**122,183**	**125,670**
By authority		
Scheduled bodies	69,441	73,625
Admitted bodies	3,778	3,690
Administrative Authority	48,964	48,355
Total	**122,183**	**125,670**

10: Payments to and on account of leavers

	2018/19 £000	2019/20 £000
Refunds to members leaving service	412	389
Group transfers	-	-
Individual transfers	2,997	8,208
Total	**3,409**	**8,597**

11: Management expenses

	2018/19	2019/20
	£000	£000
Administrative costs	916	1,106
Investment management expenses	12,382	15,019
Oversight and governance costs	740	1,208
Total	**14,038**	**17,333**

11a: Investment management expenses

	2018/19	2019/20
	£000	£000
Management fees	11,750	14,746
Custody fees	124	54
Transaction costs*	508	219
Total	**12,382**	**15,019**

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

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are grossed up.

During the year, the Pension Fund incurred management fees which were deducted at source for 2019/20 of £3.7m (£2.3m in 2018/19) on its private equity investments, fees of £1.3m (£1.3m in 2018/19) on its infrastructure investments, fees of £2.6m (£0.0m in 2018/19) on investments in the ACCESS Pool and fees of £3.0m (£2.7m in 2018/19) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

12: Investment income

	2018/19	2019/20
	£000	£000
Income from bonds	1,055	154
Income from equities	8,526	1,507
Private equity income	1,547	1,531
Pooled property investments	11,921	11,972
Pooled investments - unit trusts and other managed funds	2,266	10,705
Interest on cash deposits	856	673
Class Actions	20	4
Total	**26,191**	**26,546**

13: Other fund account disclosures

13a: Taxes on income

	2018/19	2019/20
	£000	£000
Withholding tax – equities	(177)	(59)
Withholding tax – pooled	(95)	-
Total	**(272)**	**(59)**

13b: External audit costs

	2018/19	2019/20
	£000	£000
Payable in respect of external audit for 2018/19	20	3*
Payable in respect of external audit for 2019/20	-	27
Payable in respect of other services	-	5
Total	**20**	**35**

*The final fee for 2018/19 was agreed after the audit opinion was received for 2018/19.

	2018/19 £000	2019/20 £000
Investment assets		
Bonds	499,750	212,331
Equities	153,695	-
Pooled Investments	2,232,435	2,579,793
Pooled property investments	339,442	318,129
Private equity/infrastructure	245,135	291,413
Commodities	6,125	-
Multi Asset	2,342	-
Derivative contracts:		
Forward Currency Contracts	425	-
	3,479,349	**3,401,666**
Cash deposits with Custodian	149,156	63,715
Other Investment balances (Note 21)	4,937	340
Total investment assets	**3,633,442**	**3,465,721**
Investment Liabilities (Note 22)	(9,392)	(475)
Derivative contracts:		
Forward Currency Contracts	(840)	-
Total Investment Liabilities	**(10,232)**	**(475)**
Net investment assets	**3,623,210**	**3,465,246**

14a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2019 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market value 31 March 2020 £000
Bonds	**499,750**	68,143	(379,592)	24,030	**212,331**
Equities	**153,695**	81,336	(244,125)	9,094	**-**
Pooled investments	**2,232,435**	1,055,608	(493,067)	(215,183)	**2,579,793**
Pooled property investments	**339,442**	10,551	(15,342)	(16,522)	**318,129**
Private equity/infrastructure	**245,135**	57,631	(41,228)	29,875	**291,413**
Commodities	**6,125**	992	(7,925)	808	**-**
Multi Asset	**2,342**	6,030	(7,534)	(838)	**-**
	3,478,924	**1,280,291**	**(1,188,813)**	**(168,736)**	**3,401,666**
Derivative contracts					
■ Forward currency contracts	**(415)**	12,995	(12,095)	(485)	**-**
	3,478,509	**1,293,286**	**(1,200,908)**	**(168,221)**	**3,401,666**
Other investment balances:					
■ Cash deposits	**149,156**			2,496	**63,715**
■ Other Investment Balances	**4,937**				**340**
■ Investment Liabilities	**(9,392)**				**(475)**
Net investment assets	**3,623,210**			**(166,725)**	**3,465,246**

	Market value 1 April 2018	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 2019
	£000	**£000**	**£000**	**£000**	**£000**
Bonds	**497,920**	226,590	(173,971)	(50,789)	**499,750**
Equities	**363,116**	132,273	(370,742)	29,048	**153,695**
Pooled investments	**1,828,109**	1,456,879	(1,262,282)	209,729	**2,232,435**
Pooled property investments	**344,411**	21,721	(33,705)	7,015	**339,442**
Private equity/infrastructure	**200,960**	43,126	(44,550)	45,599	**245,135**
Commodities	**4,487**	10,836	(9,211)	13	**6,125**
Multi Asset	**3,921**	7,763	-	(9,342)	**2,342**
	3,242,924	**1,899,188**	**(1,894,461)**	**231,273**	**3,478,924**
Derivative contracts					
■ Forward currency contracts	**480**	6,452	(8,160)	813	**(415)**
	3,243,404	**1,905,640**	**(1,902,621)**	**232,086**	**3,478,509**
Other investment balances:					
■ Cash deposits	**133,789**			2,647	**149,156**
■ Other Investment Balances	**1,777**				**4,937**
■ Investment Liabilities	**(3,198)**				**(9,392)**
Net investment assets	**3,375,772**			**234,733**	**3,623,210**

14b: Analysis of investments

	2018/19 £000	2019/20 £000
Bonds		
UK		
Corporate quoted	137,675	-
Public sector quoted	295,107	212,331
Overseas		
Public sector quoted	66,968	-
	499,750	**212,331**
Equities		
UK		
Quoted	23,830	-
Unquoted	-	-
Overseas		
Quoted	129,865	-
	153,695	**-**
Pooled funds - additional analysis		
UK		
Unit trusts	288,663	396,834
Overseas		
Unit trusts	1,943,772	2,182,959
	2,232,435	**2,579,793**
Pooled property investments	339,442	318,129
Private equity/infrastructure	245,135	291,413
Commodities	6,125	-
Multi Asset	2,342	-
Derivatives	425	-
	593,469	**609,542**
Cash deposits	149,156	63,715
Other investment balances (Note 21)	4,937	340
	154,093	**64,055**
Total investment assets	**3,633,442**	**3,465,721**
Investment Liabilities (Note 22)	(9,392)	(475)
Derivatives	(840)	-
Total Investment Liabilities	**(10,232)**	**(475)**
Net investment assets	**3,623,210**	**3,465,246**

14c: Investments analysed by fund manager

	Market value 31 March 2019		Market value 31 March 2020	
	£000	**%**	**£000**	**%**
Investments in the ACCESS Pool				
ACCESS - Global Equity (Longview)	274,988	7.6%	238,840	6.9%
ACCESS - Absolute Return (Ruffer)	-	-	418,469	12.1%
ACCESS - Real Return (Newton)	-	-	414,784	12.0%
ACCESS - Corporate Debt (M&G)	-	-	144,259	4.2%
	274,988	**7.6%**	**1,216,352**	**35.2%**
Investments held directly by the Fund				
Prudential M&G	137,680	3.8%	-	-
East Sussex Pension Fund Cash	73,289	2.0%	24,736	0.7%
UBS Infrastructure Fund	19,522	0.5%	16,720	0.5%
Prudential Infracapital	1,969	0.1%	20,676	0.6%
Pantheon	14,770	0.4%	30,109	0.9%
M&G UK Financing Fund	738	0.0%	-	-
Schroders Property*	360,424	9.9%	343,707	9.9%
Harbourvest Strategies	98,066	2.7%	106,192	3.1%
Adams St Partners	115,216	3.2%	122,874	3.5%
M&G Absolute Return Bonds	251,283	6.9%	239,101	6.9%
Ruffer LLP**	402,202	11.1%	-	-
Newton Investment Management	422,002	11.7%	-	-
Longview Partners	349	0.0%	-	-
UBS Passive Funds	1,450,712	40.1%	1,305,987	37.6%
M&G Real Estate Debt VI	-	-	38,793	1.1%
	3,348,222	**92.4%**	**2,248,894**	**64.8%**
	3,623,210		**3,465,246**	

* Schroders mandate is to oversee the East Sussex Pension Fund's investments in a range of underlying property funds this is not a single investment into a Schroders property fund.
** Ruffer LLP managed a segregated mandate for East Sussex Pension Fund, the Fund was invested directly into the underlying assets which Ruffer were responsible for investing.

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

Security	Market Value 31 March 2019	% of total fund	Market value 31 March 2020	% of total fund
	£000		£000	
ACCESS - Absolute Return (Ruffer)	-	0.0%	418,469	12.0%
ACCESS - Real Return (Newton)	-	0.0%	414,784	11.9%
UBS Fundamental Index	429,415	11.9%	363,155	10.4%
M&G Absolute Return Bonds	251,283	6.9%	239,101	6.9%
ACCESS - Global Equity (Longview)	274,988	7.6%	238,840	6.9%
UBS UK Equity	271,296	7.5%	221,992	6.4%
UBS Over 5 year Index Gilt Linked	207,494	5.7%	212,331	6.1%
Newton Real Return (Pooled Fund)	422,001	11.6%	-	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
	-	-	-	-	-	-
					-	-
Net forward currency contracts at 31 March 2020						**-**
Prior year comparative						
Open forward currency contracts at 31 March 2019					425	(840)
Net forward currency contracts at 31 March 2019						**(415)**

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not Required
Pooled investments – Equity and bonds Funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	The valuation is undertaken by the investment manager or responsible entity and advised as a unit or security price. Observable inputs are used. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.	Not Required
Pooled investments – Property Funds	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published Investments in unlisted property funds are valued at the net asset value (NAV). The underlying real estate assets values have been derived by independent valuers on a fair value basis and generally in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards.	The significant inputs and assumptions are developed by the respective fund manager.	Valuations could be affected by the frequency of the independent valuations between the funds.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Unquoted equity – Private Equity / Infrastructure	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	Observable inputs are subject to judgment by the respective manager, but are applied in accordance with the appropriate industry guidelines. Valuations are audited as at 31 December, and the valuations as at 31 March reflect cash flow transactions since 31 December.	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 2020.

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2020 £000	Value on increase £000	Value on decrease £000
Pooled Investment (a)	7%	30,583	32,759	28,407
Pooled property investments (b)	14%	318,129	362,031	274,227
Private Equity/Infrastructure (c)	27%	307,447	390,458	224,436
Total		**625,576**	**752,489**	**498,663**

(a) All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate assets, the range in the potential movement of 7% is caused by how this value is measured.

(b) All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate assets, the range in the potential movement of 14% is caused by how this value is measured.

(c) All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 27% is caused by how this profitability is measured.

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.

Within the East Sussex Pension Fund's investments those that meet this criterion are the Funds illiquid investments in Pooled property Funds, Private Equity/Infrastructure and some equity investments.

The pricing policies for these investments are set by the Fund's Investment Managers that has invested into these assets.

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 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss	222,079	2,539,802	640,125	3,402,006
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(475)	-	(475)
Net investment assets	**222,079**	**2,539,327**	**640,125**	**3,401,531**

	Quoted market price	Using observable inputs	With Significant unobservable inputs	
Values at 31 March 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial assets at fair value through profit and loss	554,112	2,311,927	618,247	3,484,286
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(10,232)	-	(10,232)
Net investment assets	**554,112**	**2,301,695**	**618,247**	**3,474,054**

16b: Transfers between levels 1 and 2

During 2019/20 the fund has not transferred any financial assets between levels 1 and 2.

16c: Reconciliation of fair value measurements within level 3

	Market value 1 April 2019	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 2020**
Period 2019/20	**£000**	£000	£000	£000	£000	£000	£000	**£000**
Equities	**33,670**	-	-	4,344	(31,669)	8,716	(15,061)	**-**
Pooled investments	**-**	-	-	44,179	(14,239)	643	-	**30,583**
Pooled property investments	**339,442**	-	-	10,551	(15,342)	(22,256)	5,734	**318,129**
Private Equity/Infrastructure	**245,135**	-	-	57,631	(35,970)	1,863	22,754	**291.413**
Total	**618,247**	**-**	**-**	**116,705**	**(97,220)**	**(11,034)***	**13,427***	**640,125**

*Reconciliation to Change in market value during the year in Note 14a

Level	Unrealised gains/(losses)	Realised gains/(losses)	**Change in market value during the year**
1 and 2	(269,121)	100,003	**(169,118)**
3	(11,034)	13,427	**2,393**
Total	**(280,155)**	**(113,430)**	**(166,725)**

Period 2018/19	Market value 1 April 2018 £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year £000	Sales during the year £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	Market value 31 March 2019 £000
Equities	**19,801**	-	-	20,073	-	(6,204)	-	**33,670**
Pooled property investments	**344,411**	-	-	8,621	(20,605)	(904)	7,919	**339,442**
Private Equity/Infrastructure	**201,918**	-	-	43,126	(40,978)	17,473	23,596	**245,135**
Total	**566,130**	**-**	**-**	**71,820**	**(61,583)**	**10,365***	**31,515***	**618,247**

*Reconciliation to Change in market value during the year in Note 14a

Level	Unrealised gains/(losses)	Realised gains/(losses)	Change in market value during the year
1 and 2	58,452	134,401	**192,853**
3	10,365	31,515	**41,880**
Total	**68,817**	**165,916**	**234,733**

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.

Restated 31 March 2019				31 March 2020		
Fair value through profit and loss	**Assets at amortised cost**	**Liabilities at amortised cost**		**Fair value through profit and loss**	**Assets at amortised cost**	**Liabilities at amortised cost**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial Assets			
499,750	-	-	Bonds	212,331	-	-
153,695	-	-	Equities	-	-	-
2,232,435	-	-	Pooled investments	2,579,793	-	-
339,442	-	-	Pooled property investments	318,129	-	-
245,135	-	-	Private equity/infrastructure	291,413	-	-
6,125	-	-	Commodities	-	-	-
2,342	-	-	Multi Asset	-	-	-
425	-	-	Derivative contracts	-	-	-
-	149,156	-	Cash	-	63,715	-
-	499	-	Cash held by ESCC*	-	1,746	-
4,937	-	-	Other investment balances	340	-	-
-	11,654	-	Debtors *	-	14,876	-
3,484,286	**161,309**	**-**	**Total Financial Assets**	**3,402,006**	**80,337**	**-**
			Financial liabilities			
(840)	-	-	Derivative contracts	-	-	-
(9,392)	-	-	Other investment balances	(475)	-	-
-	-	-	Cash held by ESCC	-	-	-
-	-	(3,151)	Creditors	-	-	(2,774)
(10,232)	**-**	**(3,151)**	**Total Financial Liabilities**	**(475)**	**-**	**(2,774)**
3,474,054	**161,309**	**(3,151)**	**Total Financial Instruments**	**3,401,531**	**80,337**	**(2,774)**

*Reconciliation to Current Assets Note 21

	2018/19 £000	2019/20 £000
Cash held by ESCC	499	1,746
Debtors	11,654	15,481
Current Assets	**12,153**	**16,622**

17b: Net gains and losses on financial instruments

	31 March 2019 £000	31 March 2020 £000
Financial assets		
Fair value through profit and loss	225,623	(167,355)
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	2,995	665
Financial liabilities		
Fair value through profit and loss	6,115	(35)
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	-	-
Total	**234,733**	**(150,691)**

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 2019/20 reporting period:

Asset Type	Potential Market Movements (+/-)
Index Linked	9%
Other Bonds	7%
UK equities	28%
Global equities	28%
Absolute Return	14%
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 2020 £000	Value on increase £000	Value on decrease £000
Index Linked	212,331	231,441	193,221
Other Bonds	413,943	443,397	384,489
UK equities	221,992	284,150	159,834
Global equities	1,110,605	1,421,574	799,636
Absolute Return	833,253	949,908	716,598
Pooled property investments	318,129	362,031	274,227
Private Equity	228,472	292,444	164,500
Infrastructure funds	62,941	75,529	50,353
Net derivative assets	-	-	-
Total assets available to pay benefits	**3,401,666**	**4,060,474**	**2,742,858**

Asset Type	Values at 31 March 2019 £000	Value on increase £000	Value on decrease £000
Index Linked	207,489	226,163	188,815
Other Bonds	388,958	412,279	365,637
UK equities	272,028	318,273	225,783
Global equities	1,247,034	1,459,030	1,035,038
Absolute Return	779,575	880,920	678,230
Pooled property investments	339,442	386,964	291,920
Private Equity	211,928	271,268	152,588
Infrastructure funds	32,469	38,963	25,975
Net derivative assets	(414)	(414)	(414)
Total assets available to pay benefits	**3,478,509**	**3,993,446**	**2,963,572**

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 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

The fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis point (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment adviser has advised that this is consistent with an annual one standard deviation move in interest rates, where interest rates are determined by the prices of fixed interest UK government bonds.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset type	**Carrying amount as at 31 March 2020**	**Impact of 1% increase**	**Impact of 1% decrease**
	£000	**£000**	**£000**
Cash and cash equivalents	63,715	63,715	63,715
Cash balances	1,746	1,746	1,746
Fixed interest securities	413,943	418,082	409,804
Index linked securities	212,331	212,331	212,331
Total change in assets available	**691,735**	**695,874**	**687,596**

Asset type	**Carrying amount as at 31 March 2019**	**Impact of 1% increase**	**Impact of 1% decrease**
	£000	**£000**	**£000**
Cash and cash equivalents	149,156	149,156	149,156
Cash balances	499	499	499
Fixed interest securities	404,890	408,939	400,841
Index linked securities	346,143	346,143	346,143
Total change in assets available	**900,688**	**904,737**	**896,639**

Income Source	**Interest receivable 2019/20**	**Value on 1% increase**	**Value on 1% decrease**
	£000	**£000**	**£000**
Cash deposits/cash and cash equivalents	673	1,328	18
Fixed interest securities	6,665	6,665	6,665
Index linked securities	169	2,292	(1,954)
Total change in assets available	**7,507**	**10,285**	**4,729**

Income Source	**Interest receivable 2018/19**	**Value on 1% increase**	**Value on 1% decrease**
	£000	**£000**	**£000**
Cash deposits/cash and cash equivalents	856	2,353	(641)
Fixed interest securities	2,605	2,605	2,605
Index linked securities	700	4,161	(2,761)
Total change in assets available	**4,161**	**9,119**	**(797)**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances.

Currency risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on any cash balances and investment assets not denominated in UK sterling. Following analysis of historical data in consultation with the fund investment advisors, the fund considers the likely volatility associated with foreign exchange rate movements not more than 13%. A 13% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Values at 31 March 2020 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Overseas unit trusts	2,182,959	218,296	2,401,255	1,964,663
Total change in assets available	**2,182,959**	**218,296**	**2,401,255**	**1,964,663**

Currency exposure - asset type	Values at 31 March 2019 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Overseas index linked	51,036	6,635	57,671	44,401
Overseas fixed interest	15,932	2,071	18,003	13,861
Overseas quoted securities	129,865	16,882	146,747	112,983
Overseas unit trusts	1,675,160	217,771	1,892,931	1,457,389
Total change in assets available	**1,871,993**	**243,359**	**2,115,352**	**1,628,634**

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 2019 £000	Asset value as at 31 March 2020 £000
UK Treasury bills	86	86
Bank current accounts		
NT custody cash accounts	149,070	63,629
Total overseas assets	**149,156**	**63,715**

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 2020 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 2019. 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 2019 valuation shows the fund has a past service deficit, being 107% funded in respect of past liabilities. This compares with 92% funded at the 2016 valuation.

East Sussex Pension Fund ("the Fund")

Actuarial Statement for 2019/20

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 March 2020. 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 have a sufficiently high likelihood of achieving the funding target over 20 years. 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 at least a 71% likelihood that the Fund will achieve the funding target 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 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £3,633 million, were sufficient to meet 107% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2019 valuation was £247 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 2020 to 31 March 2023 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 2019 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 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.0%
Salary increase assumption	2.3%
Benefit increase assumption (CPI)	2.3%

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 2018 model, an allowance for smoothing of recent mortality experience and a 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	22.6 years	23.9 years
Future Pensioners*	22.5 years	25.3 years

*Figures assume members aged 45 as at the 2019 valuation.

Copies of the 2019 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 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. 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 2019/20 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 2019	31 March 2020
Active members (£m)	2,277	1,634
Deferred pensions (£m)	1,039	1,023
Pensioners (£m)	1,552	1,721
Total	**4,868**	**4,378**

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. 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 2020 and 31 March 2019. I estimate that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £449m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £125m.

Financial assumptions

Year ended	31 Mar 2019 % p.a.	31 Mar 2020 % p.a.
Pension Increase Rate	2.5%	1.9%
Salary Increase rate	2.9%	1.9%
Discount Rate	2.4%	2.3%

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a 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	22.6 years	23.9 years
Future Pensioners*	22.5 years	25.3 years

*Future pensioners are assumed to be aged 45 at the latest formal valuation as at 31 March 2019.

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 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% increase in pensions increase rate	9%	384
0.5% increase in salary increase rate	1%	33
0.5% decrease in discount rate	10%	420

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 2019 £000	31 March 2020 £000
Other Investment Balances		
Sales inc Currency	3,313	-
Investment Income Due	1,704	193
Recoverable Taxes	345	147
Total	**5,362**	**340**

	31 March 2019 £000	31 March 2020 £000
Current Assets		
Contributions receivable from employers and employees	10,167	13,436
Sundry Debtors	1,487	1,440
Cash	499	1,746
Total	**12,153**	**16,622**

22: Current liabilities

	31 March 2019 £000	31 March 2020 £000
Investment Liabilities		
Purchases including currency	(8,893)	-
Managers Fees	(1,339)	(475)
Total	**(10,232)**	**(475)**

	Restated 31 March 2019 £000	31 March 2020 £000
Current Liabilities		
Pension Payments (inc Lump Sums)	(574)	(264)
Cash	-	-
Professional Fees	(55)	(434)
Administration Recharge	(1,046)	(1,194)
Sundry Creditors	(1,476)	(882)
Total	**(3,151)**	**(2,774)**

23: Additional voluntary contributions

	Market value 31 March 2019 £000	Market value 31 March 2020 £000
Prudential	16,821	21,221

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2019/20 some members of the pension scheme paid voluntary contributions and transfers in of £2.277m (£2.580m 2018/19) to Prudential to buy extra pension benefits when they retire. £3.050m was disinvested from the AVC provider in 2019/20 (£2.303m 2018/19). 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.

	2018/19 £000	2019/20 £000
East Sussex County Council	4,905	4,899
Brighton & Hove City Council	2,349	2,291
Eastbourne Borough Council	345	304
Magistrates	179	209
Wealden District Council	212	176
Hastings Borough Council	168	174
Rother District Council	104	115
Lewes District Council	78	73
South East Water	61	35
Brighton University	28	26
Mid-Sussex District Council	-	19
Westminster (used to be LPFA)	17	18
East Sussex Fire Authority	16	17
Capita Hartshead	16	16
London Borough of Camden	7	7
London Borough of Southwark	6	6
The Eastbourne Academy	5	6
Eastbourne Homes	3	6
West Midlands Pension Fund	5	5
West Sussex County Council*	1,060	4
Torfaen Borough Council	4	4
Sussex University	3	3
Varndean College	2	2
London Borough of Ealing	2	2
Newhaven TC	1	1
East Sussex College Group	1	1
Plumpton College	-	1
Total	**9,577**	**8,420**

***** 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 were transferred to their administrators March 2019.

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 £1.2m to the fund in 2019/20 (£1.0m in 2018/19). The Council`s contribution to the fund was £42.5m in 2019/20 (£45.9m in 2018/19). All amounts due to the fund were paid in the year. At 31 March 2020 the Pension Fund bank account was in debit by £1.7m. The average throughout the year was £6.0m (£4.3 in 2018/19).

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 2019	31 March 2020
	£000	£000
Short-term benefits	17	18
Post-employment benefits	3	3
Total	**20**	**21**

26: Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2020 totalled £322.0m (31 March 2019: £200.7m).

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 2020, the unfunded commitment was £158.4m for private equity, £133.5m for infrastructure and £30.1 for private debt. The commitments are paid over the investment timeframe of the underlying partnerships. As these partnerships mature they are due to distribute capital back to investors. Commitments are made in US Dollars or Euros and the figures presented here are based on relevant Sterling exchange rates as at 31 March 2020.

Exit Payments

There were 12 employers whose contracts were due to end by the 31 March 2020 where an exit credit may need to be paid out. The Fund needs to obtain final information from the employers and then will need to commission the final cessation report from the actuaries to ascertain if an exit payment is due for these employers.

GMP Reconciliation Project

The Guaranteed Minimum Pension (GMP) Reconciliation project was split into number stages for Local Government Pension Schemes (LGPS). The Fund has nearly completed Stage 2, which reviews data inconsistencies, raised issues with HMRC and agrees outcomes, with 100% of the matching work completed. GMP elements of LGPS pension where State Pension Age is prior to 6 April 2016 has not increased in respect of the period 6 April 1978 to 5 April 1988. While the Post 1988 GMP element in respect of the period 6 April 1988 to 5 April 1997 might be increased up to a maximum of 3%. The Government increase the State Pension for the member fully on the Pre 1988 GMP element and for Post 1988 GMP element has only increased if CPI is above 3%.

The effect of LGPS pensions not showing the correct amount of GMP for its members would mean that their pension might be increased incorrectly. This can result in underpayments and overpayments, at a member specific level. Stage 3 of the GMP Reconciliation Project, i.e., Rectification will amend LGPS pensions in line with the reconciled Stage 2 GMP information. This stage will also involve a significant member communication exercise to explain the changes taking place.

We are not in a position to be able to finalise the GMP reconciliation at this point we received with the final Scheme Reconciliation Service data cut, showing the final position of membership and liabilities held on their records from HMRC in July 2020. The contracted provider Mercers are currently performing a final reconciliation on this data with a report due to go to the November Pension Committee meeting for consideration. As such, we are unable to quantify the under/overpayment liability values as at 31 March 2020.

27: Contingent assets

There are 9 admitted body employers in the Fund that hold insurance bonds to guard against the possibility of them being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. In addition to these bonds, pension's obligations in respect of 12 other admitted bodies are covered by:

- 8 guarantees by local authorities participating in the Fund;
- 3 Parent company guarantee;
- 1 deposit held by East Sussex County Council

At 31 March 2020, the Fund has invested £367.4 million in private equity funds managed by Adams Street and HarbourVest. The Fund has also invested £29.9 million in the M&G real estate debt fund VI and £71.4 million in the infrastructure funds managed by UBS, Pantheon and Infracapital.

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 2019/20, the fund has not recognised any impairment losses.

29: East Sussex Pension Fund – Active Participating Employers

Employer Name	2019/20		2020/21		2021/22	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	17.1	5,448	20.8	-	20.3	-
East Sussex County Council	17.1	7,254	17.6	6,141	17.6	5,568
East Sussex Fire and Rescue Service	17.0	247	17.9	164	17.9	137
Eastbourne Borough Council	16.9	654	19.9	-	19.4	-
Hastings Borough Council	17.3	594	17.6	538	17.6	508
Lewes District Council	18.0	551	24.1	-	23.6	-
Rother District Council	17.3	596	26.1	-	25.6	-
University of Brighton	16.75	741	18.2	-	17.7	-
Wealden District Council	17.2	655	17.6	576	17.6	538
Other Scheduled Bodies						
Arlington Parish Council	22.6	-	22.1	-	21.6	-
Battle Town Council	17.4	6	22.1	-	21.6	-
Berwick Parish Council	22.6	-	22.1	-	21.6	-
Buxted Parish Council	22.6	-	22.1	-	21.6	-
Camber Parish council	22.6	-	22.1	-	21.6	-
Chailey Parish Council	22.6	-	22.1	-	21.6	-
Chiddingly Parish Council	22.6	-	22.1	-	21.6	-
Conservators of Ashdown Forest	17.4	17	22.1	-	21.6	-
Crowborough Town Council	17.4	14	22.1	-	21.6	-
Danehill Parish Council	22.6	-	22.1	-	21.6	-
Ditchling Parish Council	22.6	-	22.1	-	21.6	-
Ewhurst Parish Council	22.6	-	22.1	-	21.6	-
Fletching Parish Council	22.6	-	22.1	-	21.6	-
Forest Row Parish Council	17.4	4	22.1	-	21.6	-
Frant Parish Council	22.6	-	22.1	-	21.6	-
Hadlow Down Parish Council	22.6	-	22.1	-	21.6	-
Hailsham Town Council	17.4	17	22.1	-	21.6	-
Hartfield Parish Council	22.6	-	22.1	-	21.6	-
Heathfield & Waldron Parish Council	17.4	5	22.1	-	21.6	-
Herstmonceux Parish Council	22.6	-	22.1	-	21.6	-
Hurst Green Parish Council	22.6	-	22.1	-	21.6	-
Icklesham Parish Council	22.6	-	22.1	-	21.6	-
Isfield Parish Council	22.6	-	22.1	-	21.6	-
Lewes Town Council	17.4	19	22.1	-	21.6	-
Maresfield Parish Council	17.4	1	22.1	-	21.6	-
Newhaven Town Council	17.4	6	22.1	-	21.6	-
Newick Parish Council	22.6	-	22.1	-	21.6	-
Peacehaven Town Council	17.4	10	22.1	-	21.6	-
Pett Parish Council	22.6	-	22.1	-	21.6	-
Plumpton Parish Council	22.6	-	22.1	-	21.6	-
Ringmer Parish Council	22.6	-	22.1	-	21.6	-
Rye Town Council	17.4	2	22.1	-	21.6	-
Salehurst & Robertsbridge Parish Council	22.6	-	22.1	-	21.6	-
Seaford Town Council	17.4	8	22.1	-	21.6	-
Sussex Inshore Fisheries & Conservation Authority	22.6	-	22.1	-	21.6	-
Telscombe Town Council	17.4	5	22.1	-	21.6	-
Uckfield Town Council	17.4	17	22.1	-	21.6	-
Wartling Parish Council	22.6	-	22.1	-	21.6	-

Employer Name	2019/20		2020/21		2021/22	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Westham Parish Council	17.4	2	22.1	-	21.6	-
Willingdon and Jevington Parish Council	17.4	2	22.1	-	21.6	-
Wivelsfield Parish Council	17.4	2	22.1	-	21.6	-
Academy Schools						
Annecy Catholic Primary Academy	15.3	-	15.5	-	15.0	-
Aquinas Trust	21.5	-	21.0	-	20.5	-
ARK Schools Hastings	21.1	-	20.6	-	20.1	-
Aurora Academies Trust	20.9	-	20.4	-	19.9	-
Beacon Academy	23.5	-	23.0	-	22.5	-
Bexhill Academy	23.4	-	22.9	-	22.4	-
Bilingual Primary School	16.1	-	15.6	-	15.1	-
Breakwater Academy	17.5	-	17.0	-	16.5	-
Burfield Academy (Hailsham Primary)	20.5	-	20.0	-	19.5	-
Cavendish Academy	21.0	-	20.5	-	20.0	-
Diocese of Chichester Academy Trust	24.9	-	24.4	-	23.9	-
Eastbourne Academy	21.7	-	21.2	-	20.7	-
Falmer (Brighton Aldridge Community Academy)	20.5	-	20.0	-	19.5	-
Gildredge House Free School	20.1	-	19.6	-	19.1	-
Glyne Gap Academy	21.9	-	21.4	-	20.9	-
Hailsham Academy	20.5	-	20.0	-	19.5	-
Hawkes Farm Academy	16.9	-	16.4	-	15.9	-
High Cliff Academy	20.5	-	20.0	-	19.5	-
Jarvis Brook Academy	15.0	-	14.5	-	14.0	-
King's Church of England Free School	16.7	-	16.2	-	15.7	-
Langney Primary Academy	14.7	-	13.4	-	12.9	-
Ore Village Academy	19.0	-	18.5	-	18.0	-
Parkland Infant Academy	15.9	-	14.8	-	14.3	-
Parkland Junior Academy	15.2	-	14.4	-	13.9	-
Pebsham Academy	20.0	-	19.5	-	19.0	-
Phoenix Academy	20.9	-	20.4	-	19.9	-
Portslade Aldridge Community Academy	20.4	-	19.9	-	19.4	-
King's Academy Ringmer	21.3	-	20.8	-	20.3	-
SABDEN Multi Academy Trust	24.1	-	23.6	-	23.1	-
Seaford Academy	21.6	-	21.1	-	20.6	-
Seahaven Academy	22.0	-	21.5	-	21.0	-
Shinewater Primary Academy	15.3	-	14.5	-	14.0	-
Sir Henry Fermor Academy	15.3	-	14.8	-	14.3	-
The South Downs Learning Trust	12.7	-	12.2	-	11.7	-
The Southfield Trust	14.9	-	14.4	-	13.9	-
Torfield & Saxon Mount Academy Trust	23.1	-	22.6	-	21.1	-
University of Brighton Academies Trust	20.5	-	20.0	-	19.5	-
White House Academy	18.0	-	17.5	-	17.0	-
Colleges						
Bexhill College	16.6	38	21.2	-	21.2	-
Brighton, Hove & Sussex Sixth Form College	17.2	38	19.8	-	19.8	-
East Sussex College Group	17.2	171	20.7	-	20.7	-
Plumpton College	16.7	73	18.9	-	18.9	-
Varndean Sixth Form College	17.5	25	19.8	-	19.8	-
Admission Bodies						
BHCC - Wealden Leisure Ltd	21.2	-	33.0	11	33.0	-
Biffa Muncipal Ltd	-	-	28.8	-	28.8	-
Brighton and Hove CAB	28.7	-	0.0	-	0.0	-
Brighton Dome & Festival Limited (Music & Arts Service)	20.7	-	0.0	-	0.0	0.0

Employer Name	2019/20		2020/21		2021/22	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Care Outlook Ltd	35.0	-	0.0	-	0.0	0.0
Care Quality Commission	41.6	231	49.2	92	49.2	92
De La Warr Pavilion Charitable Trust	43.7	207	4.8	-	4.8	-
Eastbourne Homes - SEILL	21.9	-	19.2	-	19.2	-
Eastbourne Leisure Trust	25.8	18	0.0	-	0.0	0.0
East Sussex Energy, Infrastructure & Development Ltd (ESEIDL)	24.5	2	29.2	13	29.2	13
EBC - Towner	11.5	-	31.0	7	31.0	7
ESCC - Care at Home Services	-	-	0.0	-	0.0	0.0
ESCC - NSL Ltd	-	-	3.6	-	3.6	-
Grace Eyre	27.5	-	0.0	-	0.0	0.0
Halcrow Group Ltd	23.6	-	5.4	-	5.4	-
Hardings Catering Ltd	-	-	32.4	1	32.4	-
Just Ask Estates Ltd	31.4	-	32.6	3	32.6	-
Optivo	39.2	1,221	45.8	920	45.8	920
Sussex County Sports Partnership	21.0	-	48.6	97	48.6	97
Sussex Housing & Care	35.9	67	0.0	-	0.0	-
Telent Technology Services Ltd	24.9	-	20.8	-	20.8	-
Wave Leisure - Newhaven Fort	18.0	-	0.0	-	0.0	-
Wave Leisure Trust Ltd	9.0	-	0.0	-	0.0	-
WDC - Wealden Leisure Ltd	27.1	91	15.8	-	15.8	-
Wealden Leisure Ltd - Portslade Sports Centre	12.3	-	0.0	-	0.0	-
White Rock Theatres Hastings Ltd	6.7	-	0.0	-	0.0	-

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	(4.3)	1.6	5.1	6.8
Benchmark	(5.0)	1.2	4.4	5.8
Relative	0.7	0.4	0.7	1.0

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	(4.3)	1.6	5.1	6.8
Local Authority Average	(4.8)	1.9	5.2	6.9
Relative	0.5	(0.3)	(0.1)	(0.1)

The Fund outperformed the (weighted) average local authority fund over the year by 1.3% (0.7% outperformance 2018/19), ranking the East Sussex Fund in the 48nd percentile (23rd 2018/19) in the local authority universe. Over three years the fund performed inline (0.7% underperformance 2018/19) and was placed in the 55th percentile (65th 2018/19). Over five years the fund outperformed by 0.1% (0.2% outperformance in 2018/19) and was placed in the 37th percentile (32nd 2018/19). Over ten years the fund years, the fund underperformed by 0.1% (0.3% underperformance 2018/19) and was placed in the 45th percentile (60th 2018/19).

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.

31: Prior Period Adjustments

Fund Account

The 2018/19 contributions from employers and benefits totals have been restated to £92,084k and £122,183k respectively. The net (additions)/withdrawals from dealings with members, net (additions)/withdrawals including fund management expenses, net (increase)/decrease in net assets available for benefits during the year and the closing net assets of the schemes have all been adjusted by £651k to £2,218, £11,820, £248,832 and £3,632,212 respectively. This is due to the removal of unfunded pension payments from the Fund Account and a liability raised for this in the Net Asset Statement.

2018/19			Restated 2018/19		Change
£000	£000		£000	£000	£000
		Dealings with members, employers and others directly involved in the fund			
		Contributions			
(101,093)		From Employers	(92,084)		9,009
(29,613)		From Members	(29,613)		-
	(130,706)			(121,697)	-
	(6,113)	Transfers in from other pension funds		(6,113)	-
	(136,819)			(127,810)	9,009
	130,541	Benefits		122,183	(8,358)
	3,409	Payments to and on account of leavers		3,409	-
	133,950			125,592	(8,358)
	(2,869)	**Net (additions)/withdrawals from dealings with members**		**(2,218)**	**651**
	14,038	Management expenses		14,038	-
	11,169	**Net (additions)/withdrawals including fund management expenses**		**11,820**	**651**
		Returns on investments			
	(26,191)	Investment income		(26,191)	-
	272	Taxes on income		272	-
	(234,733)	Profit and losses on disposal of investments and changes in the value of investments		(234,733)	-
	(260,652)	**Net return on investments**		**(260,652)**	**-**
	(249,483)	**Net (increase)/decrease in net assets available for benefits during the year**		**(248,832)**	**651**
	(3,383,380)	Opening net assets of the scheme		(3,383,380)	-
	(3,632,863)	**Closing net assets of the scheme**		**(3,632,212)**	**651**

Net Assets Statement

The 31 March 2019 balances for current liabilities and net assets of the fund available to fund benefits at the year end have been restated due to the removal of unfunded pensions from the Fund Account to £3,151k and £3,632,212k respectively a movement of £651k.

31 March 2019 £000		Restated 31 March 2019 £000	Change £000
3,478,924	Investment assets	3,478,924	-
5,362	Other Investment balances	5,362	-
(10,232)	Investment liabilities	(10,232)	-
149,156	Cash deposits	149,156	-
3,623,210	**Total net investments**	**3,623,210**	-
12,153	Current assets	12,153	-
(2,500)	Current liabilities	(3,151)	(651)
3,632,863	**Net assets of the fund available to fund benefits at the year end.**	**3,632,212**	**(651)**

Note 7

The 2018/19 employers normal contributions have been restated to £74,626k with the breakdown by Scheduled bodies, Admitted bodies and Administrative Authority have been restated to £77,498k, £3,578k and £40,623k respectively. Due to the removal of reimbursements for unfunded pension payments from the Fund Account.

	2018/19 £000	Restated 2018/19 £000	Change £000
By category			
Employee's contributions	29,613	29,613	-
Employer's contributions			
Normal contributions	83,635	74,626	9,009
Deficit recovery contributions	16,437	16,437	0
Augmentation contributions	1,021	1,021	0
Total	**130,706**	**121,697**	**9,009**
By authority			
Scheduled bodies	81,178	77,498	3,680
Admitted bodies	3,582	3,576	6
Administrative Authority	45,946	40,623	5,323
Total	**130,706**	**121,697**	**9,009**

Note 9

The 2018/19 pensions and commutation and lump sum retirement benefits have been restated to £99,457k and £19,722K respectively. The breakdown by scheduled bodies, admitted bodies and administrative authority have been restated to £69,441k, £3,778k and £48,964k respectively. Due to the removal of unfunded pension payments from the Fund Account.

	2018/19 £000	Restated 2018/19 £000	Change £000
By category			
Pensions	107,805	99,457	8,348
Commutation and lump sum retirement benefits	19,732	19,722	10
Lump sum death benefits	3,004	3,004	-
Total	**130,541**	**122,183**	**8,358**
By authority			
Scheduled bodies	72,886	69,441	3,445
Admitted bodies	3,808	3,778	30
Administrative Authority	53,847	48,964	4,883
Total	**130,541**	**122,183**	**8,358**

Note 17

The 2018/19 creditors balance has been changed to £3,151k due to the creation of a creditor for unfunded pension payments.

31 March 2019 Fair value through profit and loss £000	31 March 2019 Assets at amortised cost £000	31 March 2019 Liabilities at amortised cost £000		Restated 31 March 2019 Fair value through profit and loss £000	Restated 31 March 2019 Assets at amortised cost £000	Restated 31 March 2019 Liabilities at amortised cost £000	Change £000
			Financial Assets				
499,750	-	-	Bonds	499,750	-	-	-
153,695	-	-	Equities	153,695	-	-	-
2,232,435	-	-	Pooled investments	2,232,435	-	-	-
339,442	-	-	Pooled property investments	339,442	-	-	-
245,135	-	-	Private equity/infrastructure	245,135	-	-	-
6,125	-	-	Commodities	6,125	-	-	-
2,342	-	-	Multi Asset	2,342	-	-	-
425	-	-	Derivative contracts	425	-	-	-
-	149,156	-	Cash	-	149,156	-	-
-	499*	-	Cash held by ESCC*	-	499	-	-
4,937	-	-	Other investment balances	4,937	-	-	-
-	11,654*	-	Debtors *	-	11,654	-	-
3,484,286	**161,309**	**-**	**Total Financial Assets**	**3,484,286**	**161,309**	**-**	-
			Financial liabilities				
(840)	-	-	Derivative contracts	(840)	-	-	-
(9,392)	-	-	Other investment balances	(9,392)	-	-	-
-	-	-	Cash held by ESCC	-	-	-	-
-	-	(2,500)	Creditors	-	-	(3,151)	(651)
(10,232)	**-**	**(2,500)**	**Total Financial Liabilities**	**(10,232)**	**-**	**(3,151)**	**(651)**
3,474,054	**161,309**	**(2,500)**	**Total Financial Instruments**	**3,474,054**	**161,309**	**(3,151)**	**(651)**

Note 22

The 2018/19 sundry creditors balance has been changed to £1,476k due to the creation of a creditor for unfunded pension payments.

	31 March 2019 £000	Restated 31 March 2019 £000	Change £000
Current Liabilities			
Pension Payments (inc Lump Sums)	(574)	(574)	-
Cash	-	-	-
Professional Fees	(55)	(55)	-
Administration Recharge	(1,046)	(1,046)	-
Sundry Creditors	(825)	(1,476)	(651)
Total	**(2,500)**	**(3,151)**	**(651)**

9. Asset pools

Background

ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities:

1. Cambridgeshire
2. Kent
3. Hampshire
4. West Sussex
5. Norfolk
6. Essex
7. Northamptonshire
8. Hertfordshire
9. Suffolk
10. Isle of Wight

Collectively the pool has assets of £44 billion (of which 49% has been pooled) serving 3,534 employers with over 1.1 million members including 288,248 pensioners.

The ACCESS Administering Authorities are committed to working together to optimise benefits and efficiencies on behalf of their individual and collective stakeholders, operating with a clear set of objectives and principles that drives the decision making process.

Objectives

1. Enable participating authorities to execute their fiduciary responsibilities to Local Government Pension Scheme (LGPS) stakeholders, including scheme members and employers, as economically as possible.
2. Provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible.
3. Enable participating authorities to achieve the benefits of pooling investments, preserve the best aspects of what is currently done locally, and create the desired level of local decision-making and control.

Principles

Governance

The ACCESS Pool is not a legal entity in itself but is governed by the Inter Authority Agreement signed by each Administering Authority. The Inter Authority Agreement sets out the terms of reference and constitution of ACCESS.

The formal decision-making body within the ACCESS Pool is the ACCESS Joint Committee. The Joint Committee has been appointed by the 11 Administering Authorities under s102 of the Local Government Act 1972, with delegated authority from the Full Council of each Administering Authority to exercise specific functions in relation to the Pooling of Pension Fund assets.

The Joint Committee is responsible for ongoing contract management and budget management for the Pool and is supported by the Section 151 Officers Group, Officer Working Group and the ACCESS Support Unit.

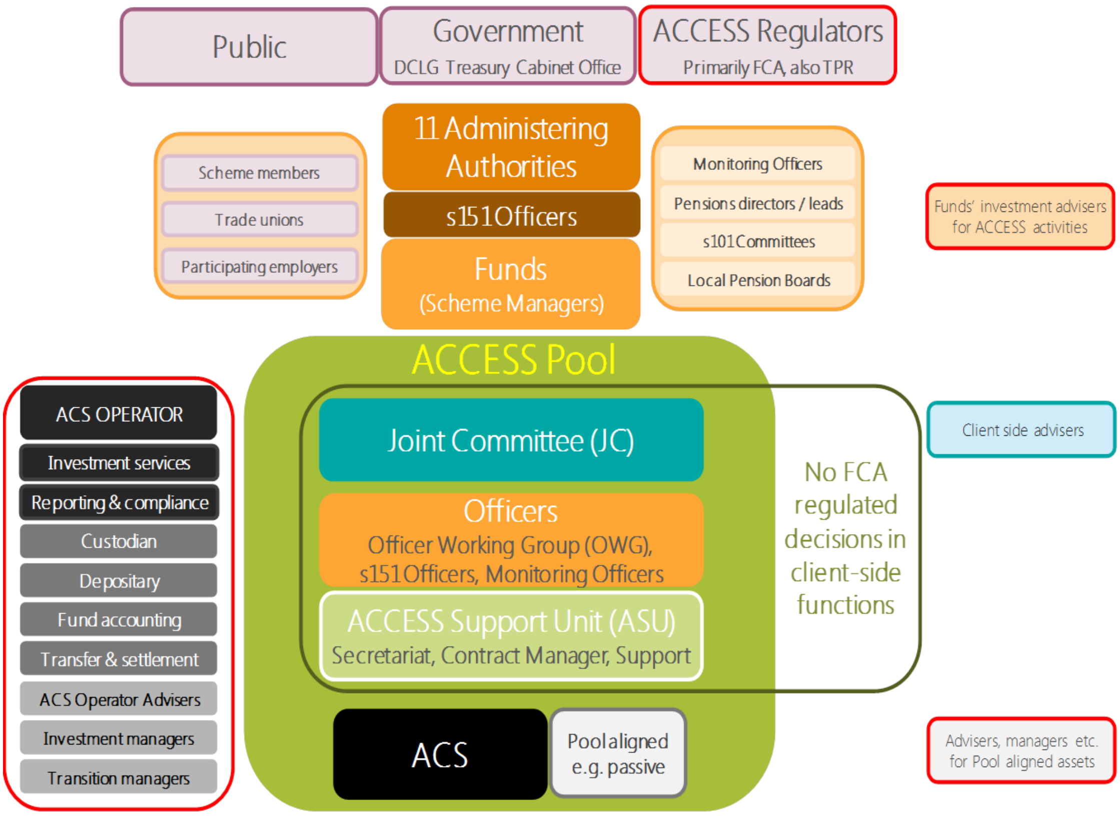
The Section 151 Officers of ACCESS Authorities provide advice to the Joint Committee in response to its decisions ensure appropriate resourcing and support is available to implement the decisions and to run the ACCESS Pool.

The Officer Working Group are officers identified by the Administering Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee.

The ACCESS Support Unit (ASU) provides the day-to-day support for running the ACCESS Pool and has responsibility for programme management, contract management, administration and technical support services. The permanent staff roles within the ASU are employed by the Host Authority (Essex) with additional technical support from Officers within the ACCESS Pension Funds.

Strategic oversight and scrutiny responsibilities remain with the Administrating Authorities as does all decision making power to their own Funds asset allocation and the pooling of assets that each Fund holds within the arrangements developed by the ACCESS Pool.

The diagram below sets out the overarching ACCESS governance arrangements.



The Operator

Link Fund Solutions Ltd were appointed in 2018 to provide a pooled operator service overseeing an Authorised Contractual scheme for the sole use of ACCESS Authorities. Link are responsible for establishing and operating an authorised contractual scheme along with the creation of a range of investment sub-funds for active listed assets and the appointment of the investment managers to those sub-funds. This is designed to enable Administering Authorities to execute their asset allocation strategies

Pool Aligned Assets: UBS

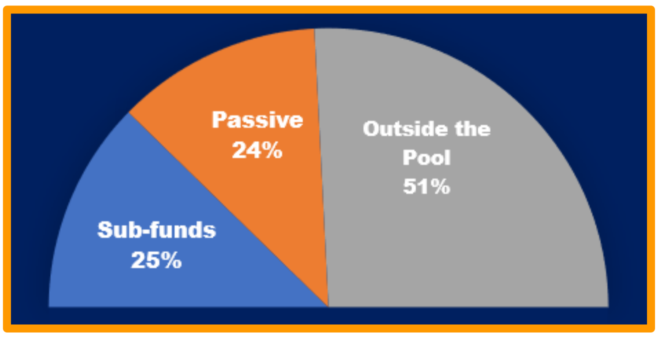
Appointed following a joint procurement in 2017, UBS act as the ACCESS Authorities' investment manager for passive assets.

Progress

ACCESS submitted its pooling proposal to Government in July 2016 with detailed plans for establishing the pool and moving assets into the pool and regularly submitted progress reports to Government. These are all published on the pool's website (www.accesspool.org).

Included in the proposal is an indicative timeline of when assets will be pooled and ACCESS has made excellent progress against the first milestone of having £27.2 billion assets pooled with estimated savings of £13.6 million by March 2021.

As at 31 March 2020, 49% of assets have been pooled:



Pooled Assets

As at 31 March 2020, ACCESS has pooled the following assets:

	£ billion
Passive investments*	10.5
UK Equity Funds	1.6
Global Equity Funds	7.2
UK Fixed Income	0.8
Diversifed Growth	1.3
Total Pooled Investments	**21.4**

*The passive investment funds are held on a pool governance basis under one investment manager as these assets are held in life fund policies, which cannot be held within an authorised contractual scheme.

Key milestones achieved in 2019/20

- Recruitment of an interim Director to lead the ACCESS Support Unit.
- Establishment of business as usual functions of the ACCESS Support Unit being undertaken by the ACCESS Support Unit officers and technical leads officers.
- Approval and launch of a range of sub-funds further rationalising the existing range of mandates whilst reflecting the strategic asset allocation needs of the ACCESS Funds.
- Re-procurement of a legal advisor for ACCESS.
- Provision of updates of progress of pooling to Government and responding to consultations.
- Commencement of a review of Environmental, Social and Governance and Responsible Investment guidelines for ACCESS.
- In conjunction with Link Fund Solutions, held the first investor day for members and officers of the individual funds to hear from the investment managers in the ACCESS pool.
- Commencement of a review to formulate an approach to pooling and managing illiquid assets such as private equity and infrastructure. This will involve reviewing various structures and platforms and assessing these to identify the best fit to meet with the Funds current and future requirements.

Objectives for 2020/21

ACCESS is well placed to continue to develop the pool and progress will continue unbated despite the restrictions imposed by the COVID-19 lockdown. Virtual meetings are well established and productive. It is anticipated that 2020/21 will see key activities within the following themes:

- Actively managed listed assets: the completion of pooling active listed assets within the Authorised Contractual Scheme (ACS).
- Alternative / non listed assets: the initial implementation of pooled alternative assets.
- Passively managed assets: ongoing monitoring and engagement with UBS.
- Governance: the application of appropriate forms of governance throughout ACCESS.
- ACCESS Support Unit (ASU): the size and scope of the ASU will be kept under review.

Financial Management Expected v Actual Costs and Savings

The table below summarises the financial position for 2019/20 along with the cumulative position since the commencement of ACCESS activity in early 2016.

A budget for ongoing operational costs is set by the Joint Committee and is financed equally by each of the 11 Authorities. 2019/20 saw an underspend primarily due to lower than anticipated costs of external advice combined with the establishment of the ACCESS Support Unit reducing the reliance on external project management support.

	2019/20		2019/20	
	Actual	**Budget**	**Actual**	**Budget**
	In Year	**In Year**	**Cumulative to date**	**Cumulative to date**
	£'000	**£'000**	**£'000**	**£'000**
Set Up Costs	-	-	1,824	1,400
Transition Costs	-	-	674	2,499
Ongoing Operational Costs	811	1,203	2,208	2,469
Operator & Depository Costs	3,247	2,000	3,632	2,500
Total Costs	**4,058**	**3,203**	**8,338**	**8,868**
Pool Fee Savings	(13,456)	(13,200)	(20,515)	(18,450)
Net (Savings Realised)/Costs	**(9,398)**	**(9,997)**	**(12,177)**	**(9,582)**

Operator and depositary fees are payable by each Authority in relation to assets invested within the Authorised Contractual Scheme established by Link Fund Solutions as pool operator. The initial ACCESS business plan to MHCLG anticipated Operator costs of 2bps.

The 2019/20 fee savings have been calculated using the CIPFA price variance methodology and based on the asset values as at 31 March 2020. This approach highlights the combined level of investment fee savings, across all ACCESSS Authorities stemming from reduced charges.

In summary, since inception ACCESS has demonstrated excellent value for money, maintaining expenditure broadly in line with the MHCLG submission whilst delivering savings ahead of the timeline contained in the original proposal.

Investment management costs split between pooled and non-pooled assets

	ACCESS Pool*		Non-ACCESS Pool		Total
	Direct	**Indirect**	**Direct**	**Indirect**	
Management Fee £000	**472**	**2,580**	**2,482**	**8,069**	**13,603**
Transaction Costs £000	**30**	**-**	**189**	**-**	**219**
Custody £000	**-**	**-**	**54**	**-**	**54**
Other Costs £000	**27**	**-**	**1,116**	**-**	**1,143**
Total £000	**529**	**2,580**	**3,841**	**8,069**	**15,019**

* This includes pool aligned assets such as the jointly procured passive manager for ACCESS authorities.

Environmental, Social and Governance (ESG) and Responsible Investment (RI)

The ACCESS Authorities believe in making long term sustainable investments whilst integrating environment and social risk considerations, promoting good governance and stewardship.

Whilst the participating authorities have an overriding fiduciary and public law duty to act in the best long term interests of their LGPS stakeholders to achieve the best possible financial returns, with an appropriate level of risk they also recognise the importance of committing to responsible investment alongside financial factors in the investment decision making process.

Over the course of the last year a number of ACCESS Authorities have reviewed and developed their individual ESG /RI policies. Building on this ACCESS will, in the current year review its own ESG /RI guidelines to reflect both the requirements of the Authorities and the expectations associated with this fundamental aspect of institutional investment.

The ACCESS pool has a set of voting guidelines which seeks to protect and enhance the value of its shareholdings by promoting good practice in the corporate governance and management of those companies.

The voting guidelines sets out the principles of good corporate governance and the means by which ACCESS will seek to exercise its influence on companies. During the year ACCESS voted at 383 meetings on 6,000 resolutions.

10. Pensions administration strategy report

The Local Government Pension Scheme Regulation 59(1) of the (Administration) Regulations 2013 covers the requirement for an administering authority to prepare a written statement of policies as it considers appropriate in the form of a Pensions Administration Strategy. The East Sussex Pension Fund Pension Administration Strategy is kept under review and revised to reflect changes to LGPS regulations and Fund policies.

The Pensions Administration Strategy document sets out a framework by way of outlining the policies and performance standards to be achieved when providing a cost-effective inclusive and high quality pensions administration service. In particular it sets out:

- The roles and responsibilities of both the Fund and the employers within the Fund.
- The level of service the Fund and employers will provide to each other
- The performance measures used to evaluate the level of service

This administration strategy statement will be reviewed in line with each valuation cycle and the next review will be as at 1 April 2020. All scheme employers will be consulted before any changes are made to this document. The latest version of this administration strategy statement will always be available on the ESCC website: https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/ and the ESPF website: http://www.eastsussexpensionfund.org/east-sussex-pension-fund/about-us/forms-and-publications/

11. Funding strategy statement

The Funding Strategy Statement (FSS) focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. The FSS is prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013, CIPFA guidance and in collaboration with the Fund's actuary, Hymans Robertson LLP, after consultation with the Fund's employers and investment adviser. The FSS sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years);
- actuarial factors for valuing individual transfers, early retirement costs and costs of buying added service; and
- the Fund's Investment Strategy Statement

The Funding Strategy Statement was reviewed during the year to reflect funding principles agreed for the 2019 actuarial valuation, with the new version signed off in March 2020. The FSS can be found in full at www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/. The new funding principles applied to employer contributions payable from 1 April 2020.

Contribution rates payable by participating employers over the year to 31 March 2019 were set at the 2016 valuation in line with the principles summarised in the Funding Strategy Statement dated February 2019. Similarly, the approach used to set asset allocations for new bodies, to calculate the bond requirements for admitted bodies and to determine any cessation debts payable by exiting employers has been in line with that Funding Strategy Statement.

The Fund monitors the change in the funding position at a whole Fund level on a regular basis.

The next review of the Funding Strategy Statement will take place over the 2022/23 year as part of the 2022 valuation exercise.

The FSS that was in place in relation to 2019/20 is included as an appendix to this report.

12. Investment strategy statement

The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 require administering authorities of pension funds to prepare, maintain and publish a written statement setting out the investment strategy for their Fund.

They must consult with persons they deem appropriate when drawing up their statement. Any material change in investment strategy must be included in a revised Investment Strategy Statement (ISS). The statement also covers the extent to which social, environmental and ethical considerations (see below) are taken into account in the selection, retention and realisation of investments. A summary of the policy (if any) in relation to the exercise of the rights (including voting rights) attaching to investments.

The East Sussex Pension Fund ISS was first published in February 2017 when it replaced the Fund's Statement of Investment Principles. The statement is reviewed on a continuous basis to ensure it accurately reflects the Investment Strategy of the Fund (the latest version is available on the website).
https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/

The Committee of the East Sussex Pension Fund has an overriding statutory and fiduciary duty to ensure it has sufficient funds available to pay pensions. In light of that obligation, and in order to maximise investment return, the Fund has a diverse range of investments and does not restrict investment managers from choosing certain stocks taking into consideration that the Fund's investment strategy is regularly monitored.

Responsible Investment

Responsible Investment is a fundamental part of the Fund's overarching investment strategy as set out in its ISS. That is, to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance ("ESG") factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.

The investment strategy of the Fund is documented in its Investment Strategy Statement, as part of this document we have included our Responsible Investment (RI) Policy, which describes the Fund's core principles of responsible investment and how we will ensure that these are met. Our core principles are:

- We will apply long-term thinking to deliver long-term sustainable returns.
- We will seek sustainable returns from well-governed assets.
- We will use an evidence-based long-term investment appraisal to inform decision-making in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.
- We will evaluate and manage carbon exposure in order to mitigate risks to the Fund from climate change.

The RI Policy also states the Fund's position on engagement versus exclusion:

East Sussex Pension Fund has never sought to implement a policy that explicitly excludes certain types of investments, companies or sectors except where they are barred by UK law. The Fund believes that its influence as a shareholder is better deployed by engaging with companies, in order to influence behaviour and enhance shareholder value. The Fund believes that this influence would be lost through a divestment or screening approach. Ultimately the Fund will always retain the right to disinvest from certain companies or sectors in the event that all other approaches are unsuccessful and it is determined that the investment is no longer aligned with the interests of the Fund or that the issue poses a material financial risk. Under pooling, it is likely that any such decision will need to be made in conjunction with other members of the ACCESS pool.

The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund appreciates that to gain the attention of companies in addressing governance concerns; it needs to join with other investors sharing similar concerns. It does this primarily through:

- Membership of representative bodies including LAPFF, IIGCC, Climate action 100+;
- Membership of the Pensions and Lifetime Savings Association (PLSA);
- Giving support to shareholder resolutions where these reflect concerns which are shared and affect the Fund's interests;
- Joining wider lobbying activities when appropriate opportunities arise.

The Pension Committee over the last 3 years has allocated considerable time to consider the potential impact of climate change on the Fund's investments. In so doing, the Committee has:

- commissioned a carbon footprint measurement service that provided data on the levels of carbon emissions,
- committed to putting 15% of the Funds passive equity investments into the UBS Climate Aware Fund, and it is anticipated that the investment in the Climate Aware Fund will reduce the CO^2 emissions of the East Sussex Pension Fund,
- been recognised tier 1 signatory to the UK Stewardship Code by the Financial Reporting Council (FRC),

- shortlisted for the 2018 LAPF Investment Awards for Best Approach to ESG/Impact Investing,

The committee will continue to monitor developments in this area and the long-term implications for the financial health of the Fund.

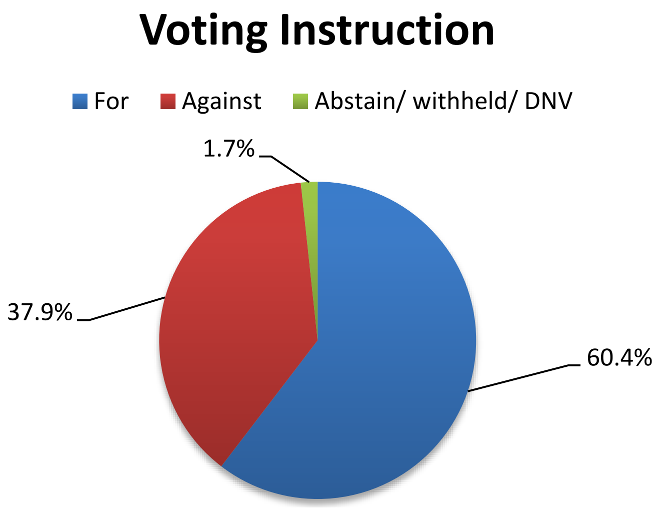
Voting

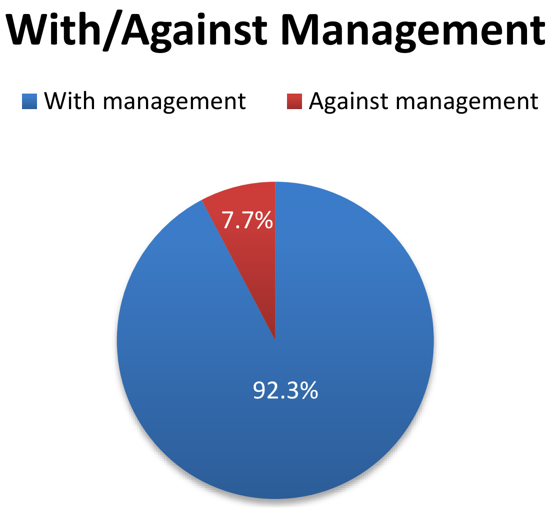
The Fund expects its investment managers to monitor investee companies, engage with company management where necessary and report on voting, governance and engagement activity.

Active mandate

Longview are currently responsible for the Fund's actively managed equity mandate. The table below summarises the combined voting statistics for the Fund's Global equity mandate over the year:

Number of vote-able meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management
38	520	60.4%	37.9%	1.7%	60.8%	39.2%





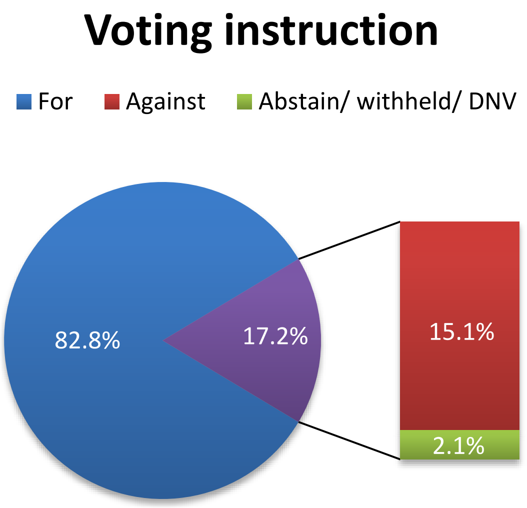
It should be noted that given the nature of the actively managed Longview fund, there are significantly less stocks held in the portfolio, resulting in less vote-able meetings.

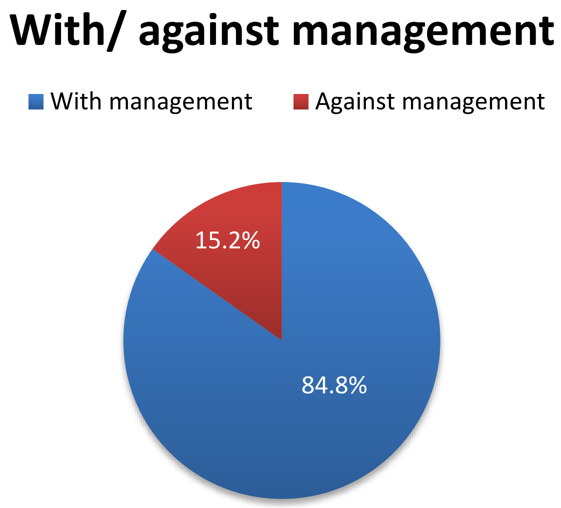
Votes were withheld in nine cases relating to the election of board directors. Longview voted against management on 204 proposals covering a range of issues, such as ongoing compensation concerns and the election of individuals that, in Longview's opinion, serve on too many boards. As requested by the Fund, Longview voted against any proposal to authorise political donations.

Passive mandates

UBS are responsible for the Fund's passively managed equity mandates. The table below summarises the combined voting statistics over the year for the regions that the Fund's equity mandate is invested in.

Meetings voted	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management
5,303	55,420	82.8%	15.1%	2.1%	84.8%	15.2%



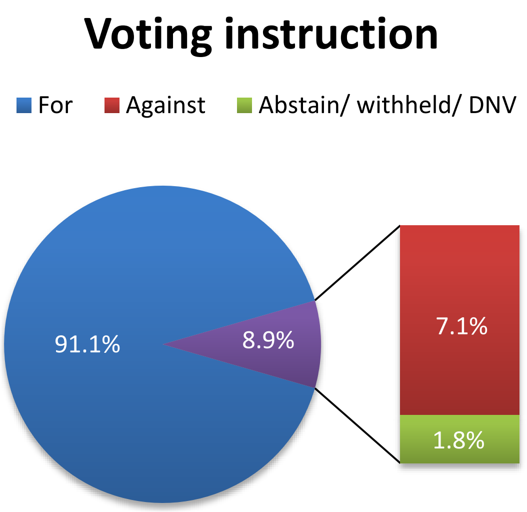


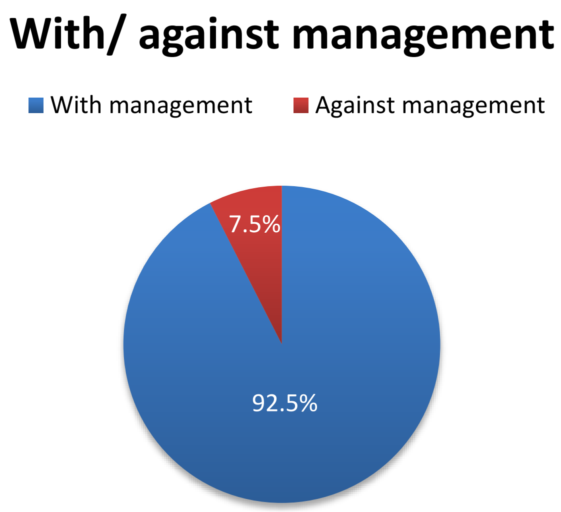
UBS voted against management on 8,424 proposals covering a range of issues, such as candidates proposed for director not being sufficiently independent and rights issues.

Ruffer Absolute Return fund

Ruffer are responsible for one of the Fund’s two absolute return mandates. The table below summarises the voting statistics over the year for the equity holdings that the Fund is invested in through the Ruffer mandate.

Meetings voted	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management
47	610	91.0%	7.1%	1.8%	92.5%	7.5%





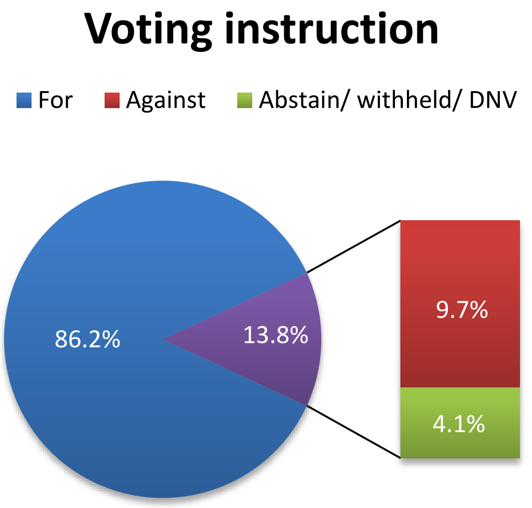
Ruffer voted against management on 46 proposals covering a range of issues, such as executive remuneration and election of non-executive directors.

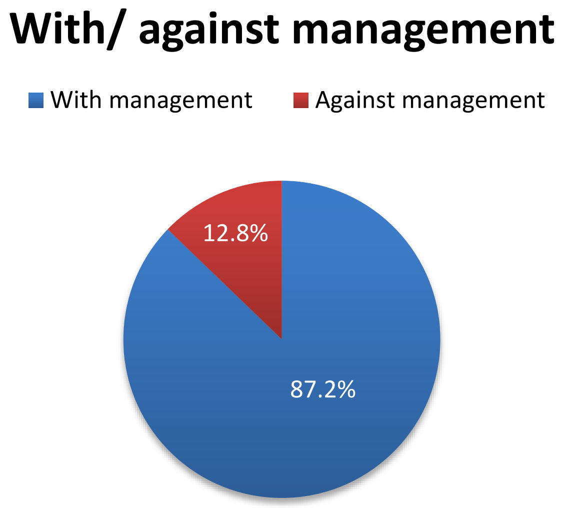
Newton Absolute Return fund

Newton are responsible for one of the Fund’s two absolute return mandates. The table below summarises the voting statistics over the year for the equity holdings that the Fund is invested in through the Newton mandate.

Meetings voted	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management

68	925	86.4%	9.7%	4.1%	87.2%	12.8%





13. Communications policy statement

The Local Government Pension Scheme Regulations 2013 (Regulation 61) requires each pension fund administering authority to prepare and publish a policy statement setting out its approach to communicating with scheme members, representatives of members, prospective members and scheme employers.

The East Sussex Pension Fund policy statement sets out our existing communication activities.

This Policy can be seen on the East Sussex County Council Website.
https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/

14. External auditor's report

Independent auditor's report to the members of East Sussex County Council on the pension fund financial statements published with the Pension Fund Annual Report

To Follow

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

London

XX September 2020

HYMANS ROBERTSON

East Sussex Pension Fund

Funding Strategy Statement

February 2019

PUBLIC SECTOR

Contents

Funding Strategy Statement PAGE

1 Introduction 1

2 Basic Funding issues...4

3 Calculating contributions for individual Employers 8

4 Funding strategy and links to investment strategy 16

5 Statutory reporting and comparison to other LGPS Funds 18

Appendices

Appendix A – Regulatory framework 20

Appendix B – Responsibilities of key parties........................22

Appendix C – Key risks and controls....................................24

Appendix D – The calculation of Employer contributions....28

Appendix E – Actuarial assumptions....................................31

Appendix F – Glossary..33

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the East Sussex Pension Fund ("the Fund"), which is administered by East Sussex County Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 27 February 2017.

1.2 What is the East Sussex Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the East Sussex Fund, in effect the LGPS for the East Sussex area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;

- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Funding strategy and links to investment strategy Section 4).

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- A member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full.
- An employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund.
- An Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money.
- A Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

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

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. The regulatory background, including how and when the FSS is reviewed,

B. Who is responsible for what,

C. What issues the Fund needs to monitor, and how it manages its risks,

D. Some more details about the actuarial calculations required,

E. The assumptions which the Fund actuary currently makes about the future,

F. A glossary explaining the technical terms occasionally used here.

If you have any other queries, please contact East Sussex Pension Fund in the first instance.

2 Basic Funding issues

(More detailed and extensive descriptions are given in Appendix D).

2.1 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.2 How does the actuary set the employer contribution rate?

In essence this is a three-step process:

- Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the employer contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation.

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have an older membership profile, or do not have tax-raising powers to increase contributions if investment returns under-perform.

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that employer contribution rates can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels.
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education.
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death.
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees.
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund.
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates.
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer

insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result.

- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in return for a lower contribution rate that would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.
- Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.
- Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**			**Community Admission Bodies**		**Transferee Admission Bodies**
Sub-type	**Major authorities**	**Colleges**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing	"Gilts basis" - see Note (a)	Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Maximum time horizon – Note (c)	20 years	20 years	20 years	Future Working Lifetime		Shorter of: Future Working Lifetime of employees, and outstanding contract term
Probability of achieving target – Note (e)	66%	75%	66%	75% or 80% depending on employer risk	75%	See **Note (e)**
Primary rate approach	(see Appendix D – D.2)					
Secondary rate – Note (d)	Monetary Amount		% of payroll	Monetary amount		
Phasing of contribution changes	Eligible for stabilisation arrangement See Note (b)	Eligible for stabilisation arrangement See Note (b)	Eligible for stabilisation arrangement See Note (b)	3 years		none
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
Treatment of surplus	Covered by stabilisation arrangement			Reduce contributions by spreading the surplus over the maximum time horizon		Reduce contributions by spreading the surplus over the remaining contract term.
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt or surplus payable	Cessation is generally assumed not to be possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. in the case of Town & Parish Councils), the cessation debt or surplus principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt or surplus will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt or surplus (if any) calculated on ongoing basis. Awarding Authority will be liable for any future deficits and contributions arising.

Note (a) (Basis for CABs closed to new entrants)

In the circumstances where:

- the employer is an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority has set a higher funding target (i.e. using a discount rate set equal to gilt yields and extending the allowance for future improvements in longevity), in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see table below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring) or changes in the security of an employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Major authorities	Colleges	Academies
Max contribution increase in each of the next three years	0.5% p.a.	0.5% p.a. to 31 March 2020, then 1.0% p.a. thereafter	0.5% p.a.
Max contribution decrease in each of the next three years	0.5% p.a.	0.5% p.a. to 31 March 2020, then 1.0% p.a. thereafter	0.5% p.a.

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, typically not to exceed 3 years.

Note (d) (Secondary rate)

With the exception of Academies, the deficit recovery payments for each employer are typically expressed in monetary terms (as opposed to percentage of payroll). This is to avoid the situation where a stagnating or falling payroll results in insufficient deficit recovery payments being made over the three year period.

For certain employers, at the Administering Authority's discretion but currently including all Academies, these payments may instead be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: an employer approaching exit from the Fund, significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased or decreased contributions (by reviewing the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT.

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status.

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion.

iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion.

v. As an alternative to (iv), the academy will have the option to elect to pay contributions at the ceding LEA rate plus 1% p.a. instead. However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policy (iv) and (v) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Historically, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

From 1 April 2019, the Fund's policy is that new outsourcings are set up under a "pass through" arrangement (although exceptions will be considered on a case-by-case basis at the Fund's discretion). Pass through arrangements allow for the pension risks to be shared between the letting employer and new contractor. Typically the majority of the pension risk is borne by the letting employer and thus the liability is retained on their balance sheet – as such the contractor would not be required to pay any deficit or receive any surplus at the end of the contract (subject to any agreed exceptions). However, there is some flexibility within a pass through arrangement. . In particular there are two different routes that the letting employer may wish to adopt. The Fund's default approach will be to set up pass through arrangements using a fixed contribution rate for all new contractors. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit or receive any surplus at the end of the contract term.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The Fund will consider these on case by case basis);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus an exit credit will be paid to the Admission Body within three months of the cessation date (or another date agreed between the Administering Authority and the Admission Body).

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit (or surplus) will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required and makes it unlikely that any surplus would be paid to the employer.

b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body’s liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look spread the payment subject to there being some security in place for the employer such as an indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

Further details of the Fund’s arrangement for a ceasing employer are set out the Cessation Policy, which is available on request from the Administering Authority.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Non ill health early retirement costs

It is assumed that members’ benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer’s consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions (‘strain’) wherever an employee retires before attaining this age. The actuary’s funding basis makes no allowance for premature retirement except on grounds of ill-health.

Certain employers, all of which are subject to the stabilisation mechanism, pay an additional 0.75% of pay per annum to meet expected non-ill health early retirement strain costs. Non stabilised employers (and stabilised employers choosing not to pay the additional 0.75% p.a. of pay) are required to pay additional contributions (’strain’) wherever an employee retires before attaining retirement age.

3.6 Ill health early retirement costs

In the event of a member’s early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

3.7 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer’s contribution to the Fund each year is reduced by the amount of that year’s insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy’s coverage or premium terms, or if the policy is ceased.

The Fund intends to offer ill health insurance to a subset of employers in the Fund. This is likely to be for smaller employers (e.g. CABs and academies) who are typically less able to cope with large and unexpected strain costs. The Fund will be contacting these employers in due course.

3.8 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.

c) In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.9 Policies on bulk transfers

This section covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, on a regular basis and reports this to the regular Pensions Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and

2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

APPENDIX A – REGULATORY FRAMEWORK

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers on 23 January 2017 for comment;

b) Comments were requested within 30 days;

c) There was an Employers Forum on 18 November 2016 at which questions regarding the funding strategy could be raised and answered;

d) Following the end of the consultation period the FSS was updated where required and then published, on 27 February 2017..

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/
- A copy sent by e-mail to each participating employer in the Fund;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,

- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/

APPENDIX B – RESPONSIBILITIES OF KEY PARTIES

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

operate the Fund as per the LGPS Regulations;

effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;

collect employer and employee contributions, and investment income and other amounts due to the Fund;

ensure that cash is available to meet benefit payments as and when they fall due;

pay from the Fund the relevant benefits and entitlements that are due;

invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;

communicate appropriately with employers so that they fully understand their obligations to the Fund;

take appropriate measures to safeguard the Fund against the consequences of employer default;

manage the valuation process in consultation with the Fund's actuary;

provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

prepare and maintain a FSS and a SIP/ISS, after consultation;

notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and

monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

deduct contributions from employees' pay correctly;

pay all contributions, including their own as determined by the actuary, promptly by the due date;

have a policy and exercise discretions within the regulatory framework;

make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and

notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

advise on the termination of employers' participation in the Fund; and

fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;

investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;

auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;

governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;

legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;

the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

APPENDIX C – KEY RISKS AND CONTROLS

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.

Risk	Summary of Control Mechanisms
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.

Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	**Summary of Control Mechanisms**
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

APPENDIX D – THE CALCULATION OF EMPLOYER CONTRIBUTIONS

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;

3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

0. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

1. within the determined time horizon (see note 3.3 Note (c) for further details),

2. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
- within the determined time horizon (see 3.3 Note (c) for further details)
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

APPENDIX E – ACTUARIAL ASSUMPTIONS

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this was 1.6% at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

0. 1% p.a. until 31 March 2020, followed by

1. Retail Prices Index (RPI) per annum thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As was the case at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements to that made in 2013.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

APPENDIX F – GLOSSARY

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous

	to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Appendix 2

EAST SUSSEX PENSION FUND GOVERNANCE

POLICY STATEMENT

January 2018

Contents

Governance Policy Statement	**Page 3**
Delegation of Functions	**Page 7**
Terms of Reference and Decision Making	**Page 9**
Pension Committee terms of reference	**Page 11**
Pension Board terms of reference	**Page 12**

Governance Policy Statement

Introduction

1. This is the Governance Policy Statement of the East Sussex Pension Fund, which is managed by East Sussex County Council ("The Council"), the Administrating Authority (Scheme Manager) on behalf of all the relevant employer bodies in the Fund. All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish, following such consultation as it considers appropriate, and keep under review a Governance Compliance Statement which must be revised following any material change in its delegation arrangements.

2. The Governance Compliance Statement of the East Sussex Pension Fund is comprised of the Compliance to Statutory Guidance Statement and a Governance Policy Statement. The Public Services Pensions Act 2013 (The Act) introduced a new framework for the governance and administration of public service pension schemes which is reflected in this Statement.

3. As Administering Authority, East Sussex County Council is the designated statutory body responsible for administering the East Sussex Pension Fund of behalf of the constituent Scheduled and Admitted Bodies in the relevant area. The Council may choose to delegate certain aspects of administering the Fund in accordance with the Local Governement Act 1972 and its own constitution. However, even where powers are delegated the Council remains ultimately responsibile for all aspects of the management of the Fund. The Local Government Pension Scheme Regulations specify that, in investing the Fund's money, regard must be given to the need for diversification and for proper advice obtained at reasonable intervals.

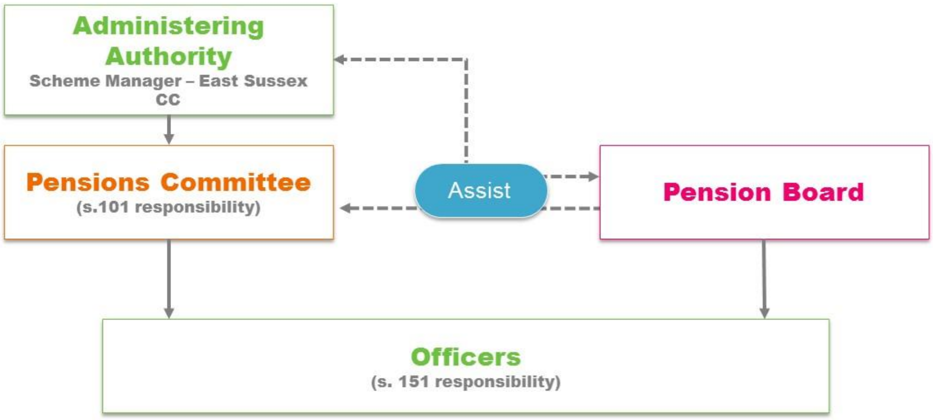
Governance of East Sussex Pension Fund

4. East Sussex County Council operates a Cabinet style decision-making structure. Under the Constitution, the Pension Committee has the delegated authority to exercise the powers of the County Council in respect of the pensions of all employees of the Council (except teachers), including the approval of the pension fund admission agreements. It also has authority for the management of the pension fund. The pension fund governance focuses on:

- The effectiveness of the Pension Fund Committee, the Local Pension Board ("Board") and officers to where delegated function has been passed, including areas such as decision making processes, knowledge and competencies.
- The establishment of policies and their implementation.
- Clarity of areas of responsibility between officers and Pension Fund Committee/Board members.
- The ability of the Pension Fund Committee/Board and officers to communicate clearly and regularly with all stakeholders.
- The ability of the Pension Fund Committee/Board and officers to ask for the appropriate information and advice and to interpret that information in their supervision and monitoring of the Scheme in all areas.
- The management of risks and internal controls to underpin the framework.

The overall responsibility for the governance of the Local Government Pension Scheme and for the approval of this document resides with the Pension Fund Committee.

The East Sussex Pension Fund



Responsibilities of the Pensions Committee

The following powers have been delegated to the Pension Committee

(i) In accordance with the Local Government Pension Scheme Regulations and associated legislation, to exercise functions and responsibilities for dealing with the Pension Fund in conjunction with other bodies who contribute to the Fund.

(ii) To exercise the powers and duties of the County Council in respect of:

- the pensions of all employees of the Council (except teachers), including the approval of pension fund admission agreements; and management of the investment of the pension fund, receiving advice as appropriate from the Pension Board.

(iii) To make arrangements for the investment, administration and management of the Pension Fund.

(iv) To arrange for the appointment of investment managers and advisors.

(v) To agree Policy Statements as required under the Local Government Pension Scheme regulations.

(vi) To agree the Investment Strategy having regard to the advice of the Fund's Managers and the Pension Board.

(vii) To set the Investment Policy and review the performance of the Pension Fund's external investment managers.

(viii) To determine the fund management arrangements and to appoint fund managers and fund advisers.

(ix) To decide on the admission and cessation of bodies to the Pension Fund.

(x) To consider and agree actuarial variations.

(xi) To ensure that the Pension Fund administration is conducted in accordance with relevant legislation.

(xii) To appoint Additional Voluntary Contribution providers and to monitor their performance.

Membership of the Pension Committee

5. The County Council appoints five members to the Committee in accordance with political balance provisions. All members of the Committee have voting rights.

6. In relation to Pension Matters, the Committee consider directly all issues relating to pension administration, such as changes in benefit regulation, admission agreements, the Pension Fund Investments, etc.

Frequency of meetings of the Pension Committee.

7. The Pension Committee meets at least 4 times a year. The full terms of reference are publicly available as part of the County Council constitution.

Operational Procedures of the Pension Committee.

8. The Pension Fund Committee receives and reviews quarterly reports from all its Investment Fund Managers and the independent Investment Adviser, Hymans Robertson. The Committee is also advised by an additional Independent Advisor. In addition, the Committee is advised by the County Council's Chief Finance Officer (in their capacity as the Council's designated Treasurer). The Committee also receives an annual report from the Fund's independent performance measurement provider which reviews the long-term performance of the Fund and of each of the Investment Fund Managers in relation to their targets. The Committee also holds a separate Annual Strategy Meeting at which its reviews the overall investment strategy of the Fund

Responsibilities of the East Sussex Pension Board

9. To help to ensure that the East Sussex Pension Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

10. To provide assistance to East Sussex County Council as the Administering Authority and the LGPS Scheme Manager in securing compliance with:

- LGPS Regulations and any other legislation relating to the governance and administration of the LGPS
- requirements imposed in relation to the LGPS by the Pensions Regulator
- the agreed investment strategy
- any other matters as the LGPS regulations may specify

11. The role of the Board will be oversight of these matters and not decision making.

12. To secure effective and efficient governance and administration of the LGPS for the East Sussex Pension Fund by:

- Seeking assurance that due process is followed with regard to Pension Committee, and any identified issues raised by Board members.
- Retaining an overview of LGPS policy and strategy and performance information and the performance review timetable.
- Making representations and recommendations to the Pensions Committee as appropriate.
- Considering and responding to any government / Responsible Authority performance data request concerning the local fund.

Frequency of meetings of the East Sussex Pension Board.

13. The Pension Board meets at least 4 times a year. The full terms of reference are publicly available as part of the County Council constitution.

Operational Procedures of the Pension Board.

14. The Board will have access to professional advice and support provided by officers of East Sussex Pension Fund and, via them and where appropriate, advisers to the East Sussex Pension Fund.

15. Insofar as it relates to its role, the Pension Board may also:

- request information and reports from the Pension Committee or any other body or officer responsible for the management of the Fund
- examine decisions made or actions taken by the Pension Committee or any other body or officer responsible for the management of the Fund.
- access independent professional advice from actuaries, other independent advisers, and investment managers as required, where there are major decisions, i.e., investment strategy, triennial valuation, etc., access to professional advice regarding non major decisions will require the approval of the Pension Committee for additional resources.

Membership of the Pension Board

16. In accordance with Regulation 107 of the LGPS Regulations 2013, a Local Pension Board must include an equal number of employer and member representatives with a minimum requirement of no less than four in total. In considering the size of the East Sussex Pension Board, the Council has taken into consideration number of factors including:

- The size of the Council's existing Pension Fund governing arrangement and decision making process.
- The number of scheme members, number and size of employers within the Fund and any collective arrangements in place for them to make decisions or provide input in relation to Fund matters;
- The direct and indirect cost of establishing and operating the Board.

17. Composition of the East Sussex Pension Board - The Pension Board shall consist of 7 members as follows:

- Employer representative x 3

- Scheme member representative x 3
- Independent Chair x 1

Responsibilities of the East Sussex CC Governance Committee

18. The following are pension related responsibilities delegated to the Governance Committee;

- To determine the selection process for appointment to the Pension Board.
- To appoint to, and remove from, the Pension Board
- To agree the level of remuneration for Pension Board Members.

Consultation with Employing Authorities

19. All employing bodies are kept informed of current pension issues, such as proposed changes in the regulations and their implications, by newsletter. They are encouraged to get in touch if they have questions.

20. In addition to these electronic briefings, the East Sussex Fund holds an annual employers forum to which all admitted bodies of the Fund are invited. This annual meeting covers both actuarial and investment issues and always contains a presentation from the Fund's Actuary. The District Councils receive feedback from their representatives on the Pension Board and are also briefed on pension matters bi-monthly by the Fund's Treasurer at meetings of the East Sussex Financial Officers Association. Update briefings to these meetings are also circulated by email to all other employers in the East Sussex Pension Fund.

21. All employees receive periodic newsletter update on pension issues, especially on any changes affecting benefits. These updates are shared with all employers.

22. More detail on the approach to communication is covered in the separate Pension Fund Communication Statement.

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Delegation of Functions

The following functions are delegated by the Administering Authority:

Scheme Administration

Governance Principles: Effective committee delegation; appropriate accountability; rigorous supervision and monitoring

Including, but not exclusively or limited to, record keeping, calculation of and payment of benefits, reconciliation and investment of contributions, preparation of annual accounts, and provision of membership data for actuarial valuation purposes.

The Administering Authority has responsibility for "Scheme Administrator" functions as required by HM Revenues and Customs (HMRC) under the Finance Act 2004.

Delegated to:

Pension Fund Committee (monitoring)

Chief Finance Officer (Pension Fund Governance and Investment implementation)

Funding

Governance Principles: Effective committee delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of the appropriate funding target for the Local Government Pension Scheme. The Chief Finance Officer shall be responsible for maintaining the Funding Strategy Statement (FSS). The Pension Fund Committee shall be responsible for approving the FSS.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (maintaining FSS and policy implementation)

Investment

Governance Principles: Effective committee delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of an appropriate investment strategy or strategies, selection of investment managers, setting of performance benchmarks and regular monitoring of performance. The Pension Fund Committee shall be responsible for maintaining the Statement of Investment Principles.

Delegated to:

Pension Fund Committee (strategy approval, manager selection, benchmarks, monitoring)

Chief Finance Officer (Pension Fund investment implementation)

Communications

Governance Principle: Effective information flow; written plan policies

Including setting of a communication strategy, issuing of benefit statements, annual newsletters, and annual report. The Pension Fund Committee shall be responsible for maintaining the Communications Policy.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (Pension Fund policy implementation)

Risk Management

Governance Principle: Effective committee delegation; appropriate accountability; written plan policies

Including the identification, evaluation and monitoring of risks inherent within the Local Government Pension Scheme. The Pension Fund Committee shall be responsible for approving the Risk Register. The Chief Finance Officer shall be responsible for maintaining the risk register.

Delegated to:

Pension Fund Committee (pension fund risk register approval) Chief
Finance Officer (maintaining the pension fund risk register)

Terms of Reference and Decision Making

Terms of Reference:

Governance Principle: Effective board delegation; written plan policies

The Pension Fund Committee Terms of Reference as approved by Full Council on 24 March 2015 are shown in **Appendix A** to this document.

Administration, Funding, Investment, Communications and Risk Management

In line with the Council's Constitution, the Pension Fund Committee shall oversee Pension Fund administration, funding, investment, communication, risk management and the overall governance process surrounding the Fund.

Structure of the Pension Fund Committee and representation:

Governance Principle: Effective committee delegation

The Pension Fund Committee shall be made up of:

5 County Councillors appointed by the Governance committee according to the political makeup of the council including the chairman. Decision making quorum of 3 members.

Decision Making:

Governance Principle: Effective committee delegation; rigorous supervision and monitoring

The Pension Fund Committee shall have full decision-making powers. Each member of the Pension Fund Committee shall have full voting rights.

Operational Procedures

Frequency of Meetings:

Governance Principle: Effective board delegation; effective information flow

The Pension Fund Committee shall meet quarterly. The Pension Fund Committee shall receive full reports upon all necessary matters as decided by the Chief Finance Officer, and any matters requested by members of the Pension Fund Board. Provision exists for the calling of special meetings if circumstances demand.

Competencies, Knowledge and Understanding:

Governance Principle: Effective board delegation; appropriate accountability

Officers and Members of the Pension Fund Committee shall undertake training to ensure that they have the appropriate knowledge, understanding and competency to carry out the delegated function. It is recommended that such knowledge, understanding and competency are evaluated on an annual basis to identify any training or educational needs of the Officers and the Pension Fund Committee.

Reporting and Monitoring:

Governance Principle: Rigorous supervision and monitoring; effective information flow

i) Pension Board

The Pension Board is established by the administering authority to assist in securing compliance with the LGPS Regulations, any other legislation relating to the governance and administration of the scheme, and any requirements imposed by the Pensions Regulator.

The Pension Fund Committee shall:

- Provide the Pension Board with adequate resources to fulfil its role.
- Consider and respond to reports from the Pension Board within a reasonable period of time.

The Pension Board

The role of the Pension Board, as defined by Regulation 106 of the Local Government Pension Scheme Regulations 2013, is to assist the Administering Authority:

- to secure compliance with:
  - i) The scheme regulations;
  - ii) any other legislation relating to the governance and administration of the LGPS Scheme and any connected scheme;
  - iii) any requirements imposed by the Pensions Regulator in relation to the LGPS Scheme.
- to ensure the effective and efficient governance and administration of the LGPS Scheme.

Terms, Structure and Operational Procedures

The Pension Board’s Terms of Reference as approved by Full Council on 24 March 2015 are shown in **Appendix B** to this document.

Review of Governance Policy Statement

Responsibility for this document resides with the Chief Finance Officer and will be reviewed by no less frequently than annually. This document will be reviewed if there are any material changes in the administering authority’s governance policy or if there are any changes in relevant legislation or regulation.

Appendix A

Pension Committee terms of reference and membership

1. In accordance with the Local Government Pension Scheme Regulations and associated legislation, to exercise functions and responsibilities for dealing with the Pension Fund in conjunction with other bodies who contribute to the Fund.
2. To exercise the powers and duties of the County Council in respect of:
    - the pensions of all employees of the Council (except teachers), including the approval of pension fund admission agreements; and
    - management of the investment of the pension fund, receiving advice as appropriate from the Pension Board.
3. To make arrangements for the investment, administration and management of the Pension Fund.
4. To arrange for the appointment of investment managers and advisors.
5. To agree Policy Statements as required under the Local Government Pension Scheme regulations.
6. To agree the Investment Strategy having regard to the advice of the Fund's Managers and the Pension Board.
7. To set the Investment Policy and review the performance of the Pension Fund's external investment managers.
8. To determine the fund management arrangements and to appoint fund managers and fund advisers.
9. To decide on the admission and cessation of bodies to the Pension Fund.
10. To consider and agree actuarial variations.
11. To ensure that the Pension Fund administration is conducted in accordance with relevant legislation.
12. To appoint Additional Voluntary Contribution providers and to monitor their performance.

Membership

Five members appointed in accordance with political balance provisions.

Appendix B

Constitution and terms of reference of the East Sussex Pension Board

1. Introduction

1.1 The Public Service Pensions Act 2013 requires the establishment of a Pension Board with the responsibility for "assisting the Scheme Manager" in securing compliance with all relevant pensions law, regulations and directions – as well as the relevant Pension Regulator's codes of practice. This role is one of providing assurance in and governance of the scheme administration.

1.2 The *scheme manager (East Sussex County Council – ESCC) will provide the necessary input into the Pension Board to support the Board to deliver on its assurance responsibilities. This may require their attendance at meetings at the request of the Board.

1.3 The terms of reference, membership of the Pension Board and any variations thereof are determined by the Scheme Manager, i.e. ESCC.

2. Objectives of the Pension Board

2.1 To help to ensure that the East Sussex Pension Fund (ESPF) is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

2.2 To provide assistance to East Sussex County Council as the LGPS Scheme Manager in securing compliance with:

- LGPS Regulations and any other legislation relating to the governance and administration of the LGPS
- requirements imposed in relation to the LGPS by the Pensions Regulator
- the agreed investment strategy
- any other matters as the LGPS regulations may specify.

2.3 To assist with securing effective and efficient governance and administration of the LGPS for the East Sussex Pension Fund by:

- o Seeking assurance that due process is followed with regard to Pension Committee, and any identified issues raised by Board members.
- o Retaining an overview of LGPS policy and strategy and business plan timetable.
- o Making representations and recommendations to the Pension Committee as appropriate.
- o Considering and, as required, responding to any Government / Responsible Authority performance data concerning the local fund.

2.4 The role of the Board will be oversight of these matters and not decision making.

3. Management and operation of the Pension Board

3.1 The Pension Board shall:

- meet at least 4 times per year
- have the power to establish sub committees or panels as required
- agree a programme of training and development for its members.

- provide the Scheme Manager (ESCC) with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.
- ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
- consider any issue raised by any Board Member in connection with the Board's work.
- produce an annual report outlining the work of the Board throughout the scheme year, which will help to –
    - inform all interested parties about the work undertaken by the Panel
    - assist the panel in reviewing its effectiveness and identifying improvements in its future operations.
- help to ensure that decisions made by ESCC are fully legally compliant, including consideration of cases that have been referred to the Pension Regulator and/or the Pension Ombudsman; recommending changes to processes, training and/or guidance where necessary;
- monitor administrative processes and supporting continuous improvements;
- ensure the scheme administrator supports employers to communicate the benefits of the LGPS Pension Scheme to scheme members and potential new members.

4. Membership - composition of the Pension Board

4.1 The Pension Board shall consist of:

a) **3 employer representatives** - employer representatives that can offer the breadth of employer representation for the ESPF. (Regulation 107 of the Pension Act permits elected members to sit on a local pension board. However, under Regulation 107(3), elected members or officers of ESCC (as the Scheme Manager), who are responsible for the discharge of any function under the Principal 2013 Regulations, may not sit on the Pension Board.)

b) **3 scheme member representatives** - member representatives nominated to ensure a broad representation of scheme membership (active, deferred, and pensioners).

c) 1 Independent Chair

4.2 The Pension Board shall be chaired by an Independent Chair.

5. Appointment of members of the Pension Board

5.1 The appointment process has been approved by the Governance committee

5.2 All appointments to the Board shall be by the Governance Committee under delegated authority from the County Council, including the Independent Chair and Vice Chair.

6. Term of office

6.1 The term of office for Board members shall be 4 years or such time as resolved by the Governance Committee. The Governance Committee may agree an extension to terms of office up to a further 2 years after which there shall be a further appointment process. Reappointment of existing members is permitted.

6.2 A Board member who wishes to resign shall submit their resignation in writing to the Pension Board Chair. A suitable notice period must be given, of at least 1 month, to enable a replacement member to be found.

6.3 The role of the Pension Board members requires the highest standards of conduct and the Code of Conduct of the East Sussex County Council will apply to the Board's members. The County Council's Standards Committee will monitor and act in relation to the application of the Code.

6.4 Poor performance will result in corrective action being taken, and in exceptional circumstances the removal of the Board member, which will be in accordance with the Code of Conduct of the East Sussex County Council.

7. Independent Chair

7.1 The Independent Chair will be the independent member appointed for a term of 4 years by Governance Committee or such time as resolved by the Governance Committee. A job description approved by the Committee will be used to identify the candidate best suited to the role.

7.2 It will be the role of the Chair to -

- Settle with officers the agenda for a meeting of the Board
- Manage the meetings to ensure that the business of the meeting is completed
- Ensure that all members of the Board show due respect for process and that all views are fully heard and considered
- Strive as far as possible to achieve a consensus as an outcome
- Ensure that the actions and rationale for decisions taken are clear and properly recorded.

7.3 Removal of the independent chair will be in accordance with the Code of Conduct of the East Sussex County Council and the County Council's Standards Committee decision.

8. Support arrangements

8.1 ESCC will provide secretariat, administrative and professional support to the Pension Board and as such will ensure that:

- meetings are timetabled for at least four times per year
- adequate facilities are available to hold meetings
- an annual schedule of meetings is produced
- suitable arrangements are in place to hold additional meetings if required papers are distributed 7 days before each meeting except in exceptional circumstances
- minutes of each meeting are normally circulated 7 working days following each meeting.

9. Expert advice and information

9.1 The Board will have access to professional advice and support provided by officers of East Sussex Pension Fund and, via them and where appropriate, advisers to the East Sussex Pension Fund.

9.2 Insofar as it relates to its role, the Pension Board may also:

- request information and reports from the Pension Committee or any other body or officer responsible for the management of the Fund

- examine decisions made or actions taken by the Pension Committee or any other body or officer responsible for the management of the Fund.
- access independent professional advice from actuaries, other independent advisers, and investment managers as required, where there are major decisions, i.e., investment strategy, triennial valuation, etc.,
- access to professional advice regarding non major decisions will require the approval of the Pension Committee for additional resources.

10. Knowledge and Skills

10.1 Board members will be required to have the 'capacity' to carry out their duties and to demonstrate a high level of knowledge and of their role and understanding of:

- the scheme rules
- the schemes administration policies
- the Public Service Pensions Act (i.e. being conversant with pension matters relating to their role).

10.2 A programme of updates and training events will be organised. Board members will be encouraged to undertake a personal training needs analysis or other means of identifying any gaps in skills, competencies and knowledge relating to Pension Board matters.

11. Minutes

11.1 The minutes and any consideration of the Pension Board shall be submitted to the Pension Committee.

12. Standards of Conduct

12.1 The main elements of East Sussex County Council's Code of Conduct shall apply to Board members.

13. Access to the Public and Publication of Pension Board information

13.1 Members of the public may attend the Board meeting and receive papers, which will be made public in accordance with the Access to Information Rules in East Sussex County Council's Constitution.

13.2 Up-to-date information will be posted on the East Sussex Pension Fund website showing:

- Names and information of the Pension Board members
- How the scheme members and employers are represented on the Pension Board
- Responsibilities of the Pension Board as a whole
- Full terms of reference and policies of the Pension Board and how it operates.

14. Expense reimbursement, remuneration and allowances

14.1 All Pension Board members will be entitled to claim travel and subsistence allowances for attending meetings relating to Pension Board business (including attending training) at rates contained in the Members' Allowances Scheme in the East Sussex Council's Constitution. The Chair's remuneration will be agreed on appointment. All costs will be recharged to the Pension Fund.

15. Accountability

15.1 The Pension Board collectively and members individually are accountable to the Scheme Manager (ESCC), the Pensions Regulator, and the National Scheme

Advisory Board. The National Scheme Advisory Board will advise the Responsible Authority (in the case of the LGPS the DCLG) and the Scheme Manager (in this case East Sussex County Council). The Pensions Regulator will report to the Responsible Authority (again, DCLG) but will also be a point of escalation for whistle blowing or similar issues.

15.2 In addition the Pension Board will continue to provide regular updates to the Pension Committee governance process. ESPF officers will be responsible for the contractual arrangements.

16. Decision Making Process

16.1 Employer representatives and scheme member representatives have voting rights albeit the Board is expected to operate on a consensus basis.

16.2 In the event of an equal number of votes being cast for or against a proposal there shall be no casting vote but the proposal shall be considered to have been rejected. The scheme manager shall be alerted when a decision is reached in this manner.

17. Attendance and quorum

17.1 Four of the voting members of the Pension Board shall represent the quorum for Board meetings to discharge business. The Chair or Vice Chair must be present for any meeting to proceed.

17.2 Advisors and co-opted persons do not count towards the quorum.

18. Conflicts of Interest

18.1 The Public Service Pensions Act 2013 requires that members of the Pension Board do not have conflicts of interests. As such all members of the Pension Board will be required to declare any interests and any potential conflicts of interest in line with legal requirements in the Public Service Pensions Act 2013 and the Pension Regulator’s code. These declarations are required as part of the appointment process, as well as at regular intervals throughout a member’s tenure.

Report to:	**Audit Committee**
Date:	**6 November 2020**
By:	**Chief Finance Officer**
Title of report:	**Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting: The Redmond Review**
Purpose of report:	**To update the Audit Committee on the Redmond Review and the recommendations arising.**

RECOMMENDATIONS: The Committee is asked to note the report

1. Background

1.1 The Local Audit and Accountability Act 2014 introduced a new audit regime for local government to replace the previous arrangements, under which the Audit Commission performed that role. In June 2019, Sir Tony Redmond was asked to undertake an independent review of the effectiveness of local audit as now practised and the transparency of local authority financial reporting. The guiding principles were ones of accountability and transparency. How are local authorities accountable to service users and taxpayers and how are auditors accountable for the quality of their work; and how easy is it for those same individuals to understand how their local authority has performed and what assurance they can take from external audit work?

1.2 The review received 156 responses to a Call for Views and conducted over 100 interviews. The report, "Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting" is attached at Appendix 1. The key findings and recommendations from the report are set out in sections 2 and 3 respectively below.

2. Key Findings

2.1 Local Audit Arrangements: the most significant finding was the lack of coherence in local audit arrangements, including the approach to procure audit. There were concerns expressed regarding the effectiveness of local audits, some of which being linked to the fee structure. The report reflects that fees are probably 25% less than they should be, which has impacted on the quality of auditors and, in particular, the level of experience and knowledge of local authorities. This is evidenced in part by the fact that 40% of the 2018/19 audits were not completed by the deadline of 31 July 2019.

2.2 Governance Arrangements: the report raised whether Audit Committees understand the issues sufficiently to question and challenge in an effective way. There are relatively low numbers of independent Audit Committee members, little communication between Audit Committees and inspectors and no formal exchange of views. Internal Audit is not used by External Audit as the code of practice does not require them to liaise with internal audit work. The report observes that there is no real relationship between the Audit Committee and Full Council, with very few reports passing on to Full Council from the Audit Committee. There is also a question around the role of the three statutory officers (Chief Executive, Monitoring Officer and S151 Officer) have in engaging with the external auditors, either together or individually.

2.3 Reporting: The report observes that the current arrangements do not allow the public to understand the accounts. There is more that can be done to improve their transparency and accessibility as to what local authorities do.

3. Report Recommendations

3.1 The report puts forward 23 recommendations to the Sectary of State for Housing, Communities and Local Government for consideration, including:

3.2 Local Audit Arrangements:

- A **new 'Office of Local Audit Regulation' (OLAR) to be established**, having responsibility for procuring, managing, overseeing and regulating local audits. OLAR would include the current responsibilities fulfilled by Public Sector Audit Arrangements Ltd (PSAA), National Audit Office (NAO) and Financial Reporting Council (FRC), with staff being TUPE'd to the new body. There will be a Liaison Committee chaired by the Ministry of Housing, Communities and Local Government (MHCLG) comprising FRC, NAO, Institute of Chartered Accountants in England and Wales (ICAEW), Chartered Institute of Public Finance and Accountancy (CIPFA), Local Government Association (LGA) and authority representatives, as well as Probation, Home Office and Audit Partners. The Committee would meet quarterly and provide a link to the regulator, as well as providing a facility for feedback and commentary in how local audits are being undertaken. The report emphasises that this is not a recreation of the Audit Commission, with staff numbers in the region of 30-35. OLAR could impose sanctions where there are significant issues in a local authority, for example, for financial resilience issues where MHCLG are needed to intervene.

- **Fee structure needs to be revised to reflect the true cost** with local audit firms included.

3.3 Governance:

- At least **1 independent member will be required on each Audit Committee**.

- There will be a **requirement for the authority's three statutory officers to meet External Audit at least annually**.

- There will be a requirement for **Audit Committee members to receive appropriate training.**

- It is proposed to move the **audit completion date back to 30 September** each year from the current 31 July. Due to COVID-19 the 2019/20 deadline was moved to 30 November 2020.

- **The annual audit report to be presented to the first Full Council meeting after 30 September by the External Auditor**.

- There is a recognition that auditors must have skills and training required but so must the local authority finance staff. Also noted that there needs to be in place an **induction programme for new S151 Officers** on the Statement of Accounts and audit requirements.

3.4 Financial Reporting:

- A **new standardised statement of service information and costs to be prepared to enable comparison with the approved budget to the statutory accounts.** CIPFA will be consulting on a proposed format for the new statement, which will be trialled for the 2020/21 year end. If adopted, the statement will be subject to audit.

- CIPFA will be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of the local authority accounts by removing disclosures that may no longer be considered necessary.

4. Conclusion and Recommendation

4.1 The Redmond Report is presented to the Audit Committee for information. The report has a number of key findings and recommendations which have been presented to the Secretary of State for Housing, Communities and Local Government. The response to the report is awaited and therefore, it is unclear as to whether any of the recommendations will be accepted.

4.2 The response from the Secretary of State for Housing, Communities and Local Government will be brought to the Audit Committee when available.

IAN GUTSELL
Chief Finance Officer

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Local Member(s): All

Background Documents: None

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Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Sir Tony Redmond
September 2020

This document/publication is also available on our website at www.gov.uk/mhclg

If you have any enquiries regarding this document/publication, complete the form at http://forms.communities.gov.uk/ or write to us at:

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September 2020

The Rt Hon Robert Jenrick MP

Secretary of State for Housing, Communities and Local Government
Ministry of Housing, Communities & Local Government
2 Marsham Street
London, SW1P 4DF

Dear Secretary of State,

In June 2019, I was asked to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. I am grateful for the opportunity given to me by ministers to conduct this Review. Whilst conducting the Review my guiding principles have been accountability and transparency. How are local authorities accountable to service users and taxpayers and how are auditors accountable for the quality of their work; and how easy is it for those same individuals to understand how their local authority has performed and what assurance they can take from external audit work.

This report sets out my conclusions. It makes detailed proposals for a new organisation with the clarity of mission and purpose to act as the system leader for the local audit framework; and for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users.

As I conducted my work, it became clear that the local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. In addition, the ambition of attracting new audit firms to the local authority market has not been realised. Without prompt action to implement my recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

It will be possible to achieve part, but only part, of what needs to be done without legislation. However, it is important to emphasise that to fully achieve the vision set out in the Review, primary legislation will be essential. Only this can give the new organisation the tools it needs to do its job and to rebuild the sustainability of the local audit market.

I should like to thank:

- First, all those stakeholders who have engaged with the Review and responded to the Review's Call for Views;
- Second, the excellent team which has supported the Review's work: Ollie Hulme, Joe Pilgrim, Beth Addison and Gareth Caller; and
- Third, all the members of the Review's advisory group: Lynn Pamment, Maggie McGhee, Professor Laurence Ferry, Catherine Frances, Vicky Rock, Richard Hornby and Mark Holmes. This formidable group provided much wise guidance and counsel, as well as lively challenge and debate, for which I am hugely grateful.

Responsibility for the Review's conclusions and recommendations, is however, mine and mine alone.

Sir Tony Redmond

Sir Tony Redmond

Contents

Executive Summary ... 3
Recommendations ... 5
1. Introduction ... 8
2. The direction and regulation of local audit ... 10
3. Procurement of local audit ... 19
4. Audit performance ... 26
5. Governance arrangements in place for responding to audit recommendations ... 39
6 Audit work on the financial resilience of local authorities ... 46
7. Financial reporting in local government ... 56
8. Smaller authorities ... 64
9. Conclusions ... 72
10. List of Annexes ... 75
Appendix – Glossary of Key Terms, Acronyms and Abbreviations ... 76

Executive Summary

- This Review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It has also considered whether the current means of reporting the Authority's annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound. It is important to note that this Review encompasses not only principal local authorities but also PCCs, Fire and Rescue Authorities, Parish Councils and Meetings and Drainage Boards.

- The Review has received 156 responses to the Calls for Views and carried out more than 100 interviews. Serious concerns have been expressed regarding the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms. This is not to say that the audits are carried out unprofessionally but there remains a question of whether such audit reports deliver full assurance on the financial sustainability and value for money of every authority subject to audit. A particular feature of the evidence submitted relates to concern about the balance of price and quality in the structure of audit contracts.

- A regular occurrence in the responses to the calls for views suggests that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. To address this concern an increase in fees must be a consideration. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. The current deadline should be reviewed. A revised date of 30 September gathered considerable support amongst respondents who expressed concern about this current problem. This only in part addresses the quality problem. The underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process. Although there is some scope to effect alterations to the individual roles, appropriately fulfilled with the existing framework, this would not achieve the overriding objective of providing a coherent local audit function which offers assurance to stakeholders and the public in terms of performance and accountability of the local authority and the auditor.

- Consequently, a key recommendation is to create a new regulatory body responsible for procurement, contract management, regulation, and oversight of local audit. It is recognised that the new body will liaise with the Financial Reporting Council (FRC) with regard to its role in setting auditing standards. The engagement of audit firms to perform the local audit role would be accompanied by a new price/quality regime to ensure that audits were performed by auditors who possessed the skills, expertise and experience necessary to fulfil the audit of local authorities. These auditors would be held accountable for performance by the new regulator, underpinned by the updated code of local audit practice. A further recommendation is to formalise the engagement between local audit and Inspectorates to share findings which might have relevance to the bodies concerned.

- The Regulator would be supported by a Liaison Committee comprising key stakeholders and chaired by the Ministry of Housing, Communities and Local Government (MHCLG). The new regulatory body would be small and focused and would not represent a body which has the same or similar features as the Audit Commission.

- The report recognises that local audit is subject to less critical findings in respect of audit procurement and quality relating to smaller authorities. However, the recommendations include a review by Smaller Authorities' Audit Appointments (SAAA) of current arrangements relating to the proportionality of small authority audits together with the process for managing vexatious complaints where issues have been raised by those bodies which have experienced such challenges.

- Governance in respect of the consideration and management of audit reports by authorities has also been examined in considerable detail. Based on evidence presented, there is merit in authorities examining the composition of Audit Committees in order to ensure that the required knowledge and expertise are always present when considering reports, together with the requirement that at least an annual audit report to be submitted to Full Council. This demonstrates transparency and accountability from a public perspective which is currently lacking in many authorities.

- The issue of transparency is of equal relevance to the current presentation and publication of the annual accounts. Given that the feedback from practitioners and other key stakeholders revealed that current statutory accounts prepared by local authorities are considered to be impenetrable to the public, it is recommended that a simplified statement of service information and costs is prepared by each local authority in such a way as to enable comparison with the annual budget and council tax set for the year. This would enable Council taxpayers and service users to judge the performance of the local authority for each year of account. The new statement would be prepared in addition to the statutory accounts, which could be simplified. All means of communicating such information should be explored to achieve access to all communities.

- The outcome of this Review is designed to deliver a new framework for effective local audit and an annual financial statement which enables all stakeholders to hold local authorities to account for their performance together with a robust and effective audit reporting regime.

- Aside from the additional costs arising from a fee increase, the resource implications of the new regulatory body would amount to approximately £5m per annum after taking into account the amount related to staff subject to transfer under the TUPE arrangements.

- Implementation of recommendations contained in this Review would, in part, require regulatory or legislative change but it is important to note that many of the issues identified in this report require urgent attention, given the current concerns about local audit demonstrated in this Review.

Recommendations

The recommendations of this Review are as follows:

External Audit Regulation

1. A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit with the following key responsibilities:
    - procurement of local audit contracts;
    - producing annual reports summarising the state of local audit;
    - management of local audit contracts;
    - monitoring and review of local audit performance;
    - determining the code of local audit practice; and
    - regulating the local audit sector.

2. The current roles and responsibilities relating to local audit discharged by the:
    - Public Sector Audit Appointments (PSAA);
    - Institute of Chartered Accountants in England and Wales (ICAEW);
    - FRC/ARGA; and
    - The Comptroller and Auditor General (C&AG)

   to be transferred to the OLAR.

3. A Liaison Committee be established comprising key stakeholders and chaired by MHCLG, to receive reports from the new regulator on the development of local audit.

4. The governance arrangements within local authorities be reviewed by local councils with the purpose of:
    - an annual report being submitted to Full Council by the external auditor;
    - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
    - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.

6. The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.

7. That quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.

8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.

9. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.

10. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.

11. The revised deadline for publication of audited local authority accounts be considered in consultation with NHSI(E) and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.

12. The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.

13. The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.

Smaller Authorities Audit Regulation

14. SAAA considers whether the current level of external audit work commissioned for Parish Councils, Parish Meetings and Internal Drainage Boards (IDBs) and Other Smaller Authorities is proportionate to the nature and size of such organisations.

15. SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.

16. SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.

Financial Resilience of local authorities

17. MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.

18. Key concerns relating to service and financial viability be shared between Local Auditors and Inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor's Annual Report.

Transparency of Financial Reporting

19. A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts.

20. The standardised statement should be subject to external audit.

21. The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.

22. CIPFA/LASAAC be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope

to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.

23. JPAG be required to review the Annual Governance and Accountability Return (AGAR) prepared by smaller authorities to see if it can be made more transparent to readers. In doing so the following principles should be considered:
    - Whether “Section 2 – the Accounting Statements” should be moved to the first page of the AGAR so that it is more prominent to readers;
    - Whether budgetary information along with the variance between outturn and budget should be included in the Accounting Statements; and
    - Whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the Accounting Statements.

1. Introduction

1.1 The Local Audit and Accountability Act 2014 (the 2014 Act) introduced a new Audit regime for local government to replace the previous arrangements, under which the Audit Commission performed that role. This Review examines the effectiveness of local audit as now practised.

1.2 The purpose of the Review is to test not only the impact of external audit activity in local government but also to look, critically, at how this helps to demonstrate public accountability, particularly to service users and council taxpayers. In a similar context the brief of the Review extends to the issues of transparency in financial reporting of local authorities, with attention being directed towards whether the annual accounts and associated published financial information can be readily understood by the public.

1.3 The framework for local audit encompasses procurement, contract management and delivery, the code of audit practice and regulation and accountability for performance. All of these aspects of local audit have been examined in depth. Whilst the focus of this Review is on local audit and public accountability there are a number of related factors which have contributed to the shape and nature of the findings. Such matters include: the breadth and complexity of International Financial Reporting Standards (IFRS); the role of the sponsoring department (MHCLG); and the current state of the local audit market. Local authorities include Councils, Police and Crime Commissioners (PCCs), Fire and Rescue Authorities (FRAs), and National Parks Authorities. NHS bodies are not local authorities and are outside the scope of this Review.

1.4 It is also important to emphasise that the Review includes the functions of Police and Fire Services as well as Parish Councils and Drainage Boards and due regard has been paid to the specific requirements of these bodies, as appropriate.

1.5 Substantial evidence has been collated from the ‘Call for Views’ and individual stakeholder meetings and this has formed the basis of the Report’s findings. The co-operation received from all interested parties including local government practitioners, audit firms, professional accounting bodies, academia and the media and the general public has been much appreciated. All parties who have participated in the Review share a desire to ensure local audit is effective and that public accountability is seen to be achieved. The approach to the Review has sought to harness those valuable contributions.

1.6 Attention has been paid to the findings of the Brydon and Kingman Reviews as well as the study carried out by the Competition and Markets Authority (CMA). Each of these reviews offers an insight into the principles and practices of auditors in the corporate sector, which have relevance to the public sector, including local government.

1.7 While testing the quality of outcomes has been a key feature of this approach, attention has been directed towards the governance arrangements in the way in which audit reports are managed and reported. The focus here has been on the level of public awareness of audit findings. Current practices relating to the annual publication of financial information have also been reviewed with an emphasis on the transparency, access and intelligibility of such reports.

1.8 In examining options for change to the current local audit arrangements, account has also been taken of the potential resource implications of any new initiative or development contained in the recommendations.

Sir Tony Redmond

Sir Tony Redmond

2. The direction and regulation of local audit

2.1 Introduction

2.1.1 The direction and regulation of local audit must be structured as to enable public accountability to be served. Each stage of the local audit process must adhere to this and remain consistent throughout. Ultimately, the direction and regulation of audit must be coherent, consistent in quality monitoring and fulfil the public accountability principle. The test, therefore, is whether the current arrangements deliver that, or can be altered to achieve that, or whether a new structure for the local audit regulatory framework needs to be put in place.

2.1.2 Public Interest Reports may be seen as relating to the local community's serious concern, but these are rarely used. In any event, council taxpayers are entitled to know the outcome of the annual statutory audit whether it be positive or negative.

2.2 Overview of the Regulatory Framework

2.2.1 The 2014 Act split the responsibilities formerly carried out by the Audit Commission between a range of bodies. **Figure 2.1** summarises the entities that have a significant role or influence on the accounting, audit and governance framework within which local authorities operate.

2.2.2 Currently there are six different entities with a statutory role in overseeing and/or regulating elements of the local authority accounting and audit framework. This framework is further complicated by the fact that different elements apply to different sectors. The elements of the audit framework undertaken by the C&AG, FRC and the ICAEW apply jointly to the local authorities and NHS bodies in England. However, whereas PSAA is the appointing body for 98% of local authority audits, NHS bodies do not have an appointing body and as such appoint their own auditors. By comparison the accounting framework applies to local authorities in England, Scotland, Wales and Northern Ireland, but not to the NHS.

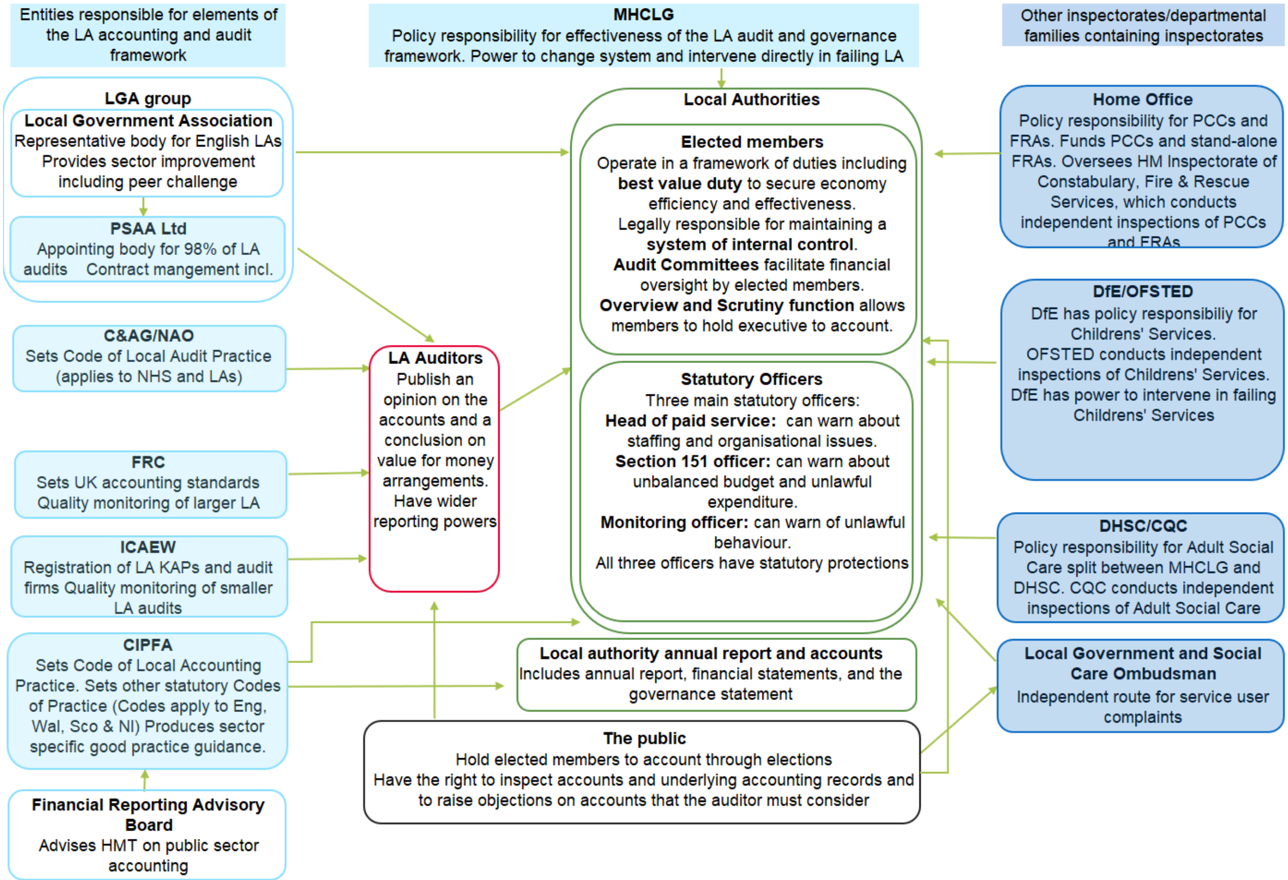
2.2.3 Another challenge is that the local authority sector is not the main focus for some of the regulatory bodies; specifically:

- The C&AG and National Audit Office's (NAO's) responsibilities relate mainly to holding central government departments to account on behalf of Parliament.
- The vast majority of the FRC's and the ICAEW's work relates to the private sector, and in the FRC's case, to regulating the audit and corporate governance arrangements within listed companies known as Public Interest Entities ("PIEs").

2.2.4 Finally, none of the six entities with responsibility for the different elements of the framework has a statutory responsibility, either to act as a system leader or to make sure that the framework operates in a joined-up and coherent manner. Although various ad hoc forums have been set up to share information, it is not clear how the membership and remit of these has been agreed. As a result, the lack of co-ordination and the lack of a system leader is widely recognised as a weakness in the framework by most of the stakeholder groups.

Figure 2.1

The Local Authority Governance, Audit and Accounting Framework 2018-19



Notes
1. Adapted from Figure 1 in NAO report *Local Authority Governance* (Jan 2019)
2. There are other statutory officers in local authorities, but between them, the three listed have overall responsibility for effective goverance
3. Arrows show the influences on local authority governance arrangements
4. In a Police and Crime Commissioner or Fire and Rescue Authority, the Commissioner is the sole elected member; in a Mayoral Combined Authority, the mayor is the sole
5. Audit Committees are mandatory in PCCs, stand-alone FRAs and mayoral combined authorities. They are not mandatory for other LAs.
6. ICAS also has the power to act as a registering body for KAPs and audit firms. However, following mergers, no firms active in England are currently registered with ICAS.
7. MHCLG part funds the LGA's sector improvement work

2.3 Functions of the bodies responsible for the framework

PSAA Ltd

2.3.1 One of the original objectives behind the 2014 Act was to widen participation in the local audit market by allowing local authorities to appoint their own auditors. Once the Act had passed, it became clear that the auditor appointment provisions in the 2014 Act were onerous and there was little appetite amongst local authorities to appoint their own auditors. As a result, MHCLG ran a tender exercise to identify an entity which would act as an appointing person for local authority audits.

2.3.2 PSAA, a new company set up by the Local Government Association (LGA), was the only bidder and accordingly was designated as an appointing person under legislation. Under the transitional arrangements, PSAA was given the responsibility of managing the framework contracts let by the Audit Commission in 2012 and 2014, and during the period to 2017-18 producing a report summarising the results of local authority and NHS audits.

2.3.3 Category 1 Authorities[1] were given the choice of opting in or out of the PSAA arrangements. Most (currently 98%) chose to opt in.

2.3.4 In 2017 PSAA let the new local audit framework contracts, active from the 2018-19 financial year. PSAA's current responsibilities[2] are:

- To perform the functions of an appointing person for local authority audits;
- To take steps to ensure that public money is properly accounted for and protected;
- To oversee the delivery of consistent high quality and effective audit services; and
- To ensure effective management of audit contracts.

More detail on the contracting process and on audit quality is contained in **Chapters 3 and 4** respectively.

The C&AG and the NAO

2.3.5 The C&AG is responsible for laying the Code of Local Audit Practice in Parliament. The C&AG is supported in this work by a small Local Audit Code and Guidance (LACG) team, which is part of the NAO. The LACG team is responsible for the preparation, maintenance and publication of the C&AG's Code of Audit Practice and supporting guidance to auditors. LACG undertakes the full range of activities associated with these responsibilities including:

- providing a point of contact to address significant issues raised by auditors and other stakeholders that may require the update of the Code of Audit Practice or issuing guidance to auditors; and
- facilitating timely engagement with, and advice to, auditors and other stakeholders to facilitate consistency of approach on significant issues – for example, through convening and providing secretariat support to a Local Auditors Advisory Group.

2.3.6 The 2014 Act provides the C&AG with the power to issue guidance to auditors which may explain or supplement the provisions of the Code of Audit Practice. The Act requires auditors to have regard to such guidance. The NAO maintains a series of Auditor Guidance Notes (AGNs) to support auditors in their work and facilitate consistency of approach between auditors of the same types of entity. The 2015 Code is supplemented by seven AGNs. These apply equally across local government and the NHS. The AGN on value for money arrangements is supplemented by sector specific supporting information.

2.3.7 The 2014 Act gives the C&AG the responsibility for undertaking value for money investigations on local government. However, the C&AG does not have the power to make recommendations directly to local authorities. This means that when a value for money study finds that one or more local authorities have breached either the letter or the spirit of the statutory framework, the accompanying recommendations must be addressed to MHCLG or Treasury, if they relate to the Public Works Loan Board, as the responsible central government departments.

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[1] "Category 1 authority" means a relevant authority that either— (a) is not a smaller authority; or (b) is a smaller authority that has chosen to prepare its accounts for the purpose of a full audit in accordance with regulation 8 of the Smaller Authorities Regulations
https://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

2.3.8 The main roles of the C&AG and the NAO are to support Parliament in holding government to account, through auditing the accounts of government departments and arms-length bodies and undertaking value for money investigations. When the NAO undertook the 2019 study on Local Authority Governance, which included work on local authority audit, the team did not include the Audit Code within the scope of the review. This was to avoid the risk of self-review. As a result, the findings of that report could not take account of an element of the governance framework.

The Financial Reporting Council

2.3.9 The FRC is responsible for issuing standards and guidance to auditors for use in the UK. The suite of standards is known as *International Standards on Auditing (UK)*, and apply equally to audits of local authorities and entities in other sectors.

2.3.10 During the transitional arrangements operating from 2015-16 to 2017-18, the FRC had no formal responsibility for assessing the quality of local authority audit. PSAA took the decision to contract the FRC to undertake six quality assurance reviews of local authority audits, with coverage of at least one from each firm. In practice, the FRC conducted quality assurance reviews of seven audits in both 2016-17 and in 2017-18. This is because the FRC's methodology requires them to re-review all audits that received an unsatisfactory quality assurance review score in the prior year. The results of these quality reviews are discussed in **Chapter 4**.

2.3.11 From 2018-19, the FRC has taken on statutory responsibility for quality assurance reviews of the 230 larger local authority audits. It treats the NHS and local government bodies as a single population and, to maintain equivalence with their coverage of the audit of PIEs, look to cover at least 5% of that population in each year. For 2018-19, the sample included 3 NHS bodies and 12 local authorities. Because some of the audits originally selected for quality review were not complete when the FRCs Audit Quality Review team conducted its fieldwork, these had to be replaced with other audits. The results of the 2018-19 quality assurance reviews are expected to be available in the Autumn of 2020.

2.3.12 The methodology adopted for quality assuring audits in local authority sector is broadly equivalent to that of the Public Interest Entities sector. The review team focuses on what is on the audit file and assesses the extent to which that complies with the applicable quality framework. The document review is supplemented by meetings with the audit team and the Chair of the Audit Committee.

2.3.13 Formal client communications are included within the scope of the quality review. However, ongoing liaison between auditors and local authorities would be assessed only if included on the audit file.

2.3.14 Unlike for PIE audits, the FRC does not have the power to fine audit firms if the quality of their local authority audits proves to be deficient. However, all of the firms active in the market indicated that they are very conscious of the reputational damage of a poor rating from the FRC for one of their local authority audits.

2.3.15 FRC is of the view that the perception that it focuses mainly on asset valuations understates the scope of their quality reviews. It also believes that if a focus on asset and pension valuations is inappropriate, this is the responsibility of the partnership between CIPFA (England, Northern Ireland and Wales) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) known as CIPFA/LASAAC to resolve, through modifications to the Accounting Code.

2.3.16 The FRC is in the process of being reconstituted as the Audit Reporting and Governance Authority (ARGA) in line with the recommendations made in the Kingman Review. Sir Donald Brydon also recently published a report that made a number of recommendations to develop corporate auditing as a profession. As the FRC and the Department for Business, Energy & Industrial Strategy (BEIS) consider these recommendations, there is a risk of divergence between the focus and methodologies used to quality assure external audit engagements. Managing this interaction will require ongoing engagement.

ICAEW

2.3.17 The ICAEW has two statutory functions. Since 2015 it has been responsible for maintaining the register of audit firms and Key Audit Partners (KAP) authorised to sign off local authority audits; and since 2018-19 it has been responsible for quality assurance reviews of the 313 smaller local authority audits. The framework for approving firms and partners is tightly controlled by legislation.

2.3.18 Like the FRC, the ICAEW treats local authorities and NHS bodies as a single population for quality assurance review purposes. The 2018-19 quality assurance process is ongoing. ICAEW has selected 15 audits for quality assurance review, split roughly two thirds local government and one third health. The results of this quality assurance review process are not yet available.

2.3.19 Similarly to the FRC, the ICAEW quality assurance reviews focus on what is on the audit file and assesses the extent to which that complies with the applicable quality framework. The methodology used to assess the audits of English local authorities is the same as is used to assess audits undertaken by the Auditor General for Wales. This methodology does not require review teams to meet with Audit Committee chairs. As with the FRC, the ICAEW does not have any powers to fine or otherwise sanction auditors whose audits do not meet appropriate quality standards.

2.3.20 ICAEW and the FRC liaise to make sure that all audits fall within one or other of their sample populations and use, broadly, the same quality ratings. Both use well established methodologies to arrive at those ratings.

CIPFA

2.3.21 CIPFA has a dual role. It has been given the statutory responsibility for producing many of the finance related codes of practice that local authorities are required to observe. At the same time, it is a professional institute that represents the majority of accountants working in the local government sector, including most CFOs.

2.3.22 The Accounting Code is prepared by a small secretariat employed by CIPFA who report to the CIPFA/LASAAC Accounting Code Board ("CIPFA/LASAAC"). CIPFA/LASAAC is responsible for preparing, maintaining, developing and issuing the Code of Practice on Local Authority Accounting for the United Kingdom. Its membership primarily comprises accounts preparers representing the different types of authorities in England, Scotland, Wales and Northern Ireland, the Supreme Audit Institutions, and a representative of one of the external audit firms active in the sector in England. The FRC along with representatives of MHCLG and the Scottish, Welsh and Northern Irish governments have observer status on CIPFA/LASAAC.

2.3.23 In England CIPFA/LASAAC is supported by a CIPFA facilitated Local Authority Accounting Panel, which focuses on local government accounting and financial reporting issues and produces guidance for practitioners.

2.3.24 The Accounting Code could be characterised as long and complex. Part of the reason for this is the challenge of writing a Code that covers four countries, each of which has its individual statutory framework with a different set of statutory adjustments and disclosures. In addition to this, CIPFA has taken the decision to draft a highly prescriptive Code that provides detailed guidance on the correct accounting for each class of transactions. An alternative approach would be to draft a principles-based Code, which requires local authorities to comply with generally accepted accounting practice ("GAAP") and only provides detailed guidance where GAAP is adapted or interpreted, specifically for the local authority context. **Chapter 7** covers the accounting framework in more detail.

Assessment of whether an existing body could act as the system leader

2.3.25 The detailed analysis of the bodies responsible for the framework supports the conclusion reached in Sir John Kingman's Independent Review of the Financial Reporting Council:

"*The structure is fragmented and piecemeal. Public sector specialist expertise is now dispersed around different bodies. The structure means also that no one body is looking for systemic problems, and there is no apparent co-ordination between parties to determine and act on emerging risks*"[2]

2.3.26 The Kingman Review recommended that the fragmented structure be resolved by designating a single body as the system leader. When asked whether an existing body or a new body would be best placed to take on the role of a system leader, 82% of respondents expressed a preference for a single regulatory body. Many stakeholders who were interviewed also agreed. The other suggestions made were either that the C&AG or the FRC should take the role of system leader.

2.3.27 The C&AG clearly has the relevant experience and expertise to take on such a role. However, taking on responsibility for an element of a framework that is the policy responsibility of a government department could significantly increase the risk of a conflict of interest with the C&AG's main responsibility, which, as already stated, is to hold government departments to account on behalf of Parliament.

[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767387/frc-independent-review-final-report.pdf

2.3.28 As the regulator for the audit profession in the UK, the FRC will continue to have an important role in setting standards for all external auditors, including those working in local public audit. However, the FRC's main focus is corporate sector external audit, and to be fully effective the system leader for local public audit will need to demonstrate detailed expertise and a clear focus on that sector.

2.4 Interactions with other inspectorates

2.4.1 There are a number of other inspectorates who cover the local authority sector. Ofsted and the CQC assess the effectiveness of children's services and adult social care respectively in authorities with those statutory responsibilities; HM Inspectorate of the Constabulary and Fire and Rescue Services (HMICFRS) undertakes independent inspections of PCCs and FRAs covering both service delivery and financial planning; the Local Government and Social Care Ombudsman (LGSCO) looks at individual complaints against councils, all adult social care providers in both public and private sector, FRAs, and some other organisations providing local public services; and the Independent Office for Police Conduct performs the same function for PCCs.

2.4.2 Evidence suggests that where a local authority receives an "Inadequate" rating for its children's services, the auditor as a general rule qualifies the value for money conclusion. For example; when PSAA published its summary report on the results of 2017-18 audit work, it listed 32 qualified Value for Money (VfM) opinions; half of these were due to an "inadequate" Ofsted rating[3]. The auditor's value for money conclusion remains qualified until a future Ofsted inspection finds that children's services are no longer "Inadequate". Local authorities questioned the benefits of including Ofsted judgements in the audit report. The circumstances supporting an "inadequate" Ofsted rating are fully explained in a detailed and publicly available report. In the light of this there is a question as to how qualifying the VfM opinion solely for this reason fully reflects the governance arrangements within the authority that could be brought to the attention of elected representatives and other key stakeholders. When asked whether a value for money opinion should be qualified solely because a local authority has received an inadequate Ofsted opinion or a similar opinion from another inspectorate, 97% of respondents thought that it should not. There is no evidence of reports by other inspectorates leading to modifications to the auditor's opinion.

2.4.3 We have been told by external audit firms and local authorities that external auditors utilise inspectorate reports on a case by case basis. There is little evidence of any additional dialogue between external audit and other inspectorates to discuss inspectorate reports or take into consideration any improvements that a local authority may have made since an inspectorate rating had been issued. This is a change from practice since prior to 2015, where external auditors and inspectorates liaised much more frequently. Whilst external audit firms were broadly in agreement that there should be engagement with inspectorates, many felt that the current arrangements were sufficient.

[3] Report on the results of auditor's work (Oct 2018) – list of qualified opinions will not include LAs where the 2017-18 audit was concluded after the PSAA report was published.

2.4.4 Whilst recognising that each inspectorate focuses on a different area, there is a question as to whether more liaison may add value. Many examples of service delivery and financial failures are underpinned by weaknesses in governance and senior leadership. Given this, it may be valuable for the auditor or an inspector that has concerns, to find out if those concerns are reflected in other areas of a local authority's business or indicative of wider financial resilience issues.

2.5 The role of MHCLG

2.5.1 The Ministry of Housing, Communities and Local Government (MCHLG) has a statutory role in regulating and monitoring the financing and service delivery of local government. The Accounting Officer within the Department has responsibility for overall expenditure control within local authorities given the funding regime under which the sector operates. In addition, he has policy responsibility for the effective operation of the local authority audit and accounting framework.

2.5.2 Support to the Accounting Officer in fulfilling these responsibilities is split between two directorates:

- Local Government Finance; and
- Local Government and Communities (formerly Local Government Policy)

Local Government Finance

2.5.3 This Directorate covers payments to local authorities through the grant system, has responsibility for business rates and council tax policy, oversees borrowing, capital and fiscal arrangements and is responsible for assessing the financial sustainability of local government. When a local authority experiences financial difficulty, it is the Local Government Finance Directorate that usually leads the government response. It also provides the MHCLG representation on CIPFA's accounting panels.

Local Government and Communities

2.5.4 This Directorate has overall responsibility for MHCLG's local government assurance framework as set out in the Accounting Officer's system statement. Regular advice is given to the Accounting Officer on whether the framework for which he is responsible is operating effectively.

2.5.5 The directorate includes a team that maintains a view of local authorities where concerns exist about financial resilience, service delivery or officer/member conduct issues. In appropriate circumstances this may lead to statutory interventions into local authorities or, alternatively, statutory support. Qualified audit opinions are considered a part of this view.

2.5.6 Another team has responsibility for the local audit policy framework, the 2014 Act and the Accounts and Regulations 2015, managing relationships with PSAA, SAAA, NAO, ICAEW, Institute of Chartered Accountants of Scotland (ICAS) and FRC insofar as their activities relate to the local audit framework and logging Public Interest Reports.

2.5.7 In 2014 the team responsible for local audit set up a Local Audit Delivery Board to support implementation of the 2014 Act. In 2018, it became the Local Audit Monitoring

Board, with revised terms of reference and expanded membership. The Board comprises representatives of relevant departments and framework bodies to facilitate sharing of information about the operation of the framework. This Board is a consultative body, that holds meetings in private and has no formal powers or remit.

2.5.8 In viewing these roles from a local authority perspective, it is clear that MHCLG provides a national oversight of the financing of local government, capital and revenue spending, accounting arrangements and financial resilience. This work is substantial and seeks to offer assurance regarding the financial stability of individual local authorities and it includes, within its brief, responsibility for testing adherence to legislation and regulations governing local audit.

2.5.9 The responsibility for regulating local audit sits elsewhere yet MHCLG has a key role in offering assurance about the financial health of local authorities. The intelligence network and information flow relating to accounting and audit reporting on financial sustainability should reach MHCLG in a structured, timely and coordinated fashion. Given the strategic roles that the Department and The Accounting Officer carry it is crucial that systems and procedures are in place to enable this to happen. Clarity, coherence and consistency in fulfilling the Department's role are key to helping to ensure effective local audit.

3. Procurement of local audit

3.1 Statutory framework and eligibility criteria

3.1.1 In order to bid for a local authority audit, both audit firms and every individual responsible for signing off an audit opinion, typically but not always a KAP, needs to be pre-approved either by ICAEW or ICAS. Eligibility criteria are set out in Schedule 5 to the 2014 Act. These criteria stipulate that it is impossible to bid for local authority audits unless both the firm and each nominated KAP has recent experience of undertaking local authority audits. It is difficult for new entrants to enter the local authority market as a consequence of these criteria as audit firms not currently in the market are unable to gain the relative knowledge and expertise that would be required to become a KAP.

3.1.2 Despite the high barriers to entry, since 2016 there has been a 7% increase in the number of KAPs eligible to sign off local authority Audits. Firms active in the market continue to register new KAPs. 39% of KAPs currently registered were not KAPs in 2016, with the firms with a smaller market share being responsible for much of this increase. However, the headline KAP figure is slightly misleading. The number of KAPs has declined by 13% once those who are working for firms who do not currently hold contracts with PSAA are excluded.

Figure 3.1

Number of Key Audit Partners registered with ICAEW

Firm	2016	2020
BDO	5	7
EY	13	16
GT	32	26
Mazars	4	10
KPMG	22	23
Deloitte	6	8
Total KAPs (Firms holding contracts with PSAA)	76*	67*
Cardens	0	1
Moore Stephens	2	0
PWC	12	9
Scott-Moncrieff	0	3
Total KAPs	96	103

** Deloitte did not hold any PSAA contracts in 2016. KMPG does not currently hold any PSAA contracts.*

3.1.3 There is a risk that the Competition and Markets Authority: Statutory Audit Services Market Study[4] recommendation to implement an operational split between the Big Four's audit and non-audit businesses, to ensure maximum focus on audit quality will further reduce the number of KAPs qualified to sign off local authority audits. KAPs may be responsible for a mixture of external audit, internal audit and consultancy engagements. If required to choose between specialisms, there is, of course, no guarantee that they will opt for external audit.

[4] See Annex 5 for a more detailed analysis of the potential impacts of the CMA, Kingman and Brydon recommendations for local audit.

3.2 The 2017 procurement process

3.2.1 As detailed in **Chapter 2**, PSAA took over the administration of the bulk audit contracts let by the Audit Commission in 2014. These ran from 2015-16 to 2017-18. They comprised five lots let on a regional basis. In 2017 PSAA ran a new procurement to contract for local authority audits for the period 2018-19 to 2022-23.

3.2.2 PSAA chose to split lots by market share rather than on a regional basis. The reason for this was a concern that some regions could prove less popular with bidders than others. They also checked for potential conflicts of interest. Five lots comprising between 40% and 5% of the total market were let, each for a period of five years. No firm could win more than one lot. A sixth lot with no guaranteed work was let, with the aim of providing some resilience in the market.

3.2.3 Local authorities were notified of the lot to which they had been allocated and were given the opportunity to request transfer to a different lot; for example, if they were in a shared service arrangement with an authority in a different lot. Seven local authorities asked for their audit to be transferred to a different lot. Five of these requests were accepted.

3.2.4 Of the nine firms registered to undertake local authority audits seven bid for one or more lots. One firm decided not to bid and a second was excluded from the bidding process by PSAA because it felt the firm was too small to have a realistic chance of submitting a competitive bid.

3.2.5 Assessment of audit firms was split 50:50 between price and quality, compared to the final Audit Commission procurement which was done on a price quality ratio of 60:40. The team assessing quality scores was not given sight of the price each firm had bid. In addition, PSAA asked an ex-District Auditor working for the LGA to quality assure the assessors' quality scores. The assessment of quality was based solely on the tender documents submitted. Past performance was not considered.

3.2.6 One of the firms bid at a much higher price point than the other firms. This generated such a low "price" score that it was effectively impossible for its quality score to make up sufficient difference to win a lot.

3.2.7 Although the headline quality price ratio was 50:50, as highlighted in **Figure 3.2**, many of the questions included in the quality score do not directly relate to factors impacting audit quality.

3.2.8 Four firms bid for the largest two lots (including the firm who priced themselves out of the market); and six for the remaining four lots. Each successful firm was eliminated from consideration for each smaller lot, leaving only two firms from which to choose when awarding Lot 5.

3.2.9 After excluding the firm that priced itself out of the market, the firms awarded the five contracts were those with the highest quality scores. The firm with the highest quality score won the largest lot; the second highest quality score the second highest lot; and there was a marginal difference between the quality scores for the other successful firms.

Figure 3.2: Audit Quality Questions – PSAA tender document

Question number	Question	Weighting	Maximum weighted score
1.1 and 1.2	Confirmation of information in SQ Response; and other declarations; Guarantee (if applicable) and completed, unqualified Form of Tender	N/A	N/A
2.1	Identifying and addressing risks and issues and engaging with different stakeholders	0.5	5
2.2	Continuing professional development	0.2	2
3.1	Providing a clearly articulated audit plan to address the risks identified, and arrangements for carrying out the planned work effectively	1	10
3.2	Information assurance	N/A	N/A
4.1	Quality assurance arrangements to ensure that local audits are undertaken to a consistently high standard	0.6	6
5.1	Schedule of staff	N/A	N/A
5.2	Details of resourcing	0.5	5
5.3	Details and role of Contact Partner	0.3	3
6.1	Selection of a team to work on an individual audit	0.5	5
6.2	Arrangements for discharging statutory reporting responsibilities under the Local Audit and Accountability Act 2014, managing authority and public expectations	0.4	4
7.1	Arrangements to ensure a smooth transition for audits of local government bodies transferring between audit firms	0.5	5
8.1	Opportunities to be commenced and completed	0.3	3
8.2	Other economic, social and environmental initiatives to be undertaken	0.2	2
Overall quality score			50
Price	Ranking of Bid Rate %	1	50%
Overall score (quality and price combined)			

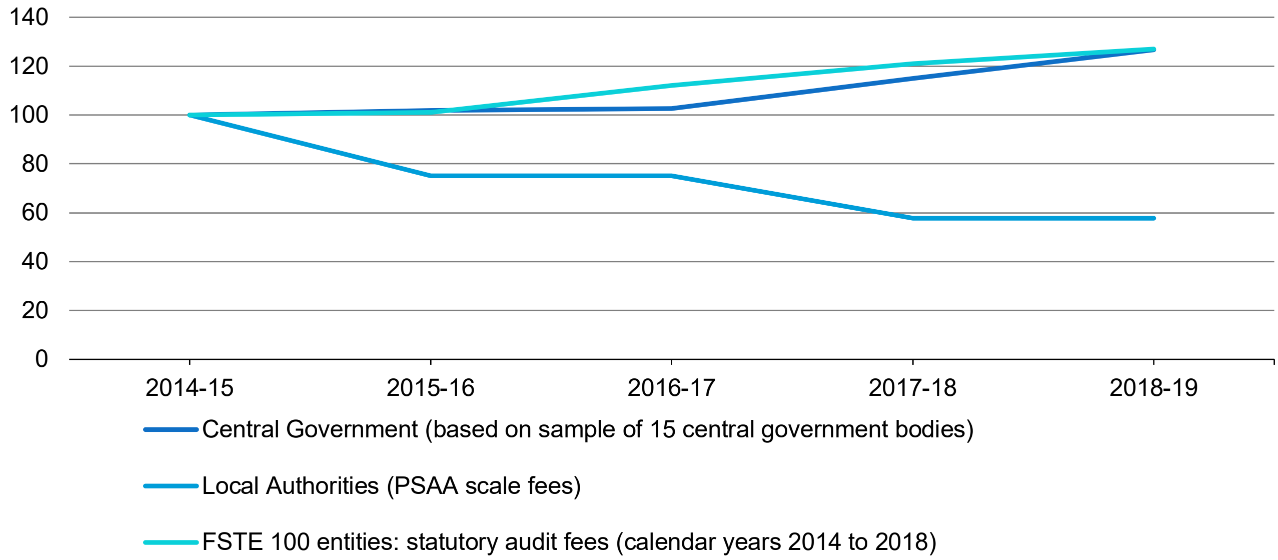
Questions 2.1, 3.1 and 4.1 are direct indicators of quality.

3.2.10 Lot six was designed to provide spare capacity in the market. However, this has not worked as intended, in part because mergers mean that the firm that won Lot 6 no longer exists.

3.2.11 As demonstrated by **Figure 3.3**, audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen. As well as the overall external audit fee paid by the sector declining in cash terms it has also dropped as a percentage of net current expenditure of local authorities, from 0.05% in 2014-15 to 0.04% in 2018-19. Within the sector there are further variations with PCCs and Local Authority Pension Funds typically paying much lower audit fees as a percentage of net expenditure than other types of local authorities.

Figure 3.3

Sector by sector comparison of change in audit fees over time



Notes

1 2014/15 base 100

3.3 Translating bids into audit fees paid by LAs

3.3.1 PSAA told the Review that the scale fee paid by individual LAs under the current contracts has been calculated by taking the total annual fee paid to external auditors under the contract and adding PSAA's margin; comparing the total amount paid to the total amount paid under the 2014 contracting process; and applying the percentage reduction in total amount paid equally across all local authority audits.

3.3.2 The Audit Commission adopted the same approach for allocating fees to individual local authorities when it let the 2012 and 2014 contracts. This means that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years.

3.3.3 Since 2010, there have been changes to the major powers and duties of local authorities and to the business environment within which they operate. Individual local authorities will have been impacted by these changes to differing extents. As a result, there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

3.3.4 88% of local authorities who responded to the Call for Views think that the current procurement process does not drive the right balance between cost reduction, quality of work, volume of external auditors and mix of staff undertaking the work.

3.3.5 Audit fees for those local authorities who have opted out of the PSAA arrangements have changed in a way similar to fees for those who have opted in.

3.4 Fee variations and contract management

3.4.1 When an auditor requests a fee variation, this must be agreed by PSAA[5]. In practice, PSAA may challenge fee variations by asking for more information from the firm but expects the auditor and the local authority to come to an agreement as to the additional fee to be paid. PSAA records and monitors this activity. It may also facilitate a conversation between the auditor and local authority in the case of disagreement.

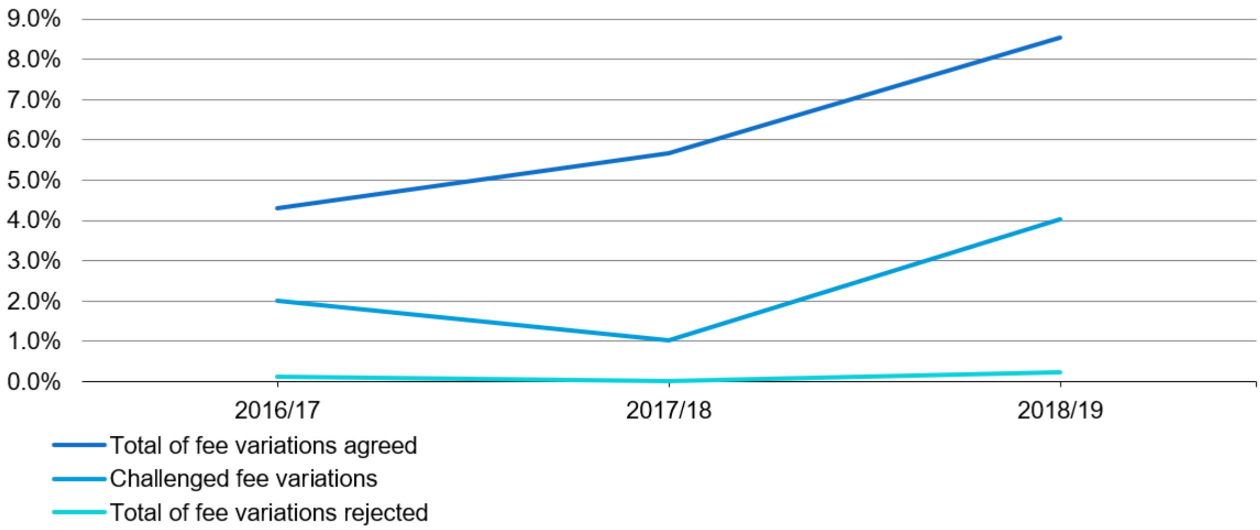
3.4.2 As demonstrated by **Figure 3.4** the number and size of fee variation requests have increased over time. Fee variation requests are often received some months after audits are completed, which means it is difficult to assess the true level of fees paid by the sector. As delayed audits are more likely to generate issues that require more work and thereby attract fee variations, and some firms are not always prompt in submitting fee variations, there are likely to be some requests outstanding relating to 2017-18 and 2018-19 audits.

3.4.3 Audit firms consider the fee variation process to be unsatisfactory. They have raised concerns that the scope to claim fee variations is not sufficient to meet their costs. Increasing the scale fee, to reflect changes in regulatory requirements is for practical purposes not possible under the current arrangements.

3.4.4 The majority of local authorities' representatives who offered a view on fee variations also considered them to be unsatisfactory. A concern, which has been raised by a not insignificant number of authorities, is the fact that fee variation requests are not always supported by any evidence of additional work done. Some local authorities passed examples to the Review of auditors, representing more than one audit firm, refusing to provide evidence to support a requested fee variation.

Figure 3.4

Fee variations as a percentage of total scale fees



Notes

1 Transitional arrangements in 2016-17 & 2017-18, PSAA contract in 2018-19.

2 Some fee variation requests for 2018-19 audits still to be received and agreed.

[5] https://www.psaa.co.uk/wp-content/uploads/2019/12/PSAA-fee-variation-process.pdf

3.4.5 Some local authorities questioned why they have been asked to join a call with a significant number of a firm's technical experts, most of whom do not contribute to the discussion, when they need to resolve technical accounting issues. They have questioned whether the costs of these calls are factored into later fee variation requests.

3.4.6 Fee variations can be submitted at any time which increases uncertainty for local authorities. In addition, some local authorities have claimed that they were led to believe by their auditors that they would refuse to sign off their accounts until they agreed a fee variation.

3.4.7 Finally, some authorities have also claimed that they are being asked to fund the costs of additional audit fieldwork because auditors have not resourced the planned audit visit properly and as a result, need to conduct additional audit testing. It has not been possible to assess whether this is happening or how widespread is the practice.

3.4.8 For the 2019-20 audit cycle, PSAA has taken steps to manage fee variations more proactively. Rather than wait for fee variations to be submitted, PSAA has asked all of the firms active in the market to estimate the additional fee required to ensure that their audit work and audit files meet current quality standards. Four of the firms have suggested that an increase of between 15% to 25% on the scale fee is required with the fifth firm requesting an increase of 100% on the scale fee. PSAA informed local authorities that it expects audit firms to provide fee variation information at the earliest possible opportunity, and that PSAA has emphasised this to the firms in its recent auditor communications. PSAA is currently in the process of reviewing how each firm's standard audit testing programmes have changed over the past three audit cycles to identify whether the increases requested are justified. PSAA will use this work to enable it to provide reassurance to audited bodies that extra work has been validated.

3.4.9 Some local authorities have suggested that PSAA has an incentive to approve fee variations as they are funded through making a margin on audit fees. This is not correct. Because PSAA calculates its margin on a total system cost, it is not possible for local authorities to calculate how much of each audit fee or fee variation is due to PSAA. However, as a not for profit company, PSAA has no incentive to claim more funding than it is entitled to. The company's Articles of Association requires PSAA to return surpluses to the sector. In late 2019, under the transitional arrangement, a distribution of the surplus funds of £3,500,000 (9.3% of the 17-18 scale fee £37.6m) was approved by the Board to be returned to the sector, apportioned between local authorities on a scale fee basis. This might be interpreted as an effective transfer of funds from LAs charged fee variations to those who have not been charged variations.

3.4.10 Some LAs have stated through interviews, that PSAA's role is opaque and that they feel that they have no route to challenge audit fees that they feel are unfair or to raise concerns relating to poor quality or delayed audits. The contract provides no mechanism for individual LAs to complain about the service they receive from their auditors.

3.4.11 PSAA states that its role as defined under statute does not include active contract management and it does not currently have the expertise to do so. However, in the *Local Audit (Appointing Person) Regulations 2015* the additional functions of appointing person include requirements to:

> *"monitor compliance by a local auditor against the contractual obligations in an audit contract… [and] resolve disputes or complaints from— (aa)local auditors, opted in authorities and local government electors relating to audit contracts and the carrying out of audit work by auditors it has appointed."*[6]

3.4.12 During the transitional period implementing the new arrangements (2015-16 to 2017-18), there was a Memorandum of Understanding (MoU) between MHCLG and PSAA, which required PSAA to fulfil its statutory functions. When the MoU expired MHCLG did not renew it.

[6] https://www.legislation.gov.uk/ukdsi/2015/9780111126134

4. Audit performance

4.1 Introduction to local authority audit

4.1.1 Auditors of local authorities provide two audit opinions. These are:

- A financial audit opinion; and
- An opinion on the effectiveness of the systems in place to meet the best value duty (known as the 'value for money' opinion).

Scope of financial audit opinion

4.1.2 The purpose of a financial audit is to form an opinion on a set of financial statements. Financial audits are required to be conducted in accordance with International Standards on Auditing – UK (ISAs). The auditor is required to certify whether the financial statements are free from *material* misstatement and are properly prepared in accordance with the relevant accounting and legislative framework. For local authorities, the relevant accounting framework is the Code of Accounting Practice prepared by CIPFA.

4.1.3 In a local authority context, the audit opinion covers the financial statements, the Collection Fund Account and the Housing Revenue Account. It does not cover the narrative statement or annual governance statement. These are covered by what is known as a 'negative assurance' or 'consistent with' opinion. The auditor is required to read these statements to confirm that there is nothing inconsistent or misleading based on what is reported in the accounts and their understanding of the business. If these statements contain information which is misleading or inconsistent, auditors should insist that the relevant sections are appropriately reworded or removed. If not, no further work is required.

4.1.4 Materiality is a key concept in financial audits. Errors or misstatements are material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions that users take on the basis of the financial statements. Auditors are not required to take account of individual users, but do need to assess them as a group.

4.1.5 Auditors do not test every transaction supporting a set of financial statements. Instead they split the financial statements into groups of transactions with similar characteristics and assess the risks of material misstatement for each. The amount and types of audit testing for each of these areas is informed by this risk assessment.

4.1.6 It therefore follows that the key factors in delivering a quality audit are understanding the needs of the users of the accounts; and undertaking an effective risk assessment informed by a proper awareness of the business.

Scope of value for money opinion

4.1.7 The framework for the value for money opinion is set out in the NAO's Statutory Code of Audit Practice, published in April 2015.[7] ISAs do not apply to VfM audits.

[7] https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf

4.1.8 The 2015 Audit Code requires auditors to:
"undertake sufficient work to be able to satisfy themselves as to whether, in the auditor's view, the audited body has put arrangements in place that support the achievement of value for money. In carrying out this work, the auditor is not required to satisfy themselves that the audited body has achieved value for money during the reporting period."

4.1.9 The Audit Code goes on to say:
"Ultimately, it is a matter for the auditor's judgement on the extent of work necessary to support their conclusion on value-for-money arrangements".

4.1.10 The Audit Code requires documentation of the overall conclusion, consideration of risk and of the planned response and work done to address significant risks. If there are no significant risks, the Code does not explicitly require documentation of work done.

Changes introduced by the 2020 Code of Audit Practice

4.1.11 In 2020, the C&AG published a new Code of Local Audit Practice. This is effective from the 2020-21 financial year. The main changes made are in respect of the value for money opinion and supporting work and have been broadly welcomed by auditors and those local authorities who have so far expressed a view.

4.1.12 The binary audit opinion on whether appropriate arrangements are in place has been replaced by a commentary on:

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

In addition, the updated Code will explicitly require auditors to document clearly the work that they have done to support their findings.

4.1.13 The consultation on the supplementary statutory guidance issued by the NAO to support the new Code closed on 2 September 2020. Once this guidance is finalised auditors will need to consider the factors including the following:

- whether a revised risk assessment is required;
- how to design an approach that moves away from obtaining evidence to support a binary audit opinion, to one that generates information to support a commentary on the arrangements in place.
- whether additional or different types of audit testing will be required, and how to structure and produce the new narrative reports.

Other statutory duties and powers

4.1.14 In addition, auditors of local authorities have other statutory powers and duties. These are:

- The power to issue a Public Interest Report at any time;
- The power to issue statutory recommendations to management, copied to the Secretary of State;
- The power to issue an advisory notice setting out potential illegal expenditure;
- The power to apply to the Courts to have unlawful expenditure disallowed;
- The duty to consider qualifying whistleblowing disclosures; and
- The duty to respond to objections raised by electors or other relevant persons.

The Audit Code includes guidance on the scenarios that might give rise to use of these powers and duties. Use of the powers along with the work required to support reports, recommendations and responses to objections is a matter of judgement.

4.2 Defining audit quality

4.2.1 Audit quality is a key determinant of audit performance and this must be seen, not only as a measure against agreed standards and principles, but also whether the output of an audit is seen to meet the legitimate expectations of council taxpayers and other users of accounts.

4.2.2 Financial audit is fundamental to these requirements to give assurance to the reader that the accounts are properly prepared and fairly reflect the council's financial position and use of resources.

4.2.3 Value for money audit should be designed to provide the reader with assurance that the systems in place for use of resources in an effective and efficient way are adequate and appropriate, and that the local authority plans will deliver financial resilience in the immediate and medium term.

4.2.4 The effectiveness of audit also depends on the usefulness, impact and timeliness of auditor reporting. Consideration of Public Interest Reports and Statutory Recommendations is relevant here. Finally, the effectiveness of audit also depends on the Authority's response to audit recommendations. This is a wider definition than that currently used by regulators. Ultimately, regulators consider a local authority financial audit to be of acceptable quality if the audit opinion is supported by sufficient and appropriate evidence and if the work complies with auditing standards, relevant legislation and the Code of Audit Practice. As VfM audit is not covered by auditing standards, the regulators focus principally on whether the audit complies with the Code of Audit Practice.

4.2.5 Nevertheless, the effectiveness and usefulness of local audit has to be measured alongside the assessment of quality. The Review has considered the extent to which the auditors of local authorities:

- Meet the contract specification;
- Demonstrate sufficient understanding of the local authority environment through identification and testing of key financial audit and value for money risks;

- Deliver audits in a cost-effective way;
- Make balanced and considered recommendations; and
- Issue reports and make recommendations in timely fashion.

4.3 Assessing Audit Quality

Meeting the Contract Specification

4.3.1 The contract between PSAA and audit firms largely follows standard terms and conditions. It requires providers of audit services to deliver audits in accordance with statutory obligations and appropriate professional standards. These are discussed below.

4.3.2 The contract is supplemented with a Statement of Responsibilities published, on the PSAA website, which is intended to set out the engagement between PSAA and the appointed auditors. The contract requires audit firms to familiarise themselves with this statement. In accompanying text on their website, PSAA makes clear that the responsibilities of auditors are derived from statute, principally, the 2014 Act and from the NAO Code of Audit Practice and nothing in the Statement is meant to vary those responsibilities.

Demonstrating an understanding of the local authority environment

4.3.3 Feedback received from interviews with local authorities is that KAPs tend to be knowledgeable, skilled and experienced. However, the amount of time devoted to the audit has become more limited in recent years. Anecdotal evidence on the accessibility of KAPs varies. Local authorities largely stated that the senior partners were brought in to resolve significant issues, so were not often visible during the course of the audit. This matched many audit firms' comments that senior partners were brought in for the specific and more complex issues. Most local authorities commented that this was reasonable, and as expected, but some felt that it was difficult to secure input from their KAP on specific issues. Some local authorities commented that during 2018-19 audits, the visibility of both the audit team and KAP had declined somewhat compared to prior years.

4.3.4 As demonstrated by the responses in **Figure 4.1,** despite valuing KAPs, many local authorities had a negative opinion of the overall knowledge and expertise of their audit teams. The two areas of particular concern were:

- the knowledge and continuity of working level audit staff; and
- whether audit work always covered the most important areas of the accounts from a financial resilience and service user perspective.

4.3.5 There is a question as to whether external audit could make more use of the knowledge and expertise of internal audit in developing sufficient understanding of the local authority. It is usual for the external audit team to meet the Head of Internal Audit as part of the audit planning process, but it is unclear if liaison extends much beyond that. Internal auditors are likely to be much closer to the business than external audit and, in many authorities, a proportion of their work focuses on governance and service delivery matters. This could make internal audit a rich source of knowledge, should the external audit team wish to use it.

Knowledge, experience and continuity of audit staff

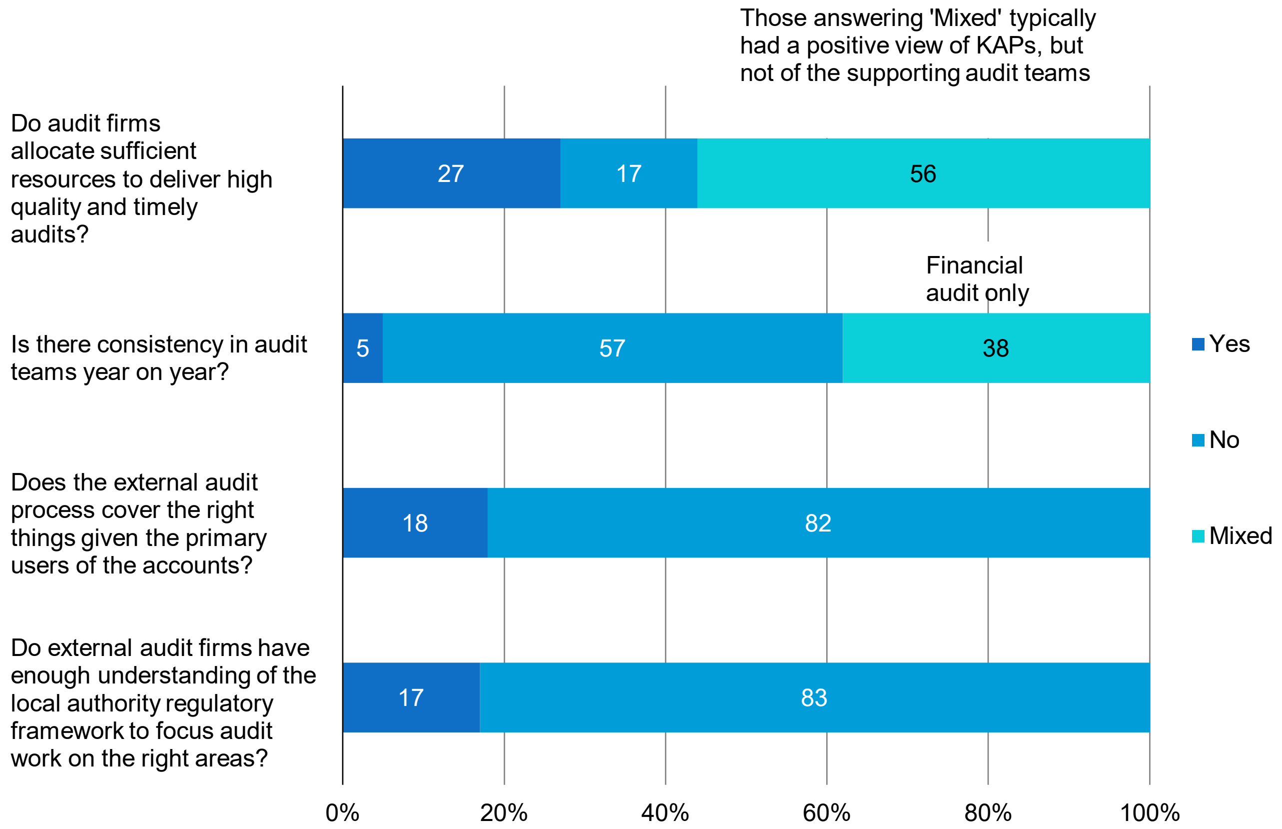
4.3.6 All audit firms active in the local audit market told the Review that they had expert technical teams who provided sector specific training to staff working on local authority audits. Nonetheless, many local authorities reported significant concerns about the knowledge and expertise of staff working on their audit. Issues identified included:

- audit examiners not having a full understanding of how local authorities were funded and how this impacted the accounts;
- a lack of continuity from year to year, or in some cases from week to week, leading to a lack of client knowledge; and
- a lack of understanding of local authority specific financial statements such as the Collection Fund and Housing Revenue Account.

4.3.7 Local authorities also reported the use of audit examiners from other countries to help manage the local audit peak. This is not unique to audits in the local authority sector and can be advantageous as different countries will encounter different audit peaks. However, may local authorities whose audits are staffed in this way reported that such examiners processed very little training in respect of English local government.

Figure 4.1

Opinions on External Audit Quality



Local Authority Call for Views responses

4.3.8 Firms agreed that consistency in audit teams could sometimes be compromised by either the difficulty in attracting and retaining quality junior staff or the challenge to retain more experienced staff.

4.3.9 Underpinning the concerns about the quality and continuity of working level audit staff is a concern that there are not enough audit examiners with local authority expertise, and that this is an area in which accountancy trainees no longer wish to specialise.

4.3.10 This is a concern that has developed since 2015. Prior to 2012, the Audit Commission's in-house audit practice, District Audit (DA), was responsible for 70% of the local authority audit market. In its 2012 procurement the Audit Commission outsourced its audit practice. DA staff were TUPE'd[8] to the private sector firms who largely took over responsibility for auditing local authorities. This meant that there was then a plentiful supply of audit examiners with local authority experience. Since 2015, many of those audit examiners have left the external audit profession and have not always been replaced.

4.3.11 A reason for the decline in the number of audit examiners with sector specific expertise is the route taken by auditors to qualify as accountants. Currently, there are five chartered British and Irish professional accountancy bodies that include external audit as a significant element in their qualification. Only one of these bodies (CIPFA) has a mainly public sector focus. All District Audit service trainees would have followed the CIPFA qualification route. Only one of the firms currently active in the market (Grant Thornton) uses the CIPFA qualification route for its public sector audit staff. In addition, audit firms highlight that between 2010 and 2015 the Audit Commission cut back on its recruitment of audit examiners. This means that an increasing number of local authority auditors will not have had the public sector as their main focus whist studying for their accountancy qualification.

4.3.12 In March 2020, PSAA published research it had commissioned on the future of the local audit market.[9] In this research firms raised two main issues that made it difficult for them to attract and retain high quality staff that wanted to specialise in local authority audit:

- **Timetable** - In 2017-18 the target date for completing local authority audits was brought forward from 30 September to 31 July. This reform was requested by many local authorities, who wanted to complete their accounts and audit process as quickly as possible, so as to free up their finance teams to work on other areas. The compression of the audit timetable was mentioned as an issue by every audit firm. Firms raised concerns about the resulting peaks in workload, pressures on staff during the summer months, and knock-on effects when target dates are not met. These pressures contribute to making work unpopular with local audit staff.
- **Fees** – Firms stated generally that the lack of profitability changes the way that local audit work is perceived within the firm. As the contribution that local audit makes to the overall profit of the Partnership is low, specialising in this area is seen by many auditors as having a detrimental impact on career prospects.

[8] TUPE stands for the Transfer of Undertakings (Protection of Employment) Regulations and its purpose is to protect employees if the business in which they are employed changes hands.

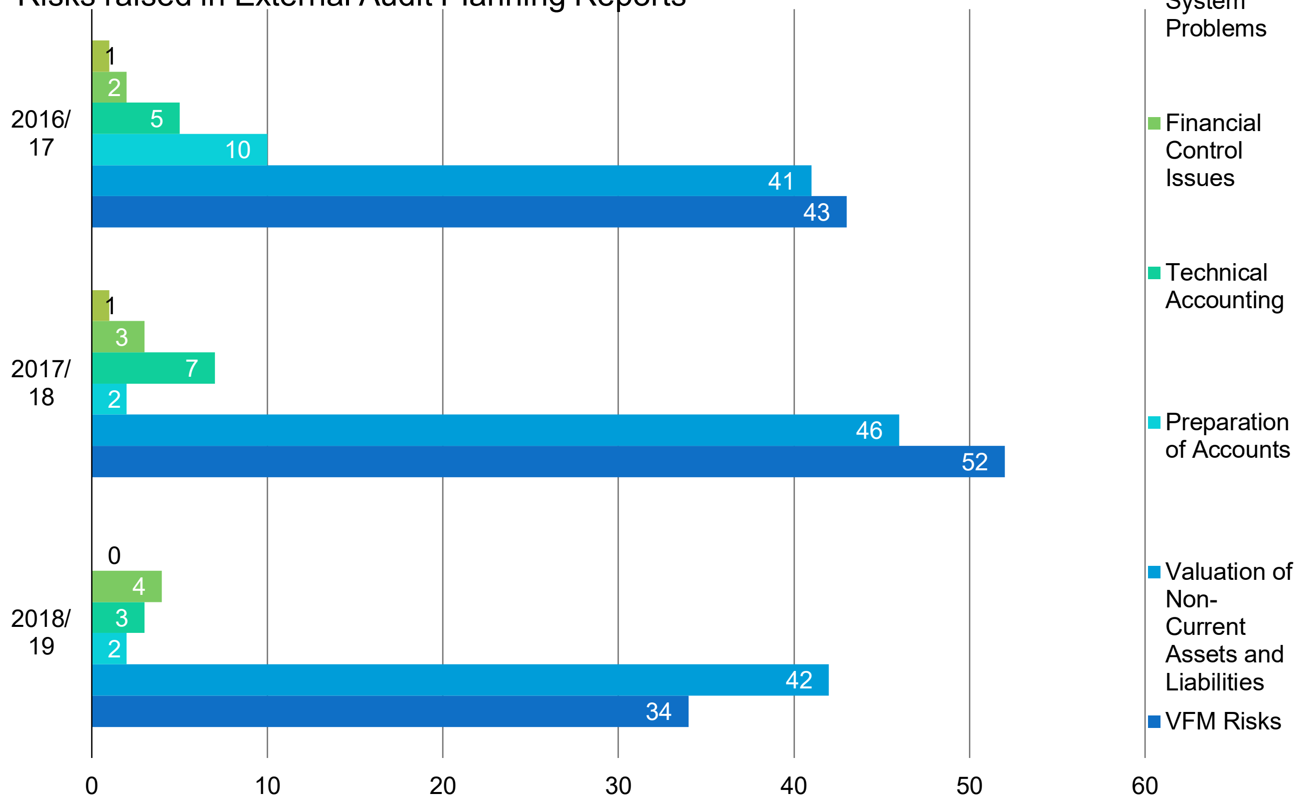
[9] https://www.psaa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf

Focus of audit work

4.3.13 Many local authorities have raised concerns that auditors spend a significant amount of time focusing on fixed asset and pension valuations, whereas a fuller understanding of the business would lead to more of a focus on major areas of expenditure, together with the level of usable non-ringfenced revenue reserves. The reason for this argument is that most changes to fixed asset and pension values are 'reversed out' of the accounts by a range of statutory adjustments. As a result, in those circumstances, these valuations have no immediate impact on the cost of delivering services or on the financial resilience of a local authority.

Figure 4.2

Risks raised in External Audit Planning Reports



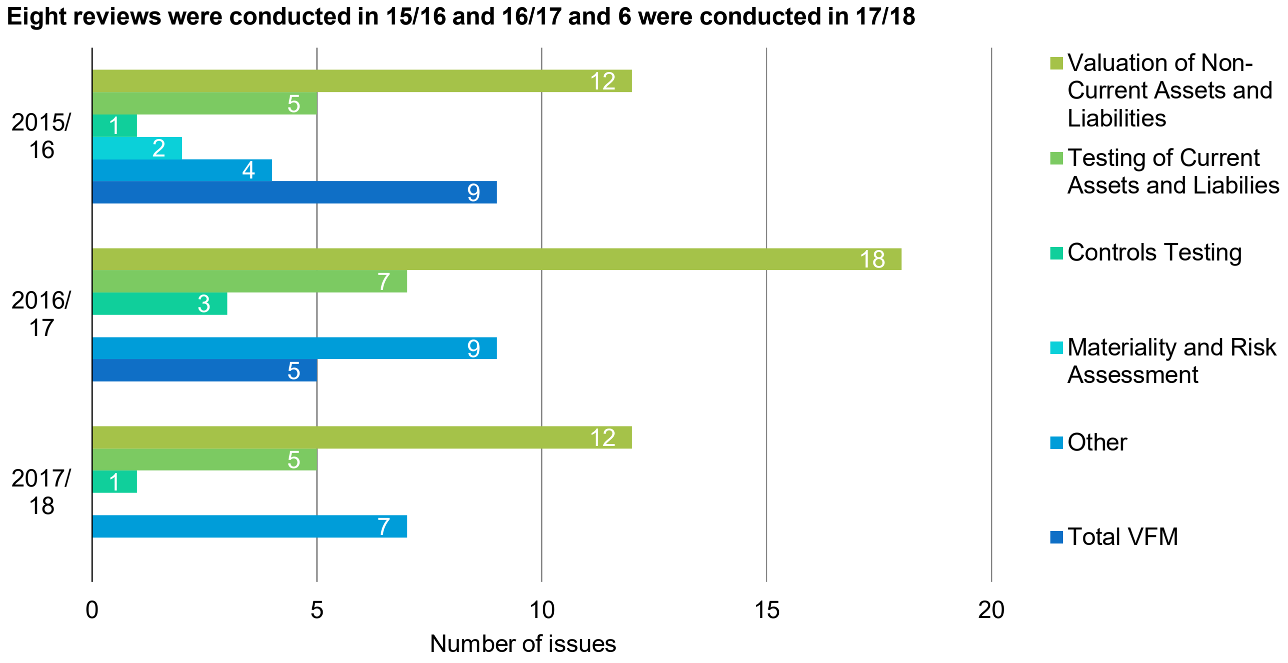
Notes

1 Representative sample of 30 local authorities. Presumed risks excluded

4.3.14 As demonstrated in **Figure 4.2**, valuation of non-current assets and liabilities have been the most common significant financial audit risk category identified in Audit Planning Reports. In addition, irrespective of the risk profile, the amount of detailed testing undertaken on these balances has increased significantly over the past three audit cycles. To manage the risk of regulatory criticism, that more scepticism is needed when assessing non-current assets and liabilities, audit firms are increasingly using their own expert valuers to assess valuations provided by a local authority employed expert. Some audit firms agreed that they would prefer to do less work on asset and pension valuations but explained that these areas of the accounts were given more attention as it was important in the context of securing a positive assessment from the FRC quality assurance processes.

4.3.15 The results of the quality assurance reviews of local authority audit files undertaken between 2015-16 and 2017-18 in **Figure 4.3** demonstrate clear and continuing concerns about the quality of audit work to support fixed asset and pension valuations. The FRC commented that, overall, the local authority audit files it reviewed tended to be of slightly lower quality than the files of corporate sector audits.

Figure 4.3
Issues identified by FRC file reviews conducted on behalf of PSAA



4.3.16 The FRC quality reviews identified far fewer significant issues in VfM audit work. This may be because the current Audit Code gives auditors quite a lot of discretion as to how much work they need to undertake before forming their VfM opinion.

Deliver audits in a cost-effective way

4.3.17 Since 2015, audit fees paid by local authorities have dropped by 42.25% (in cash terms). The decrease in fees has been welcomed by the LGA and by many local authorities. This reduction in fees has been attributed to the following reasons:

- PSAA costs being lower than those of the Audit Commission;
- Improved audit efficiency;
- Reduction in firms' profit expectations; and
- Reduced financial risks for the firms from staff previously TUPEd.

4.3.18 It is difficult to identify the extent to which local authority audits are more efficient than previously. All of the audit firms active in the market have looked to generate efficiencies through making significant investments in digital technology and innovation to equip audit teams with the appropriate tools to deliver a digital audit. However, audit firms note that many local authorities have IT systems that do not lend themselves to the delivery of a digital audit, so some of the anticipated efficiencies have not been realised.

4.3.19 The decrease in fees must be set against the potential impact on quality if audit is considered to be cost effective. Audit firms have raised concerns about whether audit fees are at a sustainable level. One of the registered firms not active in the local authority market said that they had decided not to bid because it was impossible to deliver cost effective and high-quality audits at current fee levels.

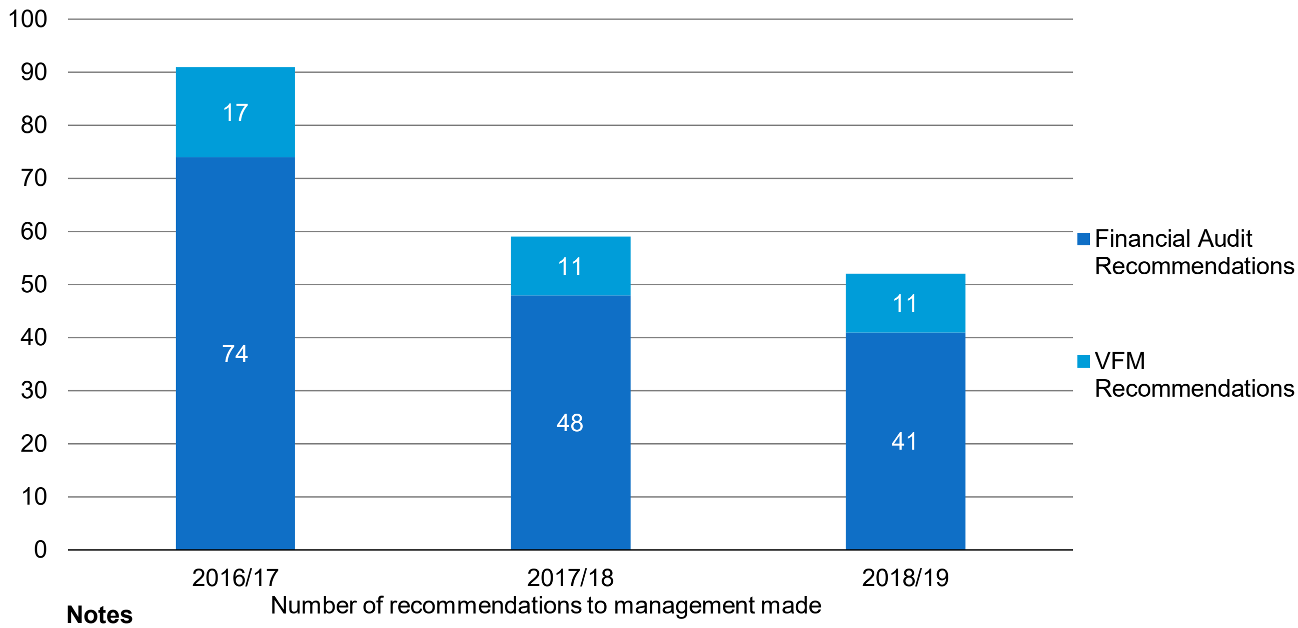
4.3.20 Firms have the power to request fee variations where the cost of the work is greater than allowed for by the contract fee. As discussed in **Chapter 3** the fee variation process is an ongoing and increasing source of tension, with auditors concerned that they are not always able to recover legitimate costs. Local authorities are concerned about late notifications and that requested variations are not always supported by evidence of additional work done.

Make sensible recommendations

4.3.21 Auditors can issue recommendations to management through their end of audit communications. These can either be statutory recommendations, which must be copied to the Secretary of State, introduced through the "management letter" recommendations. Eleven statutory recommendations have been issued since 2015.

Figure 4.4

Number of External Audit recommendations given to local authorities



Notes

1 Representative sample of 30 local authorities.

2 Not all audits in 17/18 18/19 have been signed off in this sample.

4.3.22 As demonstrated in **Figure 4.4,** a review of Audit Completion Reports indicates that the number of management letter recommendations issued seems to be declining year on year. The practice on following up management letter recommendations was mixed and Audit Committees were more likely to check progress on implementation of internal audit recommendations rather than external audit recommendations. A majority of the recommendations made relate to technical accounting issues rather than financial control or value for money matters. This is not surprising given the focus of external audit, but it contributes to a perception that the process is not adding as much value as formerly.

Provide useful and timely reports

4.3.23 As demonstrated by **Figure 4.5,** the number of delayed audit opinions has significantly increased over the past three years. For 2018-19, all the audit firms in the market had some outstanding audit opinions as at 30 September 2019, though the extent varied from firm to firm; one firm completed just less than 40% of audits by the deadline while another completed 80%. All firms have made progress in completing these delayed audits although at December 2019, there were still 85 outstanding audit opinions (17.5%); and by July 2020, 42 (8.6%) of 2018-19 audits remained incomplete. These delays are likely to have had a knock-on impact for the 2019-20 timetable.

Figure 4.5

Audit opinions signed off by the statutory deadline for publishing audited accounts

	2018/19	**2017/18**	**2016/17**
Opinions issued by the statutory publication deadline	57% *31 July 2019	87% *31 July 2018	95% *30 September 2017
Opinions issued by 30 September	70%	95%	N/A

*statutory deadline for publishing local authority accounts 30 September in 2016-17; and 31 July thereafter.

4.3.24 PSAA asks audit firms to explain the reason for delayed audits. The four most common reasons provided were:

- poor quality accounts/working papers submitted by the local authority;
- potential qualification issues;
- outstanding objections on the accounts; and
- for the first time in 2019-20, having insufficient qualified individuals to deliver all audits at the appropriate time was included as a reason for some of the delays.

4.3.25 Audits are by their nature backwards looking and the increasing delays in signing off local authority audits have an impact on the timeliness of reports. The more material issues that an auditor finds, the greater the risk that the sign off of the audit opinion is delayed. When a judgement needs to be made about modifying an audit opinion, audit firms are required to undertake enhanced quality assurance procedures, and these take time. In addition, some audits will be delayed if a local authority presents poor quality accounts or if there is an outstanding objection. As a result, a number of local authority audits will inevitably be signed off after the reporting deadline.

4.3.26 In recognition of the increased challenges posed by Covid-19, MHCLG has extended the deadline for signing off 2019-20 audits to 30 November 2020. If a majority of audits are not signed off by this date, there could be a significant impact on MHCLG's ability to run the non-domestic rates system effectively. It is too early to say how many local authority audits will make this target date or whether the extension of the deadline will enable audit firms to complete more of the outstanding 2018-19 audits.

4.3.27 Examples of useful and timely auditor reporting through client communications are relatively few. Some local authority Chief Financial Officers commented that they no longer got the useful and informative advice, challenge and support that they had received from KAPs prior to 2015. Audit Planning Reports tend to be presented in February, March or April, which is rather late in the financial year. This means that local authorities get late notification of audit risks. In addition, it is not possible to undertake interim audit work on management controls if the plan is presented in the last month of the financial year and this increases the pressure on the year end peak.

4.3.28 If an Auditor is assessing a significant issue, which they believe needs to be brought to the attention of elected representatives and the public as soon as possible, the have the power to issue a Public Interest Report (PIR). PIRs can be issued at any time. However, only four PIRs have been issued since 2015. Three of these related to matters identified prior to 31 March 2015 and the fourth, issued on 11 August 2020, related to a wholly-owned local authority company.[10] This means that the opportunity to enhance transparency and accountability by sighting key stakeholders on significant issues in a timely fashion is not often used.

4.3.29 Audit firms have not commented on why there is not a greater use of the statutory powers available to them. The position in which auditors find themselves can relate to a situation where intervention in a local authority may be warranted by the use of statutory powers. It is possible that the legal and reputational risks of using these powers may play a part in their thinking as may the difficulty of recovering the costs of the extra work required to support use of these powers.

4.4 Interactions between external audit and relevant stakeholders

4.4.1 The areas of concern that particularly stood out from interviews with local authorities and through the Call for Views were:

- Senior audit staff not being contactable by clients when issues arose;
- Late notification of audit risks;
- Changes to the audit timetable – without justification given;
- Late notification of fee variations with no justification or breakdown of cost given; and
- The auditor's valuation expert overriding asset valuations provided by client experts with equivalent qualifications sometimes with no justification given.

4.4.2 It is important to note that these concerns are not unreciprocated. Auditors raised concerns about LAs not preparing properly prepared draft accounts supported by high quality working papers or not being available to answer audit questions.

4.5 VfM expectation gap

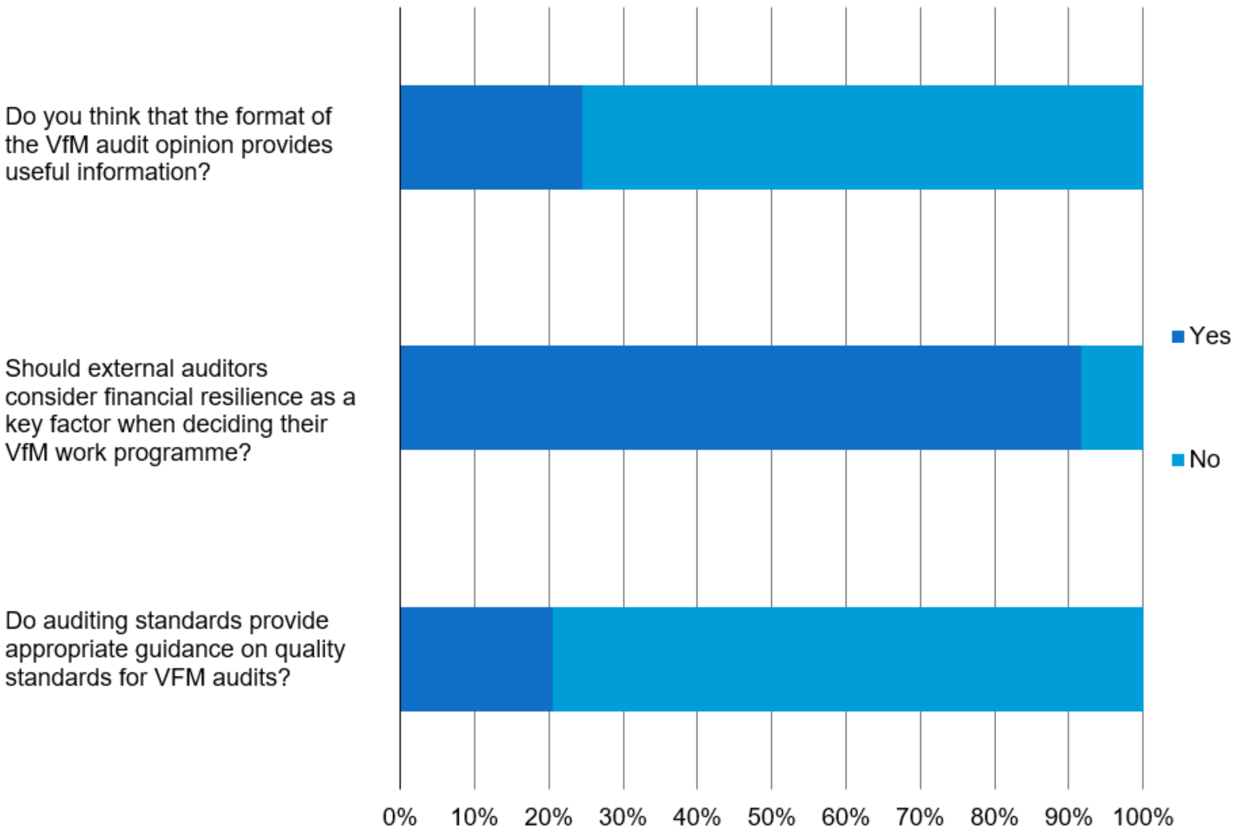
4.5.1 Whilst audit firms feel that the NAO's new code of practice resolves many of the VfM conclusion shortcomings, some local authorities believe that more significant changes need to be made. There is a large expectation gap between what local authorities

[10] https://www.nottinghamcity.gov.uk/publicinterestreport

expect a VfM opinion should provide and what it actually provides. The VfM conclusion is viewed by many local authorities to be an exercise with limited use to them as it is too retrospective and often states what the local authority often already knows. **Chapter 6** includes a more detailed consideration of the extent to which the VfM opinion covers financial resilience risks.

Figure 4.6

Opinions on the VfM opinion and auditing standards



Notes

1 Data from Local Authority Call for Views responses.

4.5.2 As demonstrated in **Figure 4.6**, 74% of the local authority respondents to the Call for Views think the format of the VfM opinion does not provide useful information. Some of these respondents recognised that the opinion is limited to giving assurance only that processes are in place to secure value for money and therefore that the opinion needs to be expanded to provide useful information. 79% of these respondents do not think the standards provide appropriate guidance on quality standards for VfM audits.

4.5.3 91% of respondents think external audit should be required to assess financial resilience. Although 3% of these respondents felt that financial resilience is already covered to an appropriate amount, most of the other respondents thought that financial resilience should be considered in the medium and long term as part of the value for money audit opinion. This included most audit firm respondents to this question, all of whom stated that the updated NAO Code of Audit Practice, effective from 2020-21, would provide a suitable level of coverage. No local authorities specifically mentioned the NAO Code of Audit Practice in their responses, although this may be due to the fact that the updated Audit Code had not been finalised at the time the Call for Views closed. However, 16% of local authority respondents thought the non-statutory CIPFA Financial Management Code (published Oct 2019) could provide a suitable framework for assessing financial resilience and financial management.

4.6 Summary of audit performance

4.6.1 There is an expectation gap that extends across both the financial and the VfM audit. The coverage of the financial and VfM audits is far narrower than many stakeholders expect.

4.6.2 There are questions about the level of audit performance. In addition, although external auditors may be meeting the contract specification by delivering audits that, for the most part, meet the quality standards set out in ISAs and the Audit Code, an increasing number of audits are not being completed by the statutory deadline for publishing audited accounts.

4.6.3 Audit fees paid by local authorities have reduced, whereas, over the same period, they have increased in other sectors. There is some evidence that the reduction in fees has led to a decline in the number of examiners with appropriate skills, knowledge and expertise. This has had an impact on the timeliness of audits, the usefulness of auditor reporting to management and the quality of interactions between external auditors and local authorities.

4.6.4 Underpinning concerns about audit performance is a question of focus. There is a perception amongst many local authorities that an increasing amount of time is spent auditing fixed asset and pension valuations. It is clear that external audit increasingly has a greater focus on these areas, and that this has been driven by the requirement to meet quality standards and comply with relevant statutory guidance. What is less clear is the extent to which this has led to a reduction of audit work in other areas, but given the reduction in audit fees, it is likely to have had some impact.

4.6.5 It is more difficult to summarise audit performance in relation to the VfM engagement. This is partly because the 2015 Audit Code requires minimal documentation unless significant VfM risks are identified. This makes it impossible to assess whether the external audit assessment of VfM risks is complete in all cases. However, given the squeeze on audit fees and the reduction in the number of audit examiners with appropriate skills, knowledge and expertise, this remains a matter of significant concern.

5. Governance arrangements in place for responding to audit recommendations

5.1 Outline of the different frameworks in operation

5.1.1 The effectiveness of audit must, in part, be determined by the arrangements in place within each body subject to audit for considering and acting upon external audit reports. All local authorities are required to set up Audit Committees or the equivalent with responsibility for considering the annual accounts and receiving internal and external audit plans and reports. The specific arrangements vary between different types of local authorities. However, the purpose of an Audit Committee is to provide independent challenge on behalf of the authority in respect of accountability and risk management arrangements.

Arrangements within PCCs

5.1.2 A PCC is an elected official charged with securing efficient and effective policing of a police area. The policing function is delivered by the constabulary, led in large part by Chief Constables. PCCs are required to set up Joint Audit Committees covering the activities of both the PCC and the constabulary. These arrangements appear to work effectively and the findings and conclusions in the rest of this Chapter do not apply to PCCs.

5.1.3 Some PCCs also have responsibility for overseeing the delivery of Fire and Rescue Authorities, which deliver the fire service, in their local area. In other areas, primarily Shire Counties, the fire service is the responsibility of the County Council.

Arrangements within other types of local authorities

5.1.4 Mayoral Combined Authorities[11] are required by statute to have an Audit Committee, although there is no statutory guidance on the membership or remit. Whilst not a requirement for other types of local authorities, in practice most have set up an Audit Committee or equivalent.

5.1.5 Constitutionally, Audit Committees in local authorities are sub-committees of Full Council. This means that a majority of its members will be elected as a councillor or its equivalent. As highlighted in **Figure 5.1,** membership tends to be based on the political balance of the council and the chair is often, but not always, a member of the ruling group.

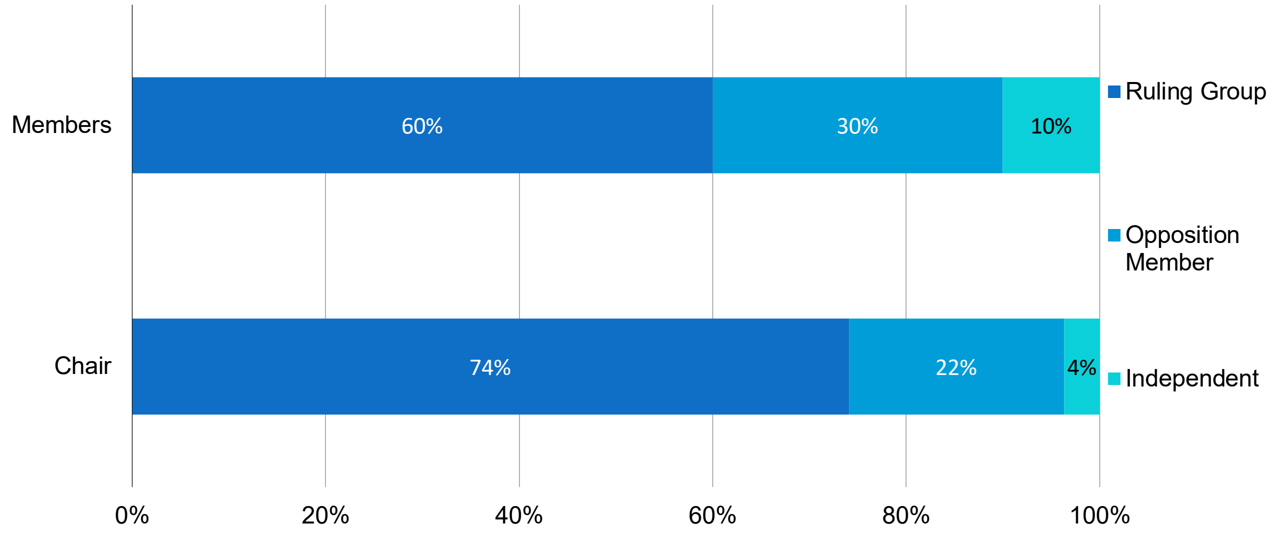
5.1.6 The number of members of Audit Committees varies from four to seventeen, with seven being the most common. This compares to common practice in central government and the private sector, which is to have no more than three or four Audit Committee members. The size of the committee might vary according to the number of councillors an authority has; however, Birmingham City Council, which by expenditure is the largest local authority and has more councillors (99) than any other local authority in England, has eight members on its Audit Committee, whereas the

[11] Combined Authorities are statutory bodies made up of neighbouring local authorities that broadly cover a city-region that have agreed to work together. A Mayoral Combined Authority is where a mayor is the directly elected leader of the combined authority.

Audit Committees of some Shire District Councils have memberships that far exceed this.

Figure 5.1
Composition of audit committees in councils

56% of committees had no independent members



Notes

1 Representative sample of 27 Local Authority Committees (not including FRAs or PCCs).

5.1.7 Local authority accounts are very complex and there appears to be a significant difference between the assurance that external auditors provide and public expectations. Elected members may or may not have relevant skills, expertise or background to fulfil the role of a member of an Audit Committee. Many local authorities provide training for Audit Committee members, but it has not been possible to assess how comprehensive or effective this training is. As a result, it is not possible to conclude whether members are always equipped to provide effective challenge to Auditors or Statutory Officers.

5.1.8 As part of its Audit Quality Reviews of 2018-19 audits, the FRC review teams have met with Audit Committee chairs of 12 selected local authorities. Although the reviews of the related audits are not yet publicly available, a mixed picture was reported, with some chairs being very engaged and informed, but others being less so. As the FRC is responsible only for the quality assurance reviews of the 230 larger local authorities and NHS bodies, the experience provided by their quality reviews may not be fully representative of the sector.

5.1.9 Whilst the vast majority of local authorities interviewed were supportive of the principle of appointing independent members, only about 40% of Audit Committees currently have done so. The reported experience of having independent members on Audit Committees was mixed. In some cases, they provided useful challenge, but some authorities reported that the effectiveness of independent members was hampered by their lack of sector specific knowledge.

5.1.10 A particular challenge for authorities is attracting independent members with the relevant technical experience. This challenge can sometimes be greater depending on an authority's geographical location. Some PCCs have found that the introduction of Joint Audit Committees, which are seen as more prestigious, has made Audit Committee membership more attractive to appropriately qualified independent members, but there is still not an abundance of suitable applicants for vacant positions.

5.1.11 The independent member is often a voluntary position across the local authority sector. This compares to NHS trusts who are more likely to pay independent Audit Committee members, which may make it slightly easier for them to attract applicants with relevant expertise.

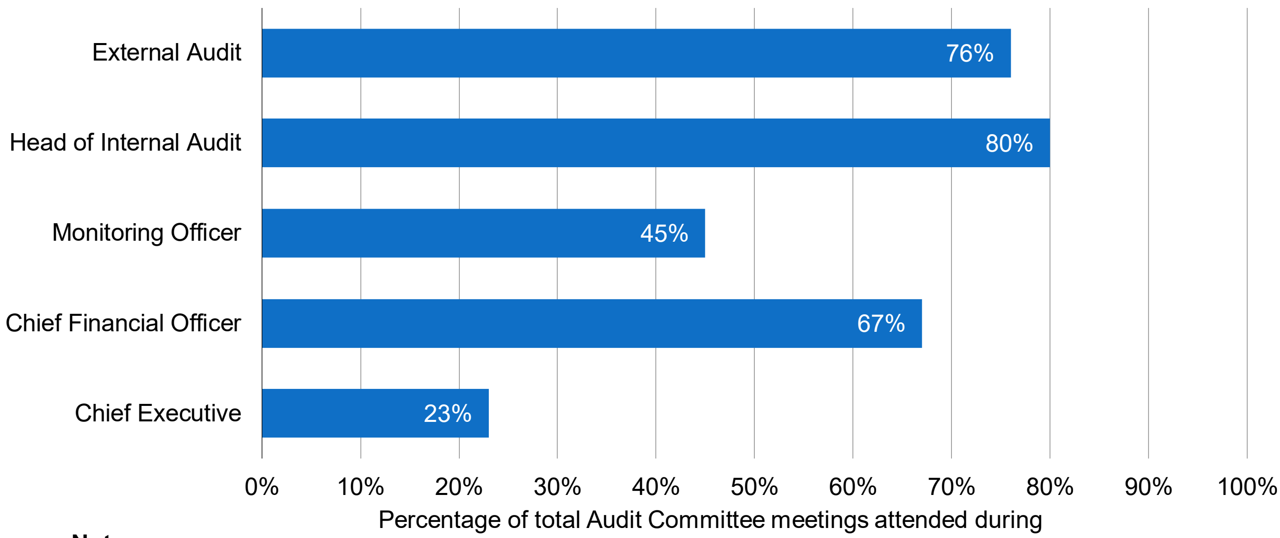
5.1.12 Local authorities have a number of statutory officers, three of whom have responsibilities that may be covered by audit work. They are:

- The **Head of Paid Service** – typically the Chief Executive or Managing Director
- The **Section 151 Officer** – typically the Chief Financial Officer or Finance Director
- The **Monitoring Officer** – typically the Head of Legal Services

5.1.13 As demonstrated by **Figure 5.2** the frequency of attendance of statutory officers at Audit Committee meetings is mixed. Whilst the Chief Financial Officer and Head of Internal Audit attend a majority of meetings, Monitoring Officers attend just under half of the meetings and the Chief Executive attends such meetings less often. Other statutory officers and service heads usually attend Audit Committee meetings if a matter relevant to their service area is discussed.

5.1.14 The Chief Financial Officer is more likely to attend meetings where external audit completion reports are presented. Attendance of the Chief Executive increased by 2% and the Monitoring Officer attendance decreased. This may be reflective of the fact that in local government, the Chief Financial Officer signs the accounts on behalf of the local authority, or it may be indicative of the profile of external audit.

Figure 5.2
Audit Committee attendance: Local Authority Officers and External Audit Representative



Notes

1 Representative sample of 30 local authorities

5.1.15 In local government, representatives of external audit are not expected to attend every Audit Committee meeting. Based on a representative sample, the KAP attended 56% of meetings, rising to 87% of meetings where either external audit papers were tabled or where the final accounts were presented. For the 13% of these meetings where the KAP was not in attendance, external audit was represented by a less senior member of the audit team.

5.2 Scope of audit committees within local government

5.2.1 The scope of Audit Committees also varied between authorities. CIPFA's *Position Statement and supporting guidance on Audit Committees (2013)* says that the Audit Committee should cover:

- The annual governance statement
- The work of internal audit
- Risk management
- Assurance framework and assurance planning
- Value for money and best value
- Countering fraud and corruption
- External audit
- Partnership governance

and may also cover:

- Specific matters at the request of statutory officers or other committees
- Ethical values
- Treasury management

5.2.2 Most of the committees reviewed covered most of the items in the CIPFA position statement. There were two areas which had either minimal or no specific coverage: *partnership governance,* which was considered by only two of the 30 authorities reviewed; and *value for money and best value* which was not considered by any of those 30 authorities. The *CIPFA Survey on Local Authority Audit Committees* (November 2016) also found that Audit Committees were much less likely to consider these two areas. However, the scope of Audit Committees in local authorities is not limited to the areas suggested in the CIPFA guidance.

5.2.3 The scope of committees whose responsibilities included audit varied. The second most common name, after the 'Audit Committee' itself was a name which indicated the combining of audit with the functions of an overview and scrutiny committee. Overview and scrutiny committees are required by statute[12] and are responsible for overseeing and scrutinising the whole range of the Council's functions and responsibilities, as well as other public service providers' work and its impact on the local community. Whilst the functions of these two committees have some synergy, there is a question as to whether it enables the audit responsibilities to be fully addressed.

5.2.4 In one example a local authority had set up an Audit, Resources and Performance Committee. This is a significant concern because the prime purpose of an Audit

[12] Schedule 2, Localism Act 2011

Committee is to review the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and the annual report. The Resources Committee will use financial projections and risk management information to take decisions about use of resources. If the same committee is responsible for using information to take management decisions and providing independent assurance over the reliability of that information, there is no effective segregation of duties. There is also a potential for conflicts of interest.

5.3 Relationship between Audit Committees and Full Council or equivalent

5.3.1 Full Council has a role, ultimately, in responding to audit matters that is beyond receiving Public Interest Reports or qualified audit opinions. Full Council is generally more visible to the public than committees/subcommittees. The Council's public accountability to local taxpayers and service users is best served by having significant matters relating to audit discussed in a transparent and accessible way.

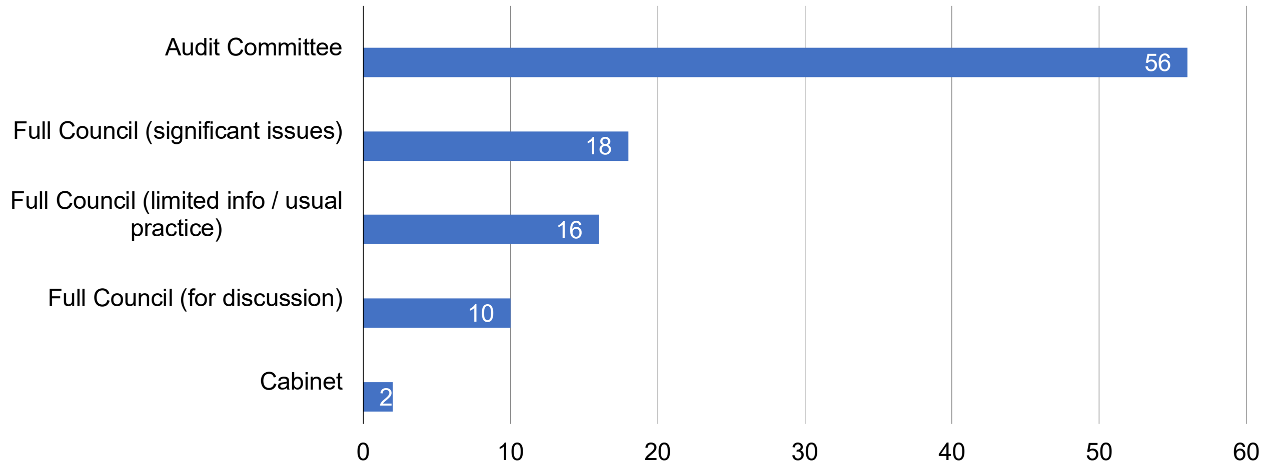
5.3.2 Matters raised at Audit Committee can be referred to Full Council. In addition, the auditor has the power to present some statements, for example an advisory notice that planned expenditure may be unlawful, directly to Full Council.

5.3.3 In practice the auditor tends to present matters to the Audit Committee, which decides if a matter is serious enough to be referred to Full Council. Most local authorities feel that this arrangement is appropriate. It is rare for an Audit Committee to put a substantive item onto the Full Council's agenda. The exception is the Treasury Management Strategy, where some local authorities have a practice of ensuring that it is considered by the Audit Committee before being forwarded to Full Council for approval.

5.3.4 Many local authorities stated that the existing relationship between Audit Committee and Full Council involved either forwarding for information a yearly summary report or meeting minutes and that this was considered to be sufficient. Many also commented that if there were significant recommendations made by the external auditor, such as a Public Interest Report, that then should be a matter for Full Council.

5.3.5 In some cases, some quite serious matters seem not to have been passed onto Full Council. For example, the 'best value' report into Northamptonshire County Council found that when the external auditor reported that appropriate arrangements to deliver best value outcomes were not in place, for the second year in succession, there is no evidence that the Audit Committee forwarded the qualified audit opinion to Full Council.

Figure 5.3
To whom should external auditors present audit reports and findings?



Notes

1 92% of local authorities respondents answered this Call for Views question

5.3.6 If this practice is widespread, there is a significant risk that in many councils, a majority of elected members may not be sighted on serious governance or financial resilience issues. This risk does not fully pertain to PCCs, where the PCC and Chief Constable are expected to attend the Joint Audit Committee and generally do so. There is a question as to whether Audit Committees, including Joint Audit Committees, are sufficiently transparent to local taxpayers and service users. Whilst by default, proceedings of these committees are public, it is not clear that taxpayers and service users are aware that they have a right to attend or to read the papers and the minutes.

5.3.7 As demonstrated in **Figure 5.3** most local authorities felt that external audit reports should be presented to the Audit Committee rather than to Full Council. Reasons given included:

- Full Council only taking items for decision;
- elected members not having the skills, knowledge or experience to understand the report unless they had received Audit Committee training.

5.3.8 Many commented that external audit reports should be reported to Full Council only in exceptional circumstances where there is significant cause for concern. One respondent commented that given the target dates and tight deadlines, there is insufficient time to report to Full Council prior to sign off of the accounts by the external auditors.

Raising the profile of external audit work

5.3.9 The content of the standard suite of external audit reports is mandated by auditing standards. Whilst audit firms have made significant strides in making reports more accessible to clients, much of the required disclosure is highly technical. Given this, it is perhaps understandable that many local authorities do not present such documents to Full Council.

5.3.10 Nevertheless, external auditors may have insights from their work, that could provide assurance to Elected Representatives that their local authority is being run with the best interests of service users and taxpayers in mind. The auditor also has the facility to sight elected representatives on matters that audit work has highlighted as a potential issue.

5.3.11 This suggests that the external auditor should report to Full Council on risks identified and conclusions reached, in a transparent and understandable format. To be of most use, such a report would need to be timely. Given the increase in the number of delayed audits, this report should not necessarily be linked to the certification of the financial accounts as it should be made at the most useful point in the year. Comparatively few local authorities commented on what was the right point in the year to receive audit reports. Two thirds of those who did, expressed a preference for end-September, coming as it does near the start of the following year's annual budget setting planning cycle.

Collating the results of external audit work

5.3.12 Prior to 2015, the Audit Commission published an annual report summarising the results of the audits of local authorities and the NHS. Up to the end of 2017-18 responsibility for preparing this report passed to PSAA. The report summarised the number of audits completed by the statutory deadline and the number of qualified financial audit and value for money opinions, with the latter categorised by theme. It also listed all Public Interest Reports, Statutory Recommendations and Advisory Notices issued in the preceding year. It did not include any details on risks raised by auditors in their Audit Planning Reports or non-statutory recommendations made to local authorities. Just over two thirds of Call for Views respondents think a publication summarising the results of local authority audits adds value.

5.3.13 The responsibility for preparing this report was included in the Memorandum of Understanding between PSAA and MHCLG. When MHCLG decided not to renew the Memorandum of Understanding, PSAA's responsibility for reporting on the results of audit work lapsed. This reinforces the point that no entity currently has the responsibility to collate and report on the results of the work of the external auditors of local authorities and individual NHS bodies.

6 Audit work on the financial resilience of local authorities

6.1 Stakeholders' expectations regarding financial resilience

6.1.1 Reference has been made to the role of external audit in assessing financial resilience and sustainability in local authorities. In England, neither the financial nor the value for money audit includes a specific responsibility to provide an opinion on whether a local authority is financially sustainable.

6.1.2 However, it is legitimate to expect the auditor to examine the ability of the local authority to provide resources sufficient to deliver the statutory services for which it is responsible. It would not be appropriate for this Review to provide a commentary on local government funding, but there are a number of key questions that it would be reasonable to expect the auditor to assess. These could include:

- Has the auditor scrutinised the balance sheet to understand the debt profile of the authority and the level and depletion rate of usable reserves?
- What metrics does the authority use to determine the level of financial risk it faces?
- When the annual budget is approved by Full Council or equivalent, the CFO is required to present a "Section 25" report, providing a view on the reasonableness of financial estimates and the adequacy of reserves. Should the auditor be required to confirm that this report is sound?
- It is good practice for local authorities to prepare a mid-term financial strategy, normally covering a three to five-year period that is presented alongside the budget. Is it reasonable to expect the auditor to consider the assumptions underpinning this strategy or to form a view on its whether it is robust and realistic?
- Local authorities are also required to prepare statutory reports that have implications for financial sustainability and available resources in future years. These include setting a Prudential Borrowing limit, calculating an appropriate provision for repayment of debt (known as "Minimum Revenue Provision"), preparing an Investment Strategy, and potentially preparing a Flexible Use of Capital Receipts Strategy. Is it reasonable to expect the auditor to consider some of these strategies and estimates?

6.1.3 CFOs may have specific expectations of auditors. As previously indicated, many of the CFOs who contacted the Review made it clear that they valued the informal contact and challenge from the KAP. Dialogue between the KAP and the CFO does take place, if not on as wide a scale as it did pre-2015, and there is no doubt this can be beneficial. However, the independence of the auditor must be preserved in the way that advice and guidance may be tendered.

6.2 What does financial resilience mean in a local authority context?

The statutory framework

6.2.1 Financial resilience in a local authority is different to a private sector context. The powers and responsibilities of local authorities along with the financial control framework within which they operate are set by statute.

6.2.2 The services that local authorities are required to provide are set out in legislation along with the accompanying powers and duties. The statutory responsibilities to deliver these services exist even if the local authority's resources may be considered to be insufficient at any given time.

6.2.3 The key financial controls set out in statute are:

- The requirement to calculate an **annual balanced revenue budget** for the upcoming financial year, that must be approved by Full Council or the equivalent. Local authorities are not allowed to run a deficit budget. Instead they are required to calculate a level of Council Tax that equates to the difference between income and expenditure. The increase in the level of Council Tax that can be charged is restricted by a 'referendum principle'. If a local authority wishes to raise Council Tax by more than a percentage specified by Ministers, they are required to put the planned increase to a referendum of local electors. Local authorities can borrow to fund capital investment but are not normally allowed to do so to finance in-year expenditure.
- The CFO's **"Section 25" report** on the robustness of the council's budget estimates and the adequacy of its reserves, which must be presented to Full Council alongside the annual balanced budget.
- The CFO has the power to issue a **"Section 114 notice"** if the CFO believes that the local authority is unable to set or maintain a balanced budget. After a section 114 notice is issued, the local authority may not incur new expenditure commitments, and the Full Council must meet within 21 days to discuss the report. There is no legal provision regarding what action they then must take. There is no procedure in law for a UK local authority to go bankrupt, and none has ever done so.

6.2.4 If a local authority mismanages its budgets over a number of years so that it is unable to recover its financial position, then central government has the choice of intervening under its "best value" powers, providing exceptional financial support, facilitating an offer of leadership and governance support from elsewhere in the sector, or using a mixture of these options.

6.2.5 Intervention on the grounds of lack of financial resilience is very rare. The most recent statutory intervention using best value powers was in Northamptonshire in 2018. Although there have been three other statutory interventions in the intervening years (Doncaster due to pervasive corporate governance failures, Rotherham due to institutional failure in responding to child sexual abuse and Tower Hamlets due to pervasive governance and financial impropriety issues), Northamptonshire was the first statutory intervention primarily due to financial resilience issues since Hackney in 2000.

6.2.6 In both Northamptonshire and Hackney, central government supported the council during the intervention by providing exceptional financial support, primarily by allowing receipts from sale of assets to be used to support revenue expenditure. Northamptonshire was also permitted to raise council tax by 2% more than other authorities for 2019-20 without triggering a referendum.

6.2.7 Whilst this might suggest that financial resilience is not an issue for local authorities, that may not always be the case. Firstly, central government support cannot always be guaranteed and secondly, a local authority experiencing severe financial resilience issues may also be facing governance and service delivery issues, with a consequential impact on those who depend on those services. Furthermore, the impact of financial resilience issues on service delivery is iterative. It must be emphasised here that the system must identify and highlight financial resilience issues at the earliest opportunity in order to avoid negative impact on service. When a service fails, it is likely that that cost of recovery will be greater with a possible consequential impact on financial resilience.

6.2.8 This suggests that in a local authority context, financial resilience means the ability to manage budgets over the medium term whilst continuing to deliver high quality and effective services, that can be accessed by service users. The level of service provided is very important. Local authorities in financial difficulties can seek to cut costs by reducing the level of service. This may be the case for demand led services such as social care where it is more difficult to forecast accurately local demand pressure.

Commercialisation and local authority resilience

6.2.9 One of the most significant sectoral trends since 2015 is the increased commercialisation of local authorities. To simplify, there are two main categories of local authority commercialisation:

- Investment in commercial property, usually through the general fund; and
- Investment in wholly owned companies set up using the "general power of competence". The most common type of wholly owned local authority company is the housing company. Other examples identified include energy companies, recruitment agencies, back office service delivery companies and leisure trusts. PCCs and FRAs do not have a "general power of competence".

6.2.10 The risks commercialisation poses to local authority financial resilience were highlighted in a recent NAO study on *"Local Authority Investment in Commercial Property"*[13] which concluded:

"Buying commercial property can deliver benefits for Local Authorities including both the generation of income and local regeneration. However, as with all investments, there are risks. Income from commercial property is uncertain over the long term and authorities may be taking on high levels of long-term debt with associated debt costs or may become significantly dependent on commercial property income to support services. At the national or regional level, Local Authority activity could have an inflationary effect on the market or crowd out private sector investment."

6.2.11 Although the NAO study focused solely on commercial property, this conclusion is as relevant to investments in wholly owned companies. If a company that is set up using the "general power of competence" gets into difficulty, the parent local authority may ultimately be responsible or may have to write off loans or equity funding, and this can impact financial resilience.

6.2.12 An additional risk with wholly owned companies is a potential lack of transparency. It can be very difficult for a reader to identify a local authority's exposure as a result of

[13] https://www.nao.org.uk/wp-content/uploads/2020/02/Local-authority-investment-in-commercial-property.pdf

investments in or loans to wholly owned companies by looking at the accounts. Unless an investment in, or transactions with, a wholly owned company is material by value, there is no requirement to consolidate the company's income, expenditure, assets or liabilities in the local authority's accounts. Instead, what is required is a disclosure of transactions between the authority and each of its wholly owned companies in what is known as the "Related Parties note". This note is presented less prominently in the annual report and accounts document. In addition, decisions a local authority makes pertaining to its wholly owned companies, including those relating to providing additional finance and awarding contracts, are often held in private on grounds of commercial confidentiality.

Defining local authority financial resilience

6.2.13 CIPFA has attempted to define financial resilience in a local authority context. In *Building Financial Resilience (Jun 2017)*[14]. This publication highlights four pillars of sound financial management and five indicators of financial stress.

Figure 6.1
CIPFA Pillars of Financial Resilience

Pillars of financial resilience	Indicators of financial stress
Getting routine financial management right	Running down reserves
Benchmarking against nearest neighbours – e.g. unit costs, under/overspends by service area, under-recovery of income.	Failure to deliver planned savings
	Shortening medium term financial planning horizons
Clear plans for delivering savings	Increase gaps in saving plans (i.e. where proposals are still to be identified)
Managing reserves over the medium-term financial planning horizon.	Increase unplanned overspends in service delivery departments.

6.2.14 The pillars of financial resilience identified by CIPFA related to process and governance points, so could be covered by the auditor's VfM opinion. Likewise, the indicators of financial stress could be covered by a sector-wide VfM audit framework.

6.2.15 An alternative and more detailed model, mentioned by some local authorities, is the seventeen principles set out in CIPFA's recently published Financial Management Code. Although only three of the seventeen principles are categorised under the heading of sustainability, in practice, all of the principles relate to matters that directly or indirectly contribute to an authority's capacity and capability to deliver sustainable services over the medium term.

6.2.16 A challenge common to both the *Pillars of Financial Resilience* and the *Financial Management Code* is that neither has any statutory basis. Whilst CIPFA requires its members to follow the *Financial Management Code*, compliance cannot be enforced. As a result, auditors may be reluctant to treat non-compliance with either as a matter serious enough on which to report.

[14] https://www.cipfa.org/policy-and-guidance/reports/building-financial-resilience-managing-financial-stress-in-local-authorities

6.2.17 A further challenge with the *Financial Management Code* is that the key principles are fairly detailed. Whilst an auditor could assess compliance with these principles, the costs of doing so in terms of both the auditor and of local authority time could be quite high.

6.2.18 Finally, neither the *Pillars* nor the *Financial Management Code* explicitly cover the impact of commercial activity on a local authority's financial resilience. General fund investments should be considered as part of the audit of financial accounts but wholly owned companies would only be considered if material enough to be consolidated into the accounts.

6.3 Current audit requirements to assess the sustainability and resilience of LAs in England

The Going Concern opinion

6.3.1 An underpinning principle of a financial audit is a 'going concern assumption'. The going concern principle means that readers of a set of accounts are entitled to assume a business will continue in the future, unless there is evidence to the contrary. When an auditor conducts the examination of the accounts, there is an obligation to review its ability to continue as a going concern for the next twelve months.

6.3.2 If the auditor concludes that there is significant doubt that the reporting entity is a going concern, the audit opinion is qualified, and a report explaining the auditor's financial resilience concerns is included with the audit opinion. In addition, if an entity is not a going concern, assets and liabilities must be valued at the amount they can be sold for rather than by assessing their ongoing value to the entity.

6.3.3 This particular way of validating a local authority's financial health has attracted much criticism from respondents. The view of practitioners is that that a local authority cannot face the prospect of bankruptcy/liquidity in the way that a company might.

6.3.4 In addition, local authorities are presumed to be a going concern for the purpose of forming an audit opinion, as the financial reporting frameworks for these bodies dictate a continued service approach, unless there is a clearly expressed Parliamentary intention to discontinue the provision of the services which the entity provides. The NAO has consulted on Supplementary Auditor Guidance, that reinforces this point.

6.3.5 87% of respondents to the Call for Views think the going concern assumption is meaningless in a local authority context. Respondents noted that local authorities would be likely to receive support from Central Government in the wake of a serious event. Many highlighted the example of Northamptonshire remaining a going concern for audit opinion purposes, even when the auditors had issued an advisory notice on what was considered to be an undeliverable budget. as an apparent example of the opinion's flaws. Those who responded that the opinion was meaningful included a majority of audit firms who acknowledged the going concern opinion's flaws and suggested changes but, on the whole, felt that it was still important that this assessment was carried out.

The value for money opinion

6.3.6 The other dimension of audit which could look at financial resilience is through the work required to support what is known as the 'value for money opinion'. The work required to support this opinion is governed by the NAO's Code of Audit Practice ("the Audit Code"). What the auditor is required to do is to form an opinion on the adequacy of the systems in place to support the economy, effectiveness and efficiency of service delivery. Under current practice in England, the auditor may test the adequacy of systems and procedures used to construct the mid-term financial plan but is only required to do so if a significant risk is identified during the audit. The auditor is not required to examine the mid-term financial plan from a sustainability perspective or form a conclusion on the financial resilience of the authority.

6.3.7 The update to the Audit Code, effective from 2020-21, will require auditors to provide a narrative statement on the arrangements in place. The aim of this statement is to provide more useful information to stakeholders, to report in a timelier manner and, through the move away from a binary opinion, encourage auditors to be bolder in highlighting concerns. The updated Audit Code has been broadly welcomed by stakeholders and has the potential to enhance value for money reporting in England.

6.3.8 What the updated Audit Code does not do is specify that auditors consider specific matters or judge local authority systems and performance against specific standards or good practice examples, such as CIPFA's *Pillars of Financial Sustainability* or their *Financial Management Code*. Nor does the updated Audit Code provide any guidance on how to assess whether a value for money risk is material.

Timeliness of the value for money opinion

6.3.9 Less than half of respondents to the Call for Views expressed an opinion on the timing of the VfM opinion. Two thirds of those who expressed an opinion agreed that the statutory reporting deadline of end-September was the right point in the annual cycle to present the VfM opinion, coming as it does near the start of the following year's annual budget setting planning cycle. Many commented that the external audit firms still had the capability to raise any significant VfM concerns outside this process, a process where they were happy with the content.

6.3.10 Those that disagreed included all but one of the audit firms who responded to this question. In addition, many of the local authorities who responded to the Call for Views didn't have strong opinions either way. Some thought that the opinion might be better presented in May, right at the start of the following financial year, but others expressed concern as to whether audit firms would have the capacity to handle a split reporting timetable.

6.3.11 A subsidiary, but still important, factor when considering the timing of the opinion is auditor resourcing. If the full benefits from the revised VfM opinion in the new Audit Code are to be realised, auditors will need to do more work.

6.3.12 Therefore, thinking about how to time the publication of the opinion so that it is of the most use, has the most impact, and can be supported by timely audit work must be a matter for serious consideration.

6.4 Practice in other jurisdictions

6.4.1 Audit requirements in other jurisdictions, for example Scotland, Wales and New Zealand provide alternative models, all of which provide practices that could help bridge the expectation gap between what auditors are required to do and what stakeholders expect them to do to assess financial resilience. The Review has explored New Zealand as it has a different model that is worthy of consideration.

6.4.2 Scotland and Wales have different models of value for money reporting, with Scotland's model requiring the auditor to assess future plans and Wales' model including the option for the auditor to undertake more focussed work on financial resilience as a separate engagement.

6.4.3 In New Zealand, there is no VfM opinion, but instead the financial audit opinion has been extended to cover a large number of pass/fail service delivery and financial resilience metrics. The financial resilience metrics are common to all authorities, allowing comparisons to be made.

6.4.4 Care needs to be taken when assessing the appropriateness of these models. There are currently 32 unitary authorities in Scotland, 22 unitary authorities in Wales and 78 local, regional and unitary councils in New Zealand compared to 343 local authorities in England. It may not be possible to scale-up practices that are appropriate in these jurisdictions to England in a coherent way or to do so at a reasonable cost.

Practice in Scotland

6.4.5 When scoping, planning, performing, and reporting on their 'best value' work, auditors in Scotland are required to consider four audit dimensions. The first of these, financial sustainability, interprets the short term going concern opinion and requires auditors to look *"forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered."*

6.4.6 The results of VfM audits of Scottish local authorities tend to produce quite rich reports, which the Accounts Commission, the public spending watchdog for local government in Scotland, uses to identify and highlight key trends and risks across the sector. For example, the *Local Government in Scotland, Financial Overview Report 2018-19 (Dec 2019)*[15] found that Scottish councils were increasingly drawing down on their revenue reserves; and whilst all councils had medium term financial planning covering the next three to five years, long term financial planning had not improved since the last report.

[15] https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_191217_local_government_finance.pdf

Practice in Wales

6.4.7 The value for money audit opinion an auditor of a Welsh local authority is required to provide is the same as that in England; that is an opinion on the "arrangements for securing economy, efficiency and effectiveness in its use of resources". However, the Welsh Code of Audit Practice requires auditors to review significant arrangements in place irrespective of whether material risks have been identified.

6.4.8 Where an auditor identifies notable financial resilience or other value for money concerns, the Auditor General for Wales has the statutory power[16] to publish a separate substantive report. These reports are publicly available on the Wales Audit Office's website and provide an in-depth assessment of the issues identified and the appropriateness of the plans that the local authority has to address these.

Practice in New Zealand

6.4.9 Local authorities in New Zealand are required to report performance in the Annual Report and Accounts against a range of financial prudence benchmarks specified in legislation. The auditor is required to report on the completeness and accuracy of the local authority's disclosures against these benchmarks. As all of the benchmarks have pass/fail thresholds, they lend themselves to a binary audit opinion.

6.4.10 The purpose of this statement is to disclose the Council's financial performance in relation to required benchmarks in order to assess whether the Council is prudently managing its revenues, expenses, assets, liabilities and general financial dealings. Although the benchmarks are backwards looking, five-year trend information is presented which helps the user of the accounts to understand how effective the local authority is in managing its financial resilience.

6.5 The audit of financial resilience – a new model for England?

Introduction

6.5.1 There is a significant gap between the reasonable expectations of many stakeholders and what the auditor is required to do when assessing the financial stability and resilience of local authorities.

6.5.2 To help bridge the expectation gap, the scope of audit should include a substantive test of a local authority's financial resilience and sustainability. Care and attention will need to be taken to define how the auditor should address historical, current and future financial sustainability issues, so that the engagement does not become overly burdensome or provide false comfort to stakeholders. In addition, expanding the scope of the audit will increase costs, and there needs to be a balance between those costs and the potential benefits of additional audit coverage and reporting.

6.5.3 However, cost should not be a deterrent in and of itself. The expansion of the opinion to encompass financial resilience and sustainability would, potentially, provide comfort to the authority and to council taxpayers that the finances are in good order. This

[16] under Section 17 of the Public Audit (Wales) Act 2004 and section 18 of the Local Government Wales Measure 2009

would represent a genuine demonstration of public accountability both from a local authority and from an audit perspective.

Form of the opinion

6.5.4 The revised narrative opinion proposed in the new NAO code should lead to a significant enhancement in the usefulness of auditor reporting. The 2020 Audit Code sets out three reporting criteria (para 3.10)[17]:

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

6.5.5 These criteria are not dissimilar to the four reporting pillars in the Scottish model. The pillar that auditors of English local authorities are not explicitly required to report on is financial management. It is unclear why this has been omitted but a possible reason is that an auditor would normally be expected to review material financial management controls as part of financial audit work.

6.5.6 The reporting requirements contained within the 2020 Audit Code will take time to settle down and embed and there will be a role for the regulator in identifying and promoting good practice. However, if practice develops as the NAO intends, the new reports should provide more useful information to stakeholders.

Work required to support an assessment of financial resilience

6.5.7 The 2020 Audit Code requires auditors to do less work to assess financial resilience than is required in either Scotland or Wales.

6.5.8 Specifically, auditors in England will not be required to test whether the body is planning effectively to continue to deliver its services or the way in which they would be delivered over the medium or longer time horizon as in Scotland. Nor will auditors be requested to review the design of significant arrangements to secure value for money, and, where appropriate given the assessment of risk, test the operating effectiveness of those arrangements as in Wales.

6.5.9 In addition to the factors mentioned in the Code, auditors could use the indicators of financial stress in the CIPFA publication, *Pillars of Financial Resilience*, as a key element of the risk assessment.

6.5.10 To support such an assessment the auditor could be required to critically assess and, in cases where significant risks are identified, test the CFO's Section 25 report along with any other statutory reports or management estimates that have an impact on medium or long term financial resilience. This testing could include an assessment

[17] https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

of whether there are clear plans for delivering savings, the usage rate for non-ringfenced revenue reserves and whether the local authority benchmarks its costs against nearest neighbours and takes appropriate action in response to variances, as set out in accordance with CIPFA's *Pillars of Financial Resilience*.

6.5.11 In addition, the auditor could explicitly be required to assess whether the local authority has complied in practice, and in spirit, with statutory guidance that it is required to "have regard to".

6.5.12 CIPFA's *Financial Management Code* is another model that provides a set of standards against which auditors could assess value for money and financial resilience. However, it is too detailed to assess without a considerable amount of additional audit work. Nevertheless, the principles in the *Financial Management Code* would enhance the consistency of local authority financial management. MHCLG could take the opportunity to give it statutory status when the opportunity arises and require local authorities to report on their compliance with it in their Annual Governance Statement. Since auditors are required to read the Annual Governance Statement to ensure it is consistent with their knowledge of the business this, combined with the enhanced resilience testing recommended, would require auditors to report material breaches.

6.5.13 Consideration has also been given to whether it would be appropriate to require a specific investigation. A more detailed report would enable specific VfM or financial resilience issues to be identified, as in the Welsh model. This is not recommended, as this element of the Welsh model is not applicable due to scale.

7. Financial reporting in local government

7.1 The purpose of financial reporting in the local authority sector

7.1.1 Financial reports provide information to people who seek to understand the performance of an entity. As most of the money that local authorities receive is provided from general or local taxation, it is reasonable to expect people outside the body who are interested in a local authority's financial performance to want to know how the money being managed is being spent. This includes knowing whether the local authority is performing effectively to achieve what was intended with this money.

7.1.2 Local taxpayers and service users do not have the power to require a local authority to produce bespoke financial information for them. Instead, they have to rely on the financial statements. They can inspect the financial statements and the underlying accounting records for a 30-day period that must comprise the first ten days in June. This means that to be relevant the information produced in local authority financial statements must meet the accountability and/or decision-making needs of users and be sufficiently transparent and understandable to allow them to ask appropriate questions.

7.2 Introduction to the framework

7.2.1 When producing financial reports, local authorities are required to have regard to the Statutory Code of Local Authority Accounting Practice ("the Accounting Code"), issued by the CIPFA. The Accounting Code is based on private sector accounting standards other than where they have been adapted for the specific circumstances of local authorities or where these are overridden by specific statutory requirements. As set out in **Figure 7.1**, Government retains the power to use secondary legislation either to override normal accounting practices or to require local authorities to include additional disclosures in their accounts.

Figure 7.1
Hierarchy of the Local Authority Accounting Framework

Primary Legislation	**Local Government Act 2003** Allows SoS to make provision about accounting practices that local authorities must follow.
Secondary Legislation	**Capital Finance and Accounting Regulations 2003** Gives CIPFA the power to produce a statutory accounting code. Introduces statutory overrides to private sector accounting practices; which must be reflected in the accounting code.
Statutory Code of Practice	**CIPFA Accounting Code of Practice** Statutory code setting out proper practices for local authority accounting in England.

7.2.2 When implementing, adapting or interpreting accounting standards, the Code seeks to maintain consistency with other parts of the UK public sector. Preparation of the Code is overseen by the CIPFA/LASAAC Accounting Code Board, which comprises representatives of all the key stakeholder groups. MHCLG has observer status on this Board.

7.2.3 This Accounting Code board does not act in isolation. Its decisions are reported to the Financial Reporting Advisory Board (FRAB), which advises HM Treasury on public sector accounting. In practice, both the annual update to the Accounting Code and any amendments or adaptations to accounting standards for the local authority sector need to be considered at FRAB as well as at the CIPFA/LASAAC Board.

7.2.4 The Accounting Code applies to Principal Councils, PCCs, Chief Constables, FRAs, the GLA, Mayoral Combined Authorities, Passenger Transport Executives and National Park authorities in England. It also applies to similar authorities in Wales, Scotland and Northern Ireland, although the legislative framework for these authorities is different and they are outside the scope of this Review. The Code does not normally apply to subsidiary companies consolidated into local authority accounts. Such companies use the applicable private sector accounting framework.

7.2.5 The Accounting Code is updated annually, and a new edition is published each financial year. Purchasing the 2019-20 Code from CIPFA costs £340 (hard copy) or £710 (online copy). CIPFA's sales numbers demonstrate that at least one third of local authorities do not purchase an Accounting Code in any given year.

7.2.6 The Accounting Code does not apply to smaller authorities, for example Parish Councils, Ports Authorities or Independent Drainage Boards with gross income or expenditure of less than £6.5m per annum (which is currently all but one of them). The accounting and governance framework for these authorities is set by an organisation called the Joint Panel on Accountability and Governance (JPAG), which comprises representatives of all of the key stakeholder groups. Smaller Parish Councils fill in a simplified financial return on a receipts and payments basis. Further discussion of smaller authorities is included in **Chapter 8**.

7.3 Format of local authority accounts

7.3.1 Local authority accounts are very lengthy compared to accounts in other sectors, typically numbering in excess of 50 pages for shire districts and more than 80 for upper and single tier local authorities. They have more primary statements than central government and private sector accounts. **Figure 7.2** shows the primary statements and supplementary accounts that the user can expect to find in a set of local authority accounts.

7.3.2 Local authority accounts are arguably more complex and more challenging for a service user to understand than accounts produced by other parts of the public sector. This is primarily because there is a difference between the budget analysis of information for council tax purposes and the statutory basis of year end accounts.

Figure 7.2

Local Authority Accounts – Primary Statements and Supplementary Accounts

Statement	Purpose
Comprehensive Income and Expenditure Statement (CIES)	Summary of the resources generated and consumed by the council on an accruals basis. Shows gross and net expenditure by service area and other income and expenditure incurred by the council.
Movement in Reserves Statement (MIRS)*	Shows how the movement in reserves in the Balance Sheet is reconciled to the CIES deficit and what adjustments are required to be charged to the general fund balance for Council Tax setting purposes.
Balance Sheet	Sets out the Council's financial position at the year end.
Expenditure and Funding Analysis (EFA)*	Summarises the annual expenditure used and funded by the Council together with the adjustments between the funding and accounting basis to reconcile with the CIES.
Cashflow Statement	Summarises the inflows and outflows of cash for revenue and capital transactions during the year.
Collection Fund Account* • Billing authorities	Agent's statement that reflects the statutory obligation for billing authorities to maintain an account showing collection of Council Tax and National Non-Domestic Rates (NNDR) and the distribution of these taxes to precepting authorities.
Housing Revenue Account (HRA)* • LAs with social housing stock	Local authorities are not allowed to cross subsidise provision of social housing from general taxation or vice versa. The HRA shows the major elements of expenditure on social housing and how these costs are met.

** Statements unique to local authority accounts*

7.3.3 Local authorities calculate their annual council tax requirement through setting a "balanced budget". The balanced budget calculation that local authorities are required to make is specified in primary legislation and is undertaken on a receipts and payments basis. Following the adoption of accruals accounting[18] by the local authority sector and as IFRS have continued to develop, successive governments have sought to protect council taxpayers from accruals movements that do not have an immediate impact on the costs of service delivery. They have done this through introducing statutory overrides.

7.3.4 The most significant of these statutory overrides relates to depreciation. Local authorities are required to charge depreciation on assets in the same way as any other entity. They then reverse out the depreciation charge in the Movement in Reserves statement (MIRS) and replace it with a prudent provision for the debt taken out to acquire assets (Minimum Revenue Provision).

[18] Accruals accounting is a form of accounting where you recognise the economic cost of assets and liabilities over the period when benefits accrue. For example, if you are using accruals accounting and buy a car that you expect will last five years you would split the purchase cost of that car over five years. By comparison if you are accounting on a receipts and payments basis you would recognise the full cost of the car in the year you pay for it.

7.3.5 The adjustments process has two consequences. Firstly it substantially increases the length of local authority accounts as the financial statements report some transactions on both an accruals basis (through the CIES) and a funding basis (through the EFA and MIRS) and include notes reconciling the two; and secondly, unlike for financial statements produced by other sectors, neither the CIES nor the Balance Sheet shows the true financial position of a local authority. To understand that position it is necessary to understand how the outturn reported in these statements reconciles to the basis on which the balanced budget calculation is made.

7.3.6 In addition to the statements in **Figure 7.2**, those local authorities who are also "administering authorities" for local authority pension funds are required to publish full Pension Fund accounts in the same document as their local authority accounts. The Pension Fund accounts are audited as a separate audit engagement. This further lengthens the document and means that the audited accounts cannot be published as final until both the local authority audit and the pension fund audit have been completed. The sector has asked MHCLG to look at decoupling the local authority and pension fund accounts. However, it is not possible to do this without primary legislation.

7.4 Usefulness, understandability and transparency of local authority accounts

7.4.1 The Annual Accounts that each local authority must prepare are prescribed in detail and relevant standards must be observed in the preparation of the statutory accounts and financial report. IFRS cover both the public and private sectors so auditors seek to adhere to those principles when auditing local authority accounts. There is widespread agreement that the resultant accounts are not transparent or easily understandable.

7.4.2 Local government practitioners argue that the extent and nature of asset valuations, very relevant in a commercial setting, undertaken by auditors, have limited significance in local government where assets are more often than not critical to service delivery and "market value" is not a consideration. Time allocated to the asset valuation process for property and pensions, it is agreed, is considerable and increases the cost of audit as well as, in some cases, leading to delays in the audit being finalised. Underlying this point is the question of whether IFRS should continue to be a key element of local authority statutory accounts.

7.4.3 An issue related to the concern in local government about the complex local authority accounting arrangements is the capacity of the external auditor to test and validate technically intricate accounting treatment without a familiarity with local authority finance and accounting. Such an assertion by local government is not universal but it is a concern of many. However, the audit community, whilst recognising that there has been depletion in the number of auditors who served in the District Audit Service, is confident it has necessary skills and resources to fulfil the role.

7.4.4 As highlighted in **Chapter 4**, there is evidence of market stress in the supply of appropriately experienced and qualified local authority auditors. Some auditors have also argued that local government itself does not always have accounting staff with the technical expertise to complete the final accounts without guidance and support from external audit.

7.4.5 That the local authority accounts are very complex is not in dispute. There is wide acknowledgment from all stakeholder groups that the annual financial statement of accounts is understandable only to those with the necessary technical and professional knowledge of local authority accounts. When asked whether local authority accounts allow the user to understand an authority's financial performance and its financial resilience, 93% of respondents said no.

7.4.6 Whilst some local authority respondents argued that the understandability of the accounts is not an issue, because service users and taxpayers can take assurance from the fact that they are prepared and audited to internationally recognised standards, it is questionable whether this is a defensible position.

7.4.7 The lack of transparency and understandability of local authority accounts raises a fundamental and serious challenge in terms of transparency and public accountability. Potential users extend beyond councils, government and auditors. Key stakeholders include council taxpayers/service users, the general public, academia, the media and local authority partners and contractors. Without an appropriate level of transparency these users may not have the information to challenge their local authority effectively. The rigour underpinning local authority accounting and auditing may not be at issue but the accounts, as currently structured and presented, do not enable the public to understand how local authorities are stewarding public funds.

7.5 Options for reform

7.5.1 There are three broad options for enhancing the transparency and usefulness of local authority financial statements, so that they better serve the needs of a wider group of stakeholders. These are:

- Review of IFRS as a basis for the preparation of local authority accounts.
- Expansion and standardisation of the current narrative statement.
- Introduction of a new summary statement presented alongside the IFRS accounts.

7.5.2 The underlying purpose of all three options is to strengthen financial transparency and accountability by providing a simplified presentation that is more relevant to stakeholders. All options have costs associated with them but these need to be set against the benefits of that increased transparency.

Review basis on which accounts are prepared

7.5.3 CIPFA could be asked to review the basis of accounts, with the aim of updating the Accounting Code so that the transactions presented in the annual financial statements are prepared on the same basis as the annual budget approved by Full Council.

7.5.4 If followed to its logical conclusion, this would allow local authorities to prepare simplified accounts that could be easily reconciled to the annual budget. If accounts are presented on a funding basis, the reconciliations between the funding and accounting basis would no longer be required. In addition, many of the lengthier notes to a set of financial statements, such as the financial instruments disclosures, are mainly required to support IFRS disclosures and could be removed or simplified. This would lead to much shorter documents.

7.5.5 There are some issues that would have to be addressed with this recommendation. Firstly, designing and implementing a new accounting framework would be challenging. CIPFA could go back to the pre-2010 near cash accounting framework, but it is questionable whether this would be appropriate. Many local authorities are far more commercial in their operations and have far more leveraged balance sheets than in 2010, so removing much of the accounting for long term assets and liabilities could present a misleading picture of financial resilience to service users. It could lead to local authorities to leveraging their balance sheet yet further, storing up potential financial problems for future years.

7.5.6 Secondly, there is the perception risk of such a step. There could be a perceived disconnect if local authorities reverted to cash accounting at the same point that some are becoming more commercial, taking on more debt to invest in assets acquired solely or partially to generate a return.

7.5.7 Thirdly, moving away from IFRS accounting would create consistency problems between various parts of the public sector. The Accounting Code applies to Scotland, Wales and Northern Ireland as well as to England. If English local government moved to a near cash accounting framework, the other UK jurisdictions would face the decision of mirroring that move or else the Accounting Codes would need to diverge. In addition, the results of UK local government bodies are consolidated into the Whole of Government Accounts, which are prepared on an IFRS basis. If English local authority accounts moved to a near-cash accounting basis, those authorities would in practice be required to maintain financial records and prepare accounts on two bases: on a near-cash basis for their own accounts and an IFRS basis for consolidation into WGA. This would impose considerable additional cost.

7.5.8 Finally, the UK public sector is held up as applying a gold standard of accounting, primarily because it is one of the few to apply IFRS fully. If part of the sector moved away from this it could generate considerable reputational risk. As a result, HM Treasury and FRAB may well oppose any significant modification of the English local authority accounting framework.

Expansion and standardisation of the narrative statement

7.5.9 The framework for local authority annual reports and accounts is unusual in that, although local authorities are required to prepare an annual report, it does not include any mandatory disclosures. In 2015 CIPFA launched the “Telling the Story” initiative, which encouraged local authorities to use the annual report to accurately reflect financial and service performance. Some local authorities have produced innovative and informative annual reports following the launch of this initiative, but performance varies, with other authorities making minimal disclosures. In addition, because “Telling the Story” does not include mandated standards or disclosures it is not consistent across authorities.

7.5.10 By comparison, the UK Central Government Financial Reporting Manual (the "FReM") requires all central government reporting entities to prepare a Performance Report and an Accountability Report, both of which are based on Companies Act requirements as adapted for the public sector and contain mandated disclosures.

7.5.11 A similar approach could be adopted for local authority accounts. In this model, local authorities could be required to include a Performance Report in their annual report and accounts containing a reconciliation between the approved budget and year-end service expenditure, along with explanations for significant variances and the impact of the variances on revenue reserves, prepared on a budget setting basis whilst being reconcilable to the statutory accounts. Potentially this could be supplemented with standardised service delivery metrics and an explanation of longer-term risks and mitigations linked to key financial management strategies such as the Mid-Term Financial Plan, as appropriate.

7.5.12 The proposed Performance Report could be a transparent element of a local authority's Annual Report and Accounts, which discloses what the local authority planned to spend on each major service area, what it actually spent, where there were significant variances between the two what the reasons were, and what impact that has had on the reserves available to support the following year's expenditure. With the addition of service delivery metrics, the Report could also start to give an indication of what service users and taxpayers have got for their money. If the financial information and performance metrics are prepared to common standards, this could start to bring a degree of comparability between authorities, which could promote improvements in the effectiveness and efficiency of service delivery.

7.5.13 Finally, if the reconciliation between budget and outturn is presented in the Annual Report, it may be possible to remove or reduce the MIRS, the EFA and supporting disclosures. This could offset the increased work required to produce the new Performance Report.

7.5.14 There are some challenges with this approach:

- it would mean extending the scope of the audit engagement, particularly if the auditors are required to form an opinion on non-financial information.
- if non-financial service delivery metrics are subject to audit they will need to be prepared and disclosed on a consistent basis. It will be necessary to identify appropriate metrics across a range of service areas, a process that could take time. In addition, including metrics for all of the services that a local authority provides would require very lengthy disclosures.
- if included in a long Annual Report and Accounts document, there is no guarantee that this statement would be any more visible to the general public than the current financial statements are.
- there is a risk that some local authorities use the narrative element of such a statement to present an overly positive view of their achievements and finances.

Introduction of a new summary statement

7.5.15 A variation in part, and a replacement of the enhanced narrative statement, is to leave the current local authority accounts largely unaltered and instead require the production of Summarised Accounts, prepared on the budget setting basis. As with the enhanced narrative statement, the Summarised Accounts would need to be reconcilable to the Statutory Accounts and be subject to audit to have credibility.

7.5.16 Statutory Guidance would need to be developed to set out the form and content of the Summarised Accounts. Potentially they could contain:

- A statement of service information and costs prepared in a standard format and to a standardised framework. The most appropriate framework would probably be the statutory Service Reporting Code of Practice (SERCoP).
- Comparison between budget setting information and outturn performance.
- A degree of detail to encompass all key service expenditure heads; where appropriate this could be extended to present unit cost information. A simplified balance sheet, including some form of assurance relating to non-ringfenced revenue reserves and debt levels and borrowing plans, with the latter linked to the Prudential Framework disclosures, could also be produced.
- A brief narrative. This could be limited to a financial commentary comprising explanations of significant variances between budget and outturn along with an assessment of the impact on medium term financial sustainability. It may also be possible to include a brief description of outcomes though this would need to be linked back to the objectives set when the annual budget was approved.

7.5.17 The aim of this document would be to present a statement aimed at the local community rather than as a basis for compiling national statistics. Because of differences between local authorities, comparability would be difficult and potentially misleading. Local authorities could be asked to think about a range of communication methods to reach their local communities more effectively.

7.5.18 The summary accounts would be a vehicle to increase transparency. As this would be a short stand-alone document, it would be much more accessible to taxpayers and service users.

7.5.19 Local authorities would have to reconcile outturn between the funding basis and IFRS accounting basis. However, the value of disclosing these reconciliations could be reassessed, potentially allowing the MIRS, the EFA and supporting disclosures to be discontinued. This could allow the statutory financial statements to be prepared on an IFRS basis without statutory adjustments.

7.5.20 Finally, consideration would need to be given as to the level of audit required for the Simplified Statements, and the agreed procedures that auditors would be required to undertake to provide assurance over reconciliations between the IFRS Financial Statements and the Simplified Financial Statements, that are not disclosed in either.

8. Smaller authorities

8.1 Introduction

8.1.1 Smaller authorities are defined in the 2014 Act as an authority where the higher of gross annual income or expenditure does not exceed £6.5 million for three years (or one or two if the authority has not existed for three years). Currently there are just under 10,000 smaller bodies, only one of which has to prepare a full set of IFRS compliant accounts and undergo a full audit.

8.1.2 There are different types of smaller authority with a varied range of responsibilities and powers:

- Local councils including Parish, Town, Village and Community Councils and parish meetings. Some common responsibilities can include, but are not limited to, commons and open spaces, car parks, lighting, footpaths, leisure and sports facilities, litter bins, and tourism activities. Some of these services are delivered on behalf of the unitary and district councils.
- IDBs which are responsible for managing water levels including managing flood risks and land drainage.
- Other smaller authorities such as charter trustees, port health authorities, conservation bodies and crematorium boards.

Smaller authorities are financed primarily through a precept which is collected as part of council tax by the unitary or district council. They can also apply for grants and awards.

8.1.3 Governance arrangements depend on the type and size of the authority. All local authorities are required to have a clerk; however, for small authorities, this could be their only employee or may be a volunteer or part-time worker. Roughly two-thirds of smaller authorities have a single employee, and some don't have any employees. The clerk is analogous, in part, to a CFO in a principal authority, as there is a requirement to give guidance to councillors, in many cases carrying out the role of the Finance Officer. Smaller authorities must publish the statement of accounts together with any certificate or opinion provided by the local auditor[19].

8.2 Scale of audit

8.2.1 Smaller authorities are not required to produce IFRS based accounts but instead produce a simplified statement of account on a receipts and payments basis. Some larger Parish Councils present accruals-based accounts alongside this, although these are unaudited. As set out in **Figure 8.1**, smaller authorities are either exempt from audit or undergo a 'limited assurance engagement'. As the name suggests, this provides less assurance than a full-scale audit.

8.2.2 While most authorities with an income or expenditure of up to £25,000 are exempt from audit, a request can be made for a 'limited assurance engagement' from SAAA who will then appoint an auditor to undertake this work. More than 100 bodies have chosen to do this.

[19] The Accounts and Audit Regulations 2015
https://www.legislation.gov.uk/uksi/2015/234/pdfs/uksi_20150234_en.pdf

Figure 8.1

Table of audit thresholds and associated requirements for smaller authorities [20]

Level of income or spending	Form of external assurance to be provided from 2017-18 onwards	% of smaller authorities in each band
More than £6.5 million.	'Full audit' under international auditing standards.	0.01%
Up to £6.5 million but more than £200,000 (accounts on income and expenditure basis)	Limited assurance engagement but may opt for 'full audit'.	11%
Up to £200,000 but more than £25,000 (accounts can be on either receipts and payments or income and expenditure basis)	Limited assurance engagement but may opt for 'full audit'.	31%
Gross income or gross expenditure up to £25,000	Exempt from audit and limited assurance engagement in most cases, subject to the authority certifying that it is exempt. Work by an auditor may still be needed in certain circumstances – notably if there are objections to the accounts.	58%
No financial transactions and no accounts	Exempt from audit and limited assurance engagement in most cases, subject to the authority certifying that it is exempt.	

8.2.3 Smaller authorities are also required to undertake an internal audit to evaluate the effectiveness of its risk management, control and governance processes[21]. Quality of internal audit staff is said by some respondents to be variable, which has the potential to cause issues for the external audit.

8.2.4 One of the trends in recent years has been the transfer of assets and associated running costs to Parish Councils. If smaller authorities are given more responsibility, or if the spending of smaller authorities were to change to where many such authorities approach the £6.5 million threshold, the current accountability arrangements may no longer be appropriate. The assurance levels may need to be reviewed by MHCLG. This is especially pertinent as smaller authorities are not bound

[20] NAO AGN02 Specified Procedures for Assurance Engagements at Smaller Authorities https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-02-Specified-Procedures-for-Assurance-Engagements-at-Smaller-Authorities.pdf

[21] The Accounts and Audit Regulations 5(1) 2015https://www.legislation.gov.uk/uksi/2015/234/made#:~:text=5.,internal%20auditing%20standards%20or%20guidance.

by council tax referendum rules[22] and can raise their precept by the amount they consider necessary.

8.2.5 In 2020, one IDB met the threshold for preparing full statutory accounts. Available evidence suggests that this is the first occasion of this happening. The cause of the IDB's increase in income and expenditure was the capital grants it received and, as such, the requirements for a full code audit may be temporary. PSAA and the Association of Drainage Authorities (ADA) have worked with the authority to find a new auditor as the previously appointed auditor does not qualify under the statutory framework to undertake full audits. This also resulted in an increased audit fee, from less than £5,000 to £40,000. Producing full IFRS accounts will considerably increase the amount of internal work required by the IDB and this is likely to represent a challenge to its available skills and infrastructure.

8.3 Procurement of audit

8.3.1 Prior to 2017, smaller authorities were included in the audit contracts let by the Audit Commission in 2014 that were taken over by PSAA through the transitional arrangements. SAAA was designated as an appointing person under legislation[23] by the Secretary of State to take over this role from 2017-18. SAAA is an independent, not for profit company. SAAA was set up by the National Association of Local Councils (NALC), Society of Local Council Clerks (SLCC) and the Association of Drainage Authorities (ADA). Although smaller authorities have the same power to appoint their own auditors as principal authorities, in practice, all smaller authorities opted in to SAAA's procurement. SAAA has appointed external auditors for a 5-year period from 1 April 2017.

8.3.2 SAAA's procurement comprised 17 equally sized lots. Other than for IDBs, which were grouped together, lots were geographically based. The SAAA procurement was based on price once a supplier had met a minimum quality threshold. There were five firms that met this threshold. The result of this exercise was that 15 were awarded to a single audit firm and two other firms won one lot each. This met SAAA's declared objective of having a minimum of three firms in the market. Of the three firms, two had previously held contracts with PSAA and one re-joined the market. With regard to the quality and price ration for appointing auditors, SAAA believes that once a certain threshold is reached, it is very difficult to differentiate between firms on the basis of quality.

Fee scale

8.3.3 SAAA's fee scale is based on 15 bands of income or expenditure (whichever is higher). Audit Commission and then PSAA, through the transitional arrangements, also used this fee scale. Exempt authorities do not pay an audit fee. Authorities with income or expenditure of between £25,000 and £50,000 pay an audit fee of £200. Fees rise in stages up to a maximum of £3,600 in cases where income or expenditure is more than £5 million but less than £6.5 million.

[22] The Local Authorities (Conduct of Referendums) (Council Tax Increases) (England) Regulations 2012 https://www.legislation.gov.uk/ukdsi/2012/9780111519035/regulation/3
[23] The Local Audit (Smaller Authorities) Regulations 2015 https://www.legislation.gov.uk/ukdsi/2015/9780111126103

8.3.4 The scale fees paid by smaller authorities for their audit have remained unchanged for the past 12 years. There have been savings for those smaller authorities that, from 2017, could declare themselves as exempt and, therefore, did not have to pay for an audit.

8.3.5 This audit fee model relies on larger authorities supplementing the cost of audit work for smaller authorities. As there are 15 bands of fees, there may be councils receiving the same level of audit work whilst paying different amounts. Although this may offer the most efficient method of payment to ensure audit is affordable for all smaller authorities, the banding system may warrant review.

8.3.6 Overall, smaller authorities seem content with the level of audit fees they pay. The only area of concern raised related to capital grant funding. Two Parish Councils raised concerns that the impact of the rising scale fee could be a deterrent for local authorities investing in future capital schemes in the local community.

Fee variations

8.3.7 Smaller authorities may be subject to variations to the scale fees set out above if additional work is needed. Some of this work is costed as a fixed supplement of the fee scale and some is charged at fixed hourly rates. SAAA agreed a maximum hourly rate for additional work and this is published on their website. Examples of where fee variations may be charged include the auditor considering objections to the accounts from local electors, and where special investigations are undertaken.

Quality

8.3.8 There is no indication that the smaller authority audit market is encountering delayed audit opinions, as is the case for larger authorities. SAAA use trackers completed by the firms to collate and analyse key management information to track and report on the management, delivery and the outcomes of limited assurance reviews. SAAA also reviews the underlying data quality and system interfaces on a light touch risk basis.

8.3.9 In carrying out its quality assurance role, as set out in the Appointing Person Legislation, SAAA review and test the firms' internal quality assurance processes and contract compliance systems (quality aspects) to ensure the delivery of good quality reviews. An overall rating for both quality of limited assurance review work and contract management, compliance and data quality is provided. The findings of this process are reported to each firm and to SAAA's Board. They do not publish these findings, though they maintain the right to do so.

8.3.10 A very small number of smaller authorities responded to the Call for Views; therefore, it must be stressed that the following comments are not necessarily reflective of the sector. One Parish Council commented that the arrangement with SAAA made it feel that the auditor didn't consider the council to be its customer. Similar feedback has been received concerning PSAA's role. It also commented that it felt the quality of their audit was very poor and that it added no value. This may be in part due to the framework of limited assurance audit for smaller authorities and a resulting 'expectation gap'. The Review is unable to corroborate whether this is a commonly held view.

8.3.11 Two other Parish Councils questioned whether auditors provided the right level of assurance. One commented that larger Parish Councils should be held to the same standards for financial reporting, transparency and accountability as those applied to principal authorities of equivalent size. The council linked this to the fact that some councils are playing an increasingly significant role in their communities. It is true that there are currently three smaller authorities that have an annual income or expenditure of over £5 million which is similar to the smallest Category 1 authority which is subject to a full audit. However, there are not many Category 1 authorities that are this small. The other respondent was specifically concerned about governance and financial transparency within the council and the lack of clarity on spending.

8.4 Accountability

8.4.1 In addition to producing a financial return, most smaller authorities are subject to transparency requirements. There are two Transparency Codes; authorities with an income or expenditure of £200,000 or more are included in the same mandatory Transparency Code[24] as principal authorities. Exempt authorities are subject to a specific smaller authority Transparency Code[25], made mandatory in April 2015, that:

"will enable local electors and ratepayers to access relevant information about the authorities' accounts and governance".

8.4.2 Authorities with income and expenditure under £200,000 but above £25,000 are expected to follow the same requirements but it is not mandatory. As these authorities are subject to audit, the transparency code was not considered to be applicable. Such difference in approach may warrant further attention. However, Commitment 8 in the governments UK National Action Plan for Open Government[26], sets out the government's plan for local transparency which includes MHCLG developing proposals to:

"help and encourage councils to publish all the information they can".

Objections

8.4.3 Local objections can be made to an item of expenditure in a smaller authority's finance return. It is very difficult to ascertain how many objections to the accounts smaller authorities receive, as the auditor is required to respond, by statute, only to the objector. As a result, most objections are never made public, the exceptions being if an objector choses to publish a response or the investigation leads to a Public Interest Report. However, one authority reported over 100 objections in a single year. NALC commented that several authorities at the smaller end of the income and expenditure level are consistently subject to objections, sometimes by the same individual or group of objectors.

[24] Local Government Transparency Code 2015
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/408386/150227_PUBLICATION_Final_LGTC_2015.pdf
[25] Transparency Code for Smaller Authorities
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/388541/Transparency_Code_for_Smaller_Authorities.pdf
[26] 2019-2021 UK National Action Plan for Open Government
https://www.opengovernment.org.uk/resource/uk-national-action-plan-for-open-government-2019-2021/

8.4.4 The auditor is responsible for reviewing all objections that meet the statutory requirement. In deciding whether to investigate, the auditor has to review the objection, which will result in a cost to the authority (not exceeding the maximum hourly rates as specified by SAAA) even if they do not subsequently pursue an investigation.

8.4.5 The auditor can refuse to investigate an objection[27] if:

- the cost of dealing with the complaint would be disproportionate to the underlying sum;
- the objection is frivolous or vexatious; or
- it is a repeat of a complaint made in a prior year of account.

8.4.6 A number of smaller authorities receive repeat or vexatious complaints. Where an authority receives such a complaint, it can choose to terminate communication with the complainant. However, if that individual raises an objection, an auditor must consider it to see if it is something to be pursued. This work incurs a supplement to the scale fee as set out by the SAAA. Given the size of many smaller authorities, objections can be proportionately very costly, both in terms of additional fees paid to auditor firms and in terms of resources that the authority requires to support, appropriately, the objection process. As with larger authorities, outstanding objections can cause a delay in issuing the audit opinion

8.4.7 The objections regime does provide a solid basis of accountability and ensures the auditor investigates potential issues further, to supplement the 'limited assurance' audit. There may be cases where the system is misused. Consideration should be given to provide more support to auditors to enable them to identify repeat or vexatious objectors in a more efficient manner.

Public Interest Reports

8.4.8 External auditors have a duty under the 2014 Act to consider whether to issue a report where there has been a significant matter identified that needs to be addressed in the interests of the public. There are more PIRs issued for smaller authorities than there are for larger authorities. SAAA publishes reports from the 17/18 financial year on their website, and previous financial years are available on the archived PSAA website.

Figure 8.2

Smaller Authorities - Reasons why a PIR was issued

	16/17	17/18	19/20
Failure to produce an annual return (for 16/17) or an AGAR (from 17/8 onwards)	16	22	23
Criteria submitted for exemption not all satisfied	N/A	0	8
Other	6	1	0
Total	22	23	31

The "other" category includes issues relating to governance, fraud, employment law, and non-compliance with VAT regulations.

[27] NAO Local Authority accounts: A guide to your rights https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Council-accounts-a-guide-to-your-rights.pdf

8.4.9 One authority had a PIR issued for all three years for failure to produce an annual return or annual governance and accountability returns (AGAR), and a further seven authorities had a PIR issued in two of the three years for the same reason. Failure to produce an AGAR from 2017/18 triggers a statutory recommendation to the authority from the external auditor that it should submit an approved AGAR within 42 days. A public interest report is then issued if the authority fails to do so.

8.4.10 Out of the six PIRs issued in 16/17 that were *not* due to a failure to produce an annual return, four of them related to work carried out by auditors in response to objections raised by a local elector. In one authority's case, it received objections on a multitude of issues with one issue (ineffective internal audit and other governance failings) receiving a number of objections.

8.4.11 If a smaller authority chooses not to engage with external audit recommendations or PIRs, there is no mechanism, other than through local elections, to hold smaller authorities to account. The LGSCO investigates complaints against larger local authorities, but this does not extend to Parish Councils. If MHCLG wishes to devolve more powers to smaller authorities or smaller authorities increase their spending considerably, MHCLG should consider further accountability arrangements for smaller authorities.

8.5 Financial Reporting in Smaller Authorities

8.5.1 Smaller authorities that are able to declare that they have had had no financial transactions in the year of account do not need to prepare accounts. Instead they can send a declaration that they are exempt to their auditor.

8.5.2 Smaller authorities that cannot declare themselves exempt have to prepare an Annual Governance and Accountability Return (AGAR). The AGAR which is freely available, is updated and produced by SAAA and approved by the SAAA board. The cost of its production is met by SAAA.

8.5.3 JPAG is responsible for issuing proper practices about the governance and accounts of smaller authorities. Its membership consists of sector representatives from the National Association of Local Councils, the Society of Local Council Clerks and the Association of Drainage Authorities, together with stakeholder partners representing MHCLG, the Department of Environment, Food and Rural Affairs, CIPFA, the NAO and a representative of the external audit firms appointed to smaller authorities.

8.5.4 The AGAR has a number of sections. In order these are:

a. Guidance notes on how to complete the template and what information needs to be published on the authority's website.
b. The Annual Internal Audit Report.
c. Section 1: The Governance Statement.
d. Section 2: The Accounting Statement, which is prepared on a receipts and payments basis.
e. The External Auditor Report and Certificate.

8.5.5 Each non-exempt smaller authority is required to complete parts b, c, and d of the AGAR and send it together with a bank reconciliation and an explanation of any variances between the budget and the outturn to the auditor. The template itself is quite short, but fairly busy, with detailed guidance included in each section.

8.5.6 Under the Accounts and Audit Regulations 2015, authorities must publish the following information on a publicly accessible website. Before 1 July, smaller authorities must publish:

- Notice of the period for the exercise of public rights and a declaration that the accounting statements are as yet unaudited;
- Section 1 - Annual Governance Statement, approved and signed; and
- Section 2 - Accounting Statements, approved and signed.

8.5.7 Not later than 30 September, smaller authorities must publish:

- Notice of conclusion of the audit;
- The External Auditor Report and Certificate: and
- Sections 1 and 2 of AGAR including any amendments as a result of the limited assurance review.

9. Conclusions

9.1 During the course of this Review it has become increasingly apparent that the current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act. As a result, the overriding concern must be a lack of coherence and public accountability within the existing system. For local audit to be wholly effective it must provide a service which is robust, relevant, and timely; it must demonstrate the right balance between price and quality; and be transparent to public scrutiny. The evidence is compelling to suggest that the current audit service does not meet those standards.

Key Factors Determining the Outcomes of The Review

9.2 In reaching the outcome and recommendations for this Review the following key factors have been taken into account:

- providing clarity of purpose in local audit;
- giving emphasis to performance and accountability in local audit framework;
- maintaining and improving the stability of the local audit market;
- reaffirming the importance of the auditing and accounting staff having the requisite skills, training and experience to fulfil their roles;
- improving and strengthening the governance arrangements underpinning effective local audit;
- developing coherence and coordination in the procurement and effective delivery of audit performance within a clear and consistent accountability framework;
- engaging key stakeholders in regular dialogue as an aid to maintaining an effective local audit service; and
- providing transparency in financial and external audit reporting to reinforce public accountability.

Local Audit

9.3 As currently configured the local audit market is vulnerable, due in no small part to the under-resourcing of audit work required to be undertaken within the contract sum. In addressing this weakness, a fundamental review of the fee structure is necessary. Evidence suggests that audit fees are at least 25% lower than is required to fulfil current local audit requirements effectively. Concerns reported about variable levels of knowledge and experience of local government finance and accounting demonstrated by auditors must also be addressed. The skills and competencies of auditors must also be paramount if the full extent of audit requirements are to be delivered satisfactorily. The current audit deadline of 31 July is viewed as unrealistic and in the light of the evidence presented by the Call for Views, there is a compelling argument to change this date to 30 September. The procurement arrangements must acknowledge these factors and it is essential that the audit performance regime offers assurance to the public that true accountability has been served.

9.4 Attention has been given to whether the existing local audit framework might be improved to achieve these objectives. The roles and responsibilities of all relevant bodies should be reviewed to respond to the concerns expressed in this report. However, the key challenge is the underlying weakness of the current arrangements where there is no coordination and regulation of local audit activity. This is a role best discharged by a single overarching body.

9.5 A single body would embrace all aspects of local audit incorporating procurement, contract management, the code of local audit practice, accountability for performance, oversight and regulation. Clarity of purpose, consistency and public accountability would be essential features of this approach and the expertise and skills of those currently providing these services would be harnessed and maintained in the new body.

9.6 The Review has highlighted a potential weakness in the way in which audit outcomes are considered and presented to both the local authority and the public. The ability of Audit Committees, which mostly lack independent, technically qualified members, to consider, effectively, audit reports has been challenged in responses to the call for views. In addition, transparency and accountability of audit reports, from a public perspective is lacking and there is considerable scope for the Key Audit Partner to present a report on the principal issues arising from the audit to Full Council at least annually.

9.7 The situation facing PCCs and FRAs is many ways similar to those for principal councils in that audit quality and price are in need of review. Governance here, however, is somewhat different in terms of reporting lines and public accountability as these are currently more transparent than those applying in Principal Authorities.

9.8 Parish Councils, Meetings, IDBs and other smaller authorities operate on a much smaller scale and procurement/contractor arrangements are overseen by SAAA where no serious concerns have been identified. However, there is scope here to improve public reporting of local audit outcomes and attention should be given to 'turnover' thresholds in order to ensure a proportionate level of resource is utilised in fulfilling audit requirements.

9.9 An area that has generated considerable comment is the perceived gap between the reasonable expectations of many stakeholders and what auditors are required to do relating to the financial stability and resilience of local authorities. There is a compelling argument to extend the scope of audit to include a substantive test of financial resilience and sustainability. The scope of this audit needs to be clearly defined and focused to ensure there is a balance between cost and the potential benefits of such additional audit coverage and reporting. This would represent a genuine demonstration of public accountability.

9.10 The new NAO code includes a revised narrative audit opinion and sets out three reporting criteria relating to financial sustainability, governance and improving economy, efficiency, and effectiveness. This approach, once fully established, will provide a very important statement to stakeholders regarding a local authority's financial health. In effecting this scrutiny of financial sustainability, the auditor would also undertake an assessment of the risks identified in the CFO's annual Section 25 report of the budget. This could be further assisted by a review of the local authority's observance of CIPFA's Financial Management Code which provides a set of statements including value for money and financial resilience. To ensure that the Auditor's work is genuinely transparent and accessible to local taxpayers an Auditor's Report should be presented to the first Full Council meeting after 30 September every year, irrespective of whether the financial accounts have been certified.

Transparency of Financial Reporting

9.11 This report has highlighted the inability of the general public to understand the annual statutory accounts presented by local authorities. The technical complexity of the accounts means that service users/council taxpayers have little or no opportunity to comprehend what is being said or to challenge expenditure and income relating to a specific service and how the local authority has performed.

9.12 Three options have been explained in this report as a possible response to this problem. A review of the existing IFRS based accounts could be undertaken, but, given the requirement to observe international reporting standards, it may not yield the simplicity in presentation and terminology that is sought here. An alternative detailed in this report would entail adapting the existing narrative report produced by local authorities as an addendum to the statutory accounts where discretion would be afforded to each local authority regarding style, content and presentation. The third and final option relates to a new simplified statement of service information and costs as a means of enabling each local authority to communicate, in a standardised format, the key information relating to the budget and council tax setting compared to actual financial performance. If transparency and consistency of financial reporting are to be achieved this last option best meets these objectives although the experience developed in the production of narrative reports may be beneficial in its design.

9.13 A draft of a simplified statement is included as an annex to this report which incorporates the key features of simplicity and transparency. Observance of IFRS based accounts remains an important ingredient in ensuring proper accountability for financial performance, so the current statutory accounts should still be produced. This requirement is underpinned by a Code of Accounting Practice produced by CIPFA. Many local authorities have not purchased the most recent copy of the Accounting Code. Consideration should be given to this being freely available, given its importance in the construction of statutory accounts.

10. List of Annexes

1. What are auditors required to do?
2. Roles and duties of Statutory Officers
3. Functions of the Office of Local Audit and Regulation
4. Illustrative Simplified Financial Statements
    a. District Council
    b. Fire and Rescue Authority
    c. Police and Crime Commissioner
    d. Unitary Authority
5. Potential impact of recommendations made by other reviews of audit
6. Approach of other state auditors to performance audit
7. Terms of Reference
8. Call for Views respondents

Appendix – Glossary of Key Terms, Acronyms and Abbreviations

ACCA – Association of Chartered Certified Accountants
Professional accounting body offering the Chartered Certified Accountant qualification

Accounting Officer
Normally the Permanent Secretary of a government department who is personally responsible for the regularity and propriety of expenditure, robust evaluation of different mechanisms for delivering policy objectives, value for money, the management of risk, and accurate accounting for the use of resources

Accounts and Audit Regulations 2015
Statutory Instrument that sets the deadlines for publishing unaudited local authority accounts for inspection and for publishing audited local authority accounts; requires local authorities to have an internal audit; and details the information that must be included in local authority annual report and accounts.

Adverse Opinion
An audit opinion - a conclusion that an authority's accounts are not true and fair/proper arrangements to secure the economy, effectiveness and efficiency of service delivery are not in place.

AGN – Auditor Guidance Notes
Guidance produced by the National Audit Office to support external auditors in their work and to facilitate consistency of approach between auditors of the same types of entity. These have the same status as the NAO Audit Code of Practice

ALB – Arm's Length Body
A body which has a role in the processes of national government but is not a government department or part of one, and which accordingly operates to a greater or lesser extent at arm's length from ministers.

Annual Audit Letter – also known as Audit Completion Report or ISA260 Report
The annual audit letter summarises key findings from the auditor's yearly audit; often includes management recommendations.

AQR – Audit Quality Review team
The part of the Financial Reporting Council that monitors the quality of the audit work of statutory auditors and audit firms in the UK that audit Public Interest Entities (PIEs). Since 2018-19 AQR has been responsible for the quality assurance of larger local authority audits.

ARGA – Audit, Reporting and Governance Authority
A planned independent regulatory body to replace the Financial Reporting Council. This was recommended by Sir John Kingman in his review of the Financial Reporting Council and supported by Sir Donald Brydon in his review into the quality and effectiveness of audit

Audit Commission
A now disbanded independent public corporation that had the responsibility for appointing auditors to a range of local public bodies in England. They set the standards for auditors and had oversight their work

Audit Scotland
The body responsible for supporting the Auditor General for Scotland in providing independent assurance to the people of Scotland that public money is spent properly, efficiently and effectively.

BEIS – Department for Business, Energy & Industrial Strategy
Has policy responsibility for statutory audit, including taking forward the recommendations made by the Kingman and Brydon reviews.

Best Value
A local authority should make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. Under the Duty of best value, therefore, authorities should consider overall value, including economic, environmental and social value, when reviewing service provision. Central government may use its best value powers to intervene in a local authority in exceptional cases where that best value duty has not been met.

Brydon Review
Independent Review into the Quality and Effectiveness of PIE Audits led by Sir Donald Brydon (published December 2019).

C&AG – Comptroller and Auditor General
An independent officer of the House of Commons who leads and is supported by the National Audit Office. Has the statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively and with economy. Responsible for preparing, maintaining, and developing the Code of Audit Practice for local authority auditors (the Audit Code).

Capital Finance and Accounting Regulations 2003 (as amended)
Regulations governing local authority capital finance and investment. Include the statutory overrides to GAAP that local authorities in England are required to apply.

Category 1 Authority
A relevant authority that either: (a) is not a smaller authority; or (b) is a smaller authority that has chosen to prepare its accounts for the purpose of a full audit in accordance with regulation 8 of the Smaller Authorities Regulations. All local authorities with income or expenditure of more than £6.5m are Category 1 authorities. The Council of the Isles of Scilly and Shire Districts with income and expenditure of less than £6.5m are also Category 1 authorities.

Category 2 Authority
A relevant authority that is a smaller authority (that is a parish council, parish meeting or internal drainage board) and has annual income and expenditure of less than £6.5m

CFO – Local Authority Chief Financial Officer / Head of Finance (also referred to as the S151 Officer)
A local authority officer, who has statutory responsibility for the proper conduct of that local authority's financial affairs.

CIAA – Chartered Institute of Internal Auditors
A representative body of internal auditors

CIPFA – Chartered Institute of Public Finance and Accountancy
A professional public finance accountancy body. Maintains four statutory codes that local authorities are required to 'have regard to'.

Clean opinion – also known as an “unqualified opinion”
An audit opinion – that the accounts are true and fair, free from material misstatement and have been properly prepared in accordance with the applicable accounting framework.

Code of Audit Practice
The “Audit Code” sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. The Comptroller and Auditor General is responsible for the preparation, publication and maintenance of the Code of Audit Practice.

Code of Practice on Local Authority Accounting
Public sector organisations responsible for locally delivered services are required by legislation to prepare their accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code)

CIPFA/LASAAC
A partnership between CIPFA (England, Northern Ireland and Wales) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). Responsible for preparing, maintaining, developing and issuing the Accounting Code.

CMA – Competition and Markets Authority
A non-ministerial government department responsible for strengthening business competition and preventing and reducing anti-competitive activities

CMA Markets Study - Audit
The CMA carried out a study into the statutory audit market, to see if the market is working as well as it should. (published October 2018)

County councils – also known as Shire Counties
Upper tier authority responsible for services across the whole of a county such as: education; transport; planning; social care.

CQC – Care Quality Commission
An executive non-departmental public body responsible for monitoring, inspecting and regulating health and social care services.

DHSC – Department for Health and Social Care

District Audit Service
Set up in 1844, and originally part of HMT, was the Audit Commission’s in-house audit practice until all local authority audits were outsourced for the 2012-13 financial year. Most staff working in the DAS at that time transferred to the private sector accountancy firms who took on responsibility for local authority audits.

District Council – also known as Shire District
Lower tier authority, responsible for services over a smaller area than county councils such as: rubbish collection; recycling; Council Tax collections; housing; planning applications

EFA - Expenditure and Funding Analysis
Summarises the annual expenditure used and funded by the Council together with the adjustments between the funding and accounting basis to reconcile with the CIES

Except for opinion
An audit opinion - a conclusion that in all material respects the accounts are true and fair/proper arrangements are in place except for the matters detailed in the audit certificate and report OR a conclusion that the supporting evidence provided by the authority is so deficient that the auditor is unable to conclude whether one or more material items in the accounts are true and fair/a material element of proper arrangements are in place

Financial Reporting
Financial reporting uses financial statements to disclose financial data that indicates the financial health of an entity over during a specific period of time. These reports provide information to people who wish to understand the performance of an entity

FRA – Fire and Rescue Authority
A supervisory body which ensures that a local fire service performs efficiently and in the best interest of the public and community it serves. FRAs can be part of a another type of local authority or can be stand-alone entities.

FRAB – Financial Reporting Advisory Board
The role of the board is to ensure that government financial reporting meets the best possible standards of financial reporting by following Generally Accepted Accounting Practice as far as possible.

FRC - Financial Reporting Council
An independent regulatory body which regulates auditors, accountants and actuaries and sets the UK's Corporate Governance and Stewardship Codes. Currently transforming into a new body the Audit, Reporting and Governance Authority.

FReM - UK Central Government Financial Reporting Manual
The technical accounting guide to the preparation of financial statements, prepared after consultation with the Financial Reporting Advisory Board. It complements guidance on the handling of public funds published separately by the relevant authorities in England and Wales, Scotland and Northern Ireland

General Fund
The main revenue account that local authorities are required to maintain. The majority of income goes into the general fund account and most service expenditure is funded from it.

General Power of Competence
Introduced by the Localism Act 2011 and took effect in February 2012. In simple terms, it gives councils the ***power*** *to do anything an individual can do provided it is not prohibited by other legislation. Most wholly-owned local authority companies are set up under the General Power of Competence.*

Generally Accepted Accounting Practice/Principles (GAAP)
A collection of commonly-followed accounting rules and standards for financial reporting. The acronym is pronounced "gap." GAAP specifications include definitions of concepts and principles, as well as industry-specific rules.

Going Concern Test
An element of the audit report certifying that readers of a set of accounts are entitled to assume a business will continue in the future, unless there is evidence to the contrary. Going concern reporting is very specifically about ensuring that the correct accounting basis is being used, not about confirming whether an authority is running out of resources.

Greater London Authority (GLA)
A type of local authority. The GLA regional authority, with powers over transport, policing, economic development, and fire and emergency planning in Greater London. The GLA is unique in the British devolved and local government system, in terms of structure elections and selection of powers.

Head of Paid Service
The Head of Paid Service has statutory responsibility for the management and coordination of the employees appointed by the Council. Although the roles are separate, frequently the Chief Executive or Managing Director of a local authority.

HMICFRS - Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services
Inspectorate responsible for independently assessing the effectiveness and efficiency of police forces and fire & rescue services.

HMT – Her Majesty's Treasury

HOFMCP - Home Office Financial Management Code of Practice
The financial management code of practice provides clarity around the financial governance arrangements within policing

Housing Revenue Account
Legislation prohibits social housing expenditure from being subsidised by general fund expenditure and vice versa. Therefore, local authorities with social housing stock are required to maintain a separate "housing revenue account", which must be self-financing.

ICAEW - Institute of Chartered Accountants of England and Wales
A professional membership organisation that promotes, develops and supports chartered accountants and students in the UK, Wales and globally. Responsible for maintaining the register of firms and KAPs qualified to sign off audits of local authority accounts.

ICAS - Institute of Chartered Accountants of Scotland
A professional membership organisation that promotes, develops and supports chartered accountants and students in Scotland.

IFRS – International Financial Reporting Standard (set by the International Accounting Standards Board)
A public interest organisation which has developed and maintains a single set of globally accepted accounting standards.

Internal Drainage Board
A type of local authority which is established in areas of special drainage need in England and Wales with permissive powers to undertake work to secure clean water drainage and water level management within drainage districts. The area of an IDB is not determined by county or metropolitan council boundaries, but by water catchment areas within a given region.

ISA - International Standards on Auditing
Standards for audits of financial statements, which include objectives for the auditor, together with requirements and related application and other explanatory material. ISAs(UK) are issued by the FRC.

KAP – Key Audit Partner
A senior member of staff within an audit firm who is registered to sign off a set of local authority accounts. Does not need to be a partner in the firm.

Kingman Review
Independent Review of the Financial Reporting Council led by Sir John Kingman (published December 2018). Included commentary and recommendations for local audit.

KPI – Key Performance Indicator
A performance measurement which helps evaluate the success of an organisation or of a particular activity in which it engages.

LGA – Local Government Association
The national membership body for local authorities.

LGSCO – Local Government and Social Care Ombudsman
A service that investigates complaints from the public about councils, registered adult social care providers and other select bodies providing public services in England

Limitation in Scope
An audit opinion - a conclusion that the supporting evidence provided by the authority is so deficient that the auditor is unable to conclude whether the accounts are true and fair and/or proper arrangements are in place to deliver economy, efficiency and effective services.

Local Audit and Accountability Act 2014
Abolished the Audit Commission and established the current arrangements for the audit and accountability of the local public audit system

Local Audit Delivery Board
Consultative board chaired by MHCLG, which compromises of representatives of relevant departments and framework bodies to facilitate sharing of information about the operation of the local authority accounting framework. Meetings are held in private and it has no formal powers or remit.

Local Government Act 2000
An Act to make provision with respect to the functions and procedures of local authorities

London Borough
A single tier of local authority that provides all the services that a county and district/borough/city council would usually provide. Some services, like fire, police and public transport, are provided through the Greater London Authority.

Mayoral Combined Authority
A type of local authority created in areas where they are considered likely to improve transport, economic development and regeneration. MCAs are led by metro mayors who make decisions about policy and spending in conjunction with council leaders from each constituent council. Both the metro mayor and each of the council leaders have a single vote and must approve or oppose decisions.

Metropolitan borough – also known as Metropolitan District
A single tier of local authority that provides all the services that a county and district/borough/city council would usually provide. Some services, like fire, police and public transport, are provided through 'joint authorities

MHCLG – Ministry of Housing, Communities and Local Government
The government department with policy responsibility for the local audit framework.

MIRS - Movement in Reserves Statement
Shows how the movement in reserves in the Balance Sheet is reconciled to the CIES deficit and what adjustments are required to be charged to the general fund balance for Council Tax setting purposes

Monitoring Officer
A local government officer with three main roles: to report on matters he or she believes are, or are likely to be, illegal or amount to maladministration; to be responsible for matters relating to the conduct of councillors and officers; and. to be responsible for the operation of the council's constitution.

NAO – National Audit Office
The UK's independent public spending watchdog. The NAO support Parliament in holding government to account and they work to improve public services through their audits. They are led by the Comptroller and Auditor General

NHSI(E) – NHS England and NHS Improvement
The umbrella body for the NHS in England. From 1 April 2019, NHS England and NHS Improvement have worked together as a new single organisation to better support the NHS to deliver improved care for patients.

Ofsted - Office for Standards in Education
Office for Standards in Education, Children's Services and Skills. Inspect services providing education and skills for learners of all ages. Also inspects and regulate services that care for children and young people including those delivered by local authorities.

Parish Council – can also be known as community councils
A civil local authority found in England and is the lowest tier of local government. They are elected corporate bodies, have variable tax raising powers. Responsibilities of parish council's vary considerably but can include allotments, bus shelters, burials and maintenance of common land and rights of way.

Parish Meeting
A meeting to which all the electors in a civil parish are entitled to attend. In some cases, where a parish or group of parishes has fewer than 200 electors, the parish meeting can take on the role of a parish council, with statutory powers, and electing a chairman and clerk to act on the meeting's behalf.

PCC – Police and Crime Commissioner
An elected official in England and Wales charged with securing efficient and effective policing of a police area. Commissioners replaced the now-abolished police authorities.

PIE – Public Interest Entity
A listed company or an entity with listed debt. Under EU Law, entities are designated by Member States and are usually defined as having undertakings that are of significant public relevance because of the nature of their business, their size or the number of their employees.

PIR – Public Interest Report
When an Auditor considers there to be a matter that is sufficiently important enough to be publicly brought to the notice of the council or the public they can make a report in the public interest.

PSAA - Public Sector Audit Appointments Ltd
Public Sector Audit Appointments is a company limited by guarantee wholly owned by the Local Government Association. PSAA are specified as an appointing person for local authority under provisions of the Local Audit and Accountability Act 2014. The functions of PSAA are specified in statute.

Qualified Audit Opinion
When an external auditor concludes that financial records have not been maintained in accordance with the Generally Accepted Accounting Principles. There are three types of qualified opinion; an except for; adverse; and limitation in scope opinion

SAAA - Smaller Authorities' Audit Appointments Ltd
The sector-led limited company appointed as the specified person to procure and appoint external auditors to smaller authorities and to manage the ongoing smaller authority audit contracts.

SERCoP - Service Reporting Code of Practice
A statutory code that sets out the proper practices with regard to consistent financial reporting for services; all local authorities in the UK are expected to adopt its mandatory requirements and recommendations and use them when reporting statistical data to central government.

Smaller Authorities - parish, community and town councils and internal drainage boards
These operate at a level below district and borough councils and in some cases, unitary authorities. They sometimes deliver additional services on behalf of the district council.

SOLACE – Society of Local Authority Chief Executives
Members' network for local government and public sector professionals throughout the UK

TUPE - Transfer of Undertakings (Protection of Employment)
Regulations to protect employees if the business in which they are employed changes hands. The two types of transfer protected by TUPE regulations are business transfer and service provision changes

Unitary Authorities
A single tier of local authority that provides all the services that a county and district/borough/city council would usually provide.

Unqualified Audit Opinion
When an external auditor concludes that the financial statements of an entity present fairly its affairs in all material aspects

VfM Conclusion – Value for Money Conclusion
A requirement that external auditors undertake sufficient work to be able to satisfy themselves as to whether the audited body has put arrangements in place that support the achievement of value for money. In carrying out this work, the auditor is not required to satisfy themselves that the audited body has achieved value for money during the reporting period

Welsh Audit Office
The Wales Audit Office provides staff and other resources for the Auditor General's work, and monitors and advises the Auditor General for Wales.

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Report to:	**Audit Committee**
Date:	**6 November 2020**
By:	**Orbis Chief Internal Auditor, Business Services Department**
Title of report:	**Revised Internal Audit Plan 2020/21**
Purpose of report:	**To provide the Audit Committee with the revised 2020/21 Internal Audit Plan**

RECOMMENDATIONS

Audit Committee is asked to approve the revised Internal Audit Plan for 2020/21 covering the period September 2020 to March 2021.

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1. Background

1.1 As a result of Covid-19, a significant proportion of our planned audit work was paused so that we would not impede service response to the pandemic and, wherever possible, enable us to provide specific support to this response. This included the redeployment of Internal Audit resources to support the wider organisation. It has therefore been necessary to revise the original audit plan in order to re-prioritise our work and reflect the new risk environment and the reduced period of coverage.

2. Supporting Information

2.1 A revised audit plan has been put together for the period 1 September 2020 to 31 March 2021. A copy of this is attached as Appendix 1. The development of the revised plan again involved consultation with key stakeholders and other processes as discussed in the attached document.

2.2 As always, the plan is flexible to allow resources to be directed to any new and emerging risks and, through liaison with management, additional areas for review have already been identified since the revised plan was developed.

3. Conclusion and Reasons for Recommendation

3.1 Audit Committee are asked to approve the revised plan.

RUSSELL BANKS, ORBIS CHIEF INTERNAL AUDITOR, BUSINESS SERVICES DEPARTMENT
Contact Officers: Nigel Chilcott, Audit Manager Tel No. 01273 481992

LOCAL MEMBERS: All
BACKGROUND DOCUMENTS: Internal Audit Strategy and Annual Plan 2020-21

Appendix 1

Revised Internal Audit Annual Plan 2020-2021

1. Introduction

1.1 Unsurprisingly, like all Council services, the Coronavirus pandemic has had a significant impact on Internal Audit, including the way in which our staff work, the nature of the work we are able to carry out and the extent to which we are able to deliver our planned audit activities.

1.2 As explained in previous update reports to this committee, the decision was taken at the outset of the pandemic to effectively suspend all 2020/21 planned audit activities in order to avoid interfering with the organisation's response to the pandemic and also to enable us to refocus our efforts on providing advice and support to services over the control environment, especially where significant changes to working practices have been required. In addition to this, a number of staff from across Orbis Internal Audit were also redeployed to other front-line teams to assist with their own response to the pandemic.

1.3 Now that much of this work has been completed and most staff have returned from redeployment, it has been necessary to revise the original audit plan in order to reflect the new risk environment and the reduced period of coverage. The purpose of this report is therefore to present to management and the committee the revised plan for 2020/21, covering the period from September 2020 to March 2021. Full details of the revised Internal Audit plan are provided in Section 6 of this report.

2. Process for Amending the Plan

2.1 The update to the plan has followed a similar (but reduced) process as that used to produce the original 2020/21 Internal Audit Plan, including management's assessment of risk and our own risk assessment of the Council's major systems and other auditable areas. It has involved consultation with a range of stakeholders, the re-review of risk registers and external guidance, comparison with other authorities' and our knowledge of the impact of Covid 19 on this organisation and the delivery of its services.

2.2 Despite the extent of changes that have been made to our audit coverage in 2020/21, it is anticipated that, taking into account the Covid 19 reactive work carried out in the first part of the year and delivery of the revised plan set out below, sufficient work will still have been completed to enable the Chief Internal Auditor to provide an overall annual internal audit opinion for the organisation covering 2020/21. Periodic update reports on progress and performance of the service will continue to be provided to management and the Audit Committee.

3. Deletions from the Original Audit Plan

3.1 The table below details the proposed deferrals from this year's Internal Audit Plan, only three of which are key financial system audits (LAS/Controcc, Treasury Management and General Ledger). These will all be rescheduled for quarter 1 of 2021/22. The prioritisation of the other audits in this list will be considered as part of the audit planning process for 2021/22.

Directorate	Audit Title
ASC	Delayed Transfers of Care
ASC	Home Care Commissioning
ASC	Public Health Budget
ASC	LAS/Controcc
ASC	Home Care Contract Management Follow-Up
BSD	Business Operations Performance
BSD	Treasury Management
BSD	General Ledger
BSD	Compliance with IR35
BSD	Orbis Integrated Budget Management Follow-Up
CSD	LAC Financial Modelling
CSD	Children's Centres
Corporate	Contract Management
Corporate	Project Management
Corporate	Budget Management
CET	Section 106 Agreements
ICT	Department ICT Systems
ICT	End User and Senior Stakeholder Behaviour
ICT	Data Sharing Arrangements (with Authorities and Health Partners)
ICT	IT&D Major Projects
ICT	GCSX Replacement
ICT	Orbis ICT Cross Authority Working Arrangements

4. Additions to the Original Audit Plan

4.1 The following audits have been added to the revised Internal Audit Plan for 2020/21. These include a number of reviews that have a direct focus on the Covid 19 pressures faced by the Council, and/or the Council's response to managing the impact of the pandemic.

4.2 A narrative description of each of the audits is contained in section 6 of this report.

Directorate	Audit Title
BSD	Covid Procurement Risk
ICT	Information Governance (Remote Working)
ICT	IT Asset Management during Covid
ICT	Cyber Security during Covid
ASC	ASC Transformation
CSD	Care Assessments – Education, Health and Care Plans
Corporate	Covid System/Process Changes
Grants	Covid Test and Trace Service Support Grant
Grants	Covid Bus Subsidy Grant
Grants	Covid Home to School Transport Grant

5. Counter Fraud

5.1 The Counter Fraud Team has continued to operate during the whole of 2020/21 and will continue throughout the remainder of the year, with contingencies in place to ensure the delivery of both an effective reactive and proactive counter fraud service.

5.2 In addition, Internal Audit will promote an anti-fraud and corruption culture within the Council to aid the prevention and detection of fraud. Through the work of the Counter Fraud Team, a fraud risk assessment is maintained, and a programme of proactive and reactive counter fraud services delivered to help ensure that the Council continues to protect its services from fraud loss. This includes leading on the National Fraud Initiative data matching exercise on behalf of the Council.

6. Revised Internal Audit Plan 2020/21

6.1 The table below details the full list of audits to be delivered as part of the revised 2020/21 Internal Audit Plan.

Review Name	**Outline Objective**
Corporate	
Covid System/Process Changes (New)	To revisit changes to processes and systems that were made in response to Covid-19 to ascertain whether these remain appropriate and, if so, are adequately controlled.
Covid Procurement Risk (New)	The Covid pandemic has meant a number of changes to the environment and working practices in relation to procurement. This has led to increased risks in a number of areas. We will liaise with management and the Procurement Team to define the exact nature of our work in this area.
Modernising Back Office Systems (MBOS)	Orbis IA will attend programme board and working group meetings to provide independent advice, support and challenge on risk, control, probity and governance issues. In addition to attendance at programme board and working group meetings, we will identify a number of key assurance focus areas to support the programme. This is likely to include providing assurance over the following key areas: • Programme governance/risk management • Business processes (both on and off system) • System security • User access, authentication and authorisations • Testing arrangements • Data cleansing and migration • Interfaces and reconciliation • Disaster recovery and business continuity • Training
Annual Governance Statement	To assess the extent that actions to improve governance, risk management and internal control arrangements, identified by departments within their Directorate Assurance Statements, have been implemented.

Review Name	Outline Objective
Adult Social Care (ASC)	
ASC Transformation (New)	The objective of the transformation programme is to develop and coordinate a coherent response to Covid-19 which has fundamentally changed the way Adult Social Care and Health operates. Where appropriate, we will support the programme through providing advice on risk and control issues, specifically in relation to individual projects within the programme.
Direct Payments	To examine the system of control associated with the administration, payment and monitoring of direct payments to adult social care clients.
Children's Service (CSD)	
Care Assessments – Education, Health and Care Plans (New)	Education, health and care plans (EHCPs) are designed to help children and young people with special educational needs and disabilities (SEND) and set out how services will work to meet their needs, to secure the best outcomes. We will assess the arrangements in place for ECHPs, including the assessment process and timeframes.
Adoption South East	The government wish to regionalise adoption services in an effort to improve performance. Adoption South East will include East and West Sussex, Surrey and Brighton and Hove adoption services. ESCC will host this service and a pooled budget will be in place. We will therefore review the governance arrangements and financial management of the regionalised service where, as the host authority, there will be reputational and financial risks to ESCC.
LCS/Controcc (key financial system)	A review to assess the adequacy of controls within the LCS (client information and case management system for Children) and Controcc (the social care payments and billing system).
Schools	We will continue our audit coverage in schools which will involve a range of assurance work, including key controls testing in individual schools, follow-ups of previous audit work and themed reviews. We will also work with our Orbis partners to provide information bulletins and guidance for schools on risk, governance and internal control matters.
Buzz Active Follow Up	A follow-up of the audit completed in 2019/20 which received an audit opinion of partial assurance.
Communities, Economy and Transport (CET)	
Health and Safety	This review, potentially utilising specialist external expertise, will cover the adequacy of arrangements for ensuring that the Council provides a safe working environment for all staff, contractors and others affected by the services it provides. This will include reviewing the Council's health and safety policies and procedures, communication and awareness arrangements and compliance with health and safety legislation.

Review Name	Outline Objective
Highways Maintenance Contract Re-Procurement	To provide a watching brief over the arrangements for the re-procurement of a new highways maintenance contract, advising on risk, governance and internal control matters as they arise.
Libraries Asset Management Follow Up	A follow-up of the audit completed in 2019/20 which received an audit opinion of partial assurance.
Contract Management Group Cultural Compliance Follow Up	A follow-up of the audit completed in 2019/20 which received an audit opinion of partial assurance.
Business Services Department (BSD)	
Commissioning and Delivery of Property Projects	To review the commissioning, planning, approval and delivery of a sample of projects within the Property Division of Business Services, to provide assurance that controls are in place to ensure project objectives are met within the available resources.
Property Asset Management System (PAMS) Replacement	To provide advice and support over the implementation of a new property management system, particularly in relation to governance, risk management and internal control.
HR/Payroll (key financial system)	To review controls in relation to the staff payment system, including those relating to starters, leavers, temporary and permanent payments, variations of pay, overpayments and pre-employment checks.
Procure to Pay (key financial system)	To review the processes and key controls relating to the procure to pay system, including those in place for ordering, the creation of vendor details, the payment of invoices, goods receipting and promptness of payments.
Accounts Receivable (key financial system)	To review the processes and key controls relating to the accounts receivable system, including those in place for ensuring the accuracy of customer details, completeness, accuracy and timeliness of invoicing, recording and matching payments to invoices, and debt recovery.
East Sussex Pension Fund	Internal audit work in relation to the ESPF in accordance with the recently updated Internal Audit Strategy for the Fund, which includes a significant increase in audit days focussing on pension fund activities. The work in 2020/21 will also include the follow-up of all agreed actions arising from audit reviews undertaken in 2019/20 that resulted in partial and minimal audit opinions.
Business Operations Cultural Compliance Follow Up	To review the arrangements in place, following restructuring of the service, to manage and monitor the performance of the Business Operations Team who provide back-office services for the Council, including payroll, accounts payable, accounts receivable and pension fund administration. This will include seeking assurance that agreed actions from the 31/10 review have been implemented.
Building Condition Asset Management Follow Up	A follow-up of the audit completed in 2019/20 which received an audit opinion of partial assurance.
Social Value in Procurement Follow Up	A follow-up of the audit completed in 2019/20 which received an audit opinion of partial assurance.

Review Name	Outline Objective
Atrium Follow Up	A follow-up of the audit completed in 2019/20 which received an audit opinion of partial assurance.
ICT and Information Governance Audits	
Information Governance (Remote Working) (New)	The audit will review the controls in place to ensure information governance arrangements are in place when working remotely. The audit will include review of the controls over printing, confidentiality of data, use of communication and 3rd party 'cloud' tools. We will also ensure there are sufficient arrangements to undertake the investigation and reporting of Data Breaches (remotely).
IT Asset Management during COVID (New)	To evaluate the effectiveness of the controls in place to support effective ICT asset management to support remote working arrangements.
Cyber Security during COVID (New)	To ensure the cyber security controls that are in place remain appropriate and continue to function as expected in this period.
Children's Safeguarding Data Handling	Social workers/safeguarding teams often use video to record interviews and other interactions with children. This audit will seek to ensure there is an appropriate Data Protection Impact Assessment (DPIA) in place and being complied with, appropriate permissions are sought, and data is encrypted in transit and deleted as appropriate.
Grant Certification	
Local Transport Capital Block Funding and Specific Grant Determination (Pot Hole Action Fund) – Annual Certification	To check and certify the grant in accordance with the requirements of the Department for Transport.
Local Transport Revenue Block Funding (Blue Badge) – Annual Certification	To provide to the DfT, a certification for the funding of the Blue Badge (New Criteria Implementation) grant received in 2019/20.
Bus Subsidy Grant Certification	To check and certify the grant in accordance with the requirements of the Department for Transport.
Covid Bus Subsidy Grant Certification (New)	To check and certify the grant in accordance with the requirements of the Department for Transport.
Covid Home to School Transport Grant (New)	To check and certify the grant in accordance with the requirements of the Department for Education.
Covid Test and Trace Service Support Grant Certification (New)	To check and certify the grant in accordance with the requirements of the Department of Health and Social Care.
Troubled Families Grant Certification	Certification of periodic grant claims returns in-year on behalf of Children's Services to enable the release of funds from the Ministry of Housing, Communities and Local Government (MHCLG).
Dedicated Schools Grant Certification	To contribute to the annual certification to the Education and Skills Funding Agency (ESFA) of the Dedicated Schools Grant.

Review Name	Outline Objective
Internal Audit Service Management and Delivery	
Action Tracking	Ongoing action tracking and reporting of agreed, high risk actions.
Annual Internal Audit Report and Opinion	Creation of Annual Report and Opinion.
Audit and Fraud Management	Overall management of all audit and counter fraud activity, including work allocation, work scheduling and Orbis Audit Manager meetings.
Audit and Fraud Reporting	Production of periodic reports to management and Audit Committee covering results of all audit and anti-fraud activity.
Audit Committee and other Member Support	Ongoing liaison with Members on internal audit matters and attending Audit Committee meetings and associated pre-meetings.
Client Service Liaison	Liaison with clients and departmental management teams throughout the year.
Client Support and Advice	Ad hoc advice, guidance and support on risk, internal control and governance matters provided to clients and services throughout the year.
Orbis IA Developments	Audit and corporate fraud service developments, including quality improvement and ensuring compliance with Public Sector Internal Audit Standards.
Organisational Management Support	Attendance and ongoing support to organisational management meetings, e.g. Financial Management Team (FMT), Statutory Officers Group (SOG).
Strategy and Annual Audit Planning	Development and production of the Internal Audit Strategy and Annual Audit Plan, including consultation with management and Members.
System Development and Administration	Development and administration of Audit and Fraud Management systems.

Report to:	**Audit Committee**
Date:	**6 November 2020**
By:	**Orbis Chief Internal Auditor, Business Services Department**
Title of report:	**Internal Audit Progress Report – Quarter 2 (01/07/20 – 30/09/20)**
Purpose of report:	**To provide Members with an update on all internal audit and counter fraud activity completed during the quarter, including a summary of all key findings. To also provide an update on the performance of the internal audit service during the period.**

RECOMMENDATIONS

Members are asked to:

1) **Note the report and consider any further action required in response to the issues raised; and**
2) **Identify any new or emerging risks for consideration for inclusion in the revised audit plan.**

1. Background

1.1 This progress report covers work completed between 1 July 2020 and 30 September 2020.

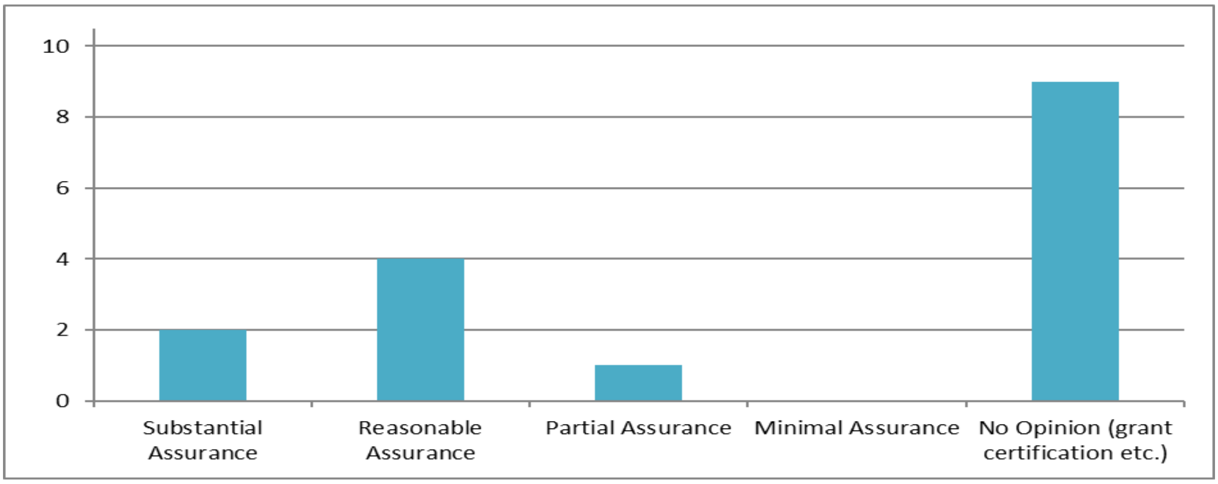
2. Supporting Information

2.1 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2020-21 which was approved by Audit Committee on 13 May 2020.

3. Conclusion and Reasons for Recommendation

3.1 Key audit findings from final reports issued during Quarter 2 are summarised in Appendix 1.

3.2 Overall, of the seven formal audits finalised during the quarter in which a formal audit opinion was given, two received opinions of ‘substantial assurance’, four received ‘reasonable assurance’ audit opinions and there was one opinion of ‘partial assurance’.



3.3 Although the same range of internal audit opinions are issued for all audit assignments (where an opinion is relevant), it is necessary to also consider the level of risk associated with each area under review when drawing an opinion on the Council's overall control environment. **Taking into account these considerations, the Chief Internal Auditor continues to be able to provide assurance that the Council has in place an effective framework of governance, risk management and internal control**.

3.4 The overall conclusion above has, therefore, been drawn based on all audit work completed in the year to date and considers the management response to audit findings and the level of progress in subsequent implementation. This is something which will continue to be monitored and reported on throughout the year.

3.5 As reported in our quarter one progress report, a significant proportion of our planned work was paused so that we would not impede service response to the Covid-19 pandemic and, wherever possible, enable us to provide specific support to this response. This continued in quarter two. As a result, it has been necessary to revise the original audit plan in order to reflect the new risk environment and the reduced period of coverage. Full details of the revised Internal Audit plan, which has been developed for the period 1 September 2020 to 31 March 2021, are provided within a separate report to this meeting.

3.6 Formal follow up reviews continue to be carried out for all audits where 'minimal assurance' opinions have been given and for higher risk areas receiving 'partial assurance'.

3.7 Members will recall that flexibility was built into the audit plan to allow resources to be directed to any new or emerging risks. We continue to liaise with departments to identify these and would also welcome input from this Committee.

3.8 Progress against our performance targets (focussing on a range of areas relating to our service) can also be found in Annexe A (section 5). Members should note the red risk rating against the measure for implementing agreed high-risk actions. Further detail on this can be found in section 3 of the report.

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LOCAL MEMBERS: All
BACKGROUND DOCUMENTS: Internal Audit Strategy and Annual Plan 2020-21

Appendix 1

Audits Completed in Q2 (July to September)

Annual Governance Statement

1.1 The Annual Governance Statement (AGS) is a statutory requirement for Local Authorities set out in the Accounts and Audit Regulations 2015. It is an accountability statement from the Council to stakeholders stating the arrangements in place to ensure compliance with its own code of governance on an annual basis, including how it monitors and evaluates the effectiveness of governance arrangements in the year, and on any planned changes in the coming period.

1.2 The Council's 2019/20 AGS was presented to, and approved by, the Governance Committee on 2 October 2020.

1.3 The purpose of this audit was to provide assurance that:

- The compilation and completion of the Annual Governance Statement adheres to the Accounts and Audit Regulations 2015;
- The Annual Governance Statement complies with the Local Code of Corporate Governance and is effectively communicated;
- The process for compiling the Annual Governance Statement is efficient, effective, and fit-for-purpose and information provided is accurate; and
- Agreed actions from the previous audit in 2014/15 have been implemented.

1.4 In completing this work, we found effective arrangements exist over the production of the AGS and were able to provide an opinion of **substantial assurance** as a result. Robust processes are in place to ensure the AGS adheres to the Accounts and Audit Regulations 2015 and there are effective procedures to evaluate, monitor and report on how the Council complies with the Local Code of Corporate Governance. Each Council department is required to identify actions to further strengthen governance arrangements.

1.5 A few minor issues for improvement were identified and these were agreed in full with management.

Pension Fund Governance, Strategy and Investments

1.6 ESCC administers and manages the East Sussex Pension Fund (the Fund) on behalf of 134 employers. The Fund is responsible for managing assets for the long-term benefit of scheme members in accordance with statutory regulations. The Pension Committee is responsible for making arrangements for the administration of the Fund and its investments, receiving advice as appropriate from the Pension Board.

1.7 The Fund is a member of the ACCESS Pool, a collaboration of 11 Local Government Pension Scheme administering authorities who are working together to reduce investment costs and gain economies of scale. The ACCESS Pool was implemented in line with the 1 April 2018 deadline set by central government. It has a value of c. £46 billion, with the East Sussex Fund having invested £2.8 billion.

1.8 We reviewed the adequacy of governance arrangements over the ESPF, covering the strategy and the arrangements to manage investments, including pooling arrangements, to provide assurance that:

- Investments (inside and outside the ACCESS Pool) are well managed and that all income due is received promptly and intact;
- Governance arrangements provide sufficient and effective oversight;
- Risk management arrangements are robust;
- Communication is efficient and effective; and
- Accounting provides an accurate representation of the Fund's financial position.

1.9 In completing this work, we provided an audit opinion of **reasonable assurance**, finding that:

- Appropriate governance structures are in place, providing effective oversight and leadership. Meetings are held in accordance with the Council's Standing Orders and are minuted effectively. Both bodies' members are adequately qualified and knowledgeable in order to fulfil their roles;
- Investment performance is regularly reported to the Board and Committee and reviewed as appropriate;
- There is an independent advisor in place with the relevant knowledge and skills to support the Fund and its decision-making;
- Key risks are identified, reported and monitored; and
- Arrangements are in place to ensure appropriate communication takes place with employers and members.

1.10 Although we gave a reasonable assurance opinion, we identified areas for improvement, including:

- Ensuring the Pension Fund does not lend money to ESCC (the administering authority) accounts. We found two occasions where the Fund had lent money to ESCC, on a short-term basis, to prevent the ESCC bank account from becoming overdrawn. Records show that, whilst Pension Fund officers were aware of the transactions before they happened, there was no evidence of formal approval and no concerns were raised at the time that this was against Local Government Pension Scheme Regulations. The transactions did, however, follow normal ESCC treasury management processes, with approval from two members of the ESCC Treasury Management team on each occasion;
- The strengthening of governance arrangements within the ACCESS Pool, where there is a need (for the Pool) to agree and formalise a process to manage the performance of fund managers and investments, and to approve the governance manual that has been prepared but not yet implemented;

- Ensuring that external control assurance reports from fund managers are reviewed by Link Fund Solutions (the operator appointed to manage investments in the ACCESS Pool on a daily basis) to ensure that any known control weaknesses affecting investments are addressed, on a timely basis; and
- The need to reconcile records in SAP to those held by the Fund's custodian, more frequently.

1.11 A robust action plan has been agreed with management to address the findings of this review and the agreed actions for improvement are in progress.

Property Asset Management System (PAMS) Replacement - Programme Governance and Risk Assessment

1.12 The current Property Asset Management System (PAMS), Atrium, will no longer be supported from 2021. The system is used to hold asset management data on all Council property and operates as a works order management system for repair and maintenance. It also interfaces with the Council's current SAP ERP system.

1.13 The PAMS project sits under the Modernising Back Office Systems Programme (MBOS) and is governed by the MBOS Board, with a working group for PAMS in place under this. The PAMS project is focussed on transferring all functions carried out on Atrium onto a new asset management system. In addition, it will ensure that all property functions required to achieve a full holistic property management process are integrated and interfaced with the eventual SAP replacement.

1.14 The primary objective of this audit was to provide assurance that effective governance and risk management controls are in place for the PAMS project. In completing our work, we were able to provide an opinion of **substantial assurance** in this area because:

- Robust documentation for the PAMS project is in place, including a Business Case (which has been agreed at an appropriate level), a Project Initiation Document, Project Definition Document and Terms of Reference for the working group. This serves to outline key information in relation to the project, including its purpose and individuals to be involved;
- Governance arrangements for the project are appropriate and documented. Regular communication takes place with the MBOS board, including from the PAMS working group;
- Risks associated with the project are identified and assessed. These are assigned an owner, controls are identified, and the register is regularly updated to add, remove or reassess risks as appropriate;
- As the project progresses, stakeholder engagement is planned to increase and strategies around change management, quality management and closure of the project are due to be more fully refined.

1.15 One low risk action, aimed at making improvements to budgetary monitoring arrangements, was agreed with management.

Data Analytics – Creditors

1.16 The fraud threat posed during emergency situations, such as the Covid-19 global pandemic, is higher than at other times, and all public bodies should be attuned to the risks facing their organisations. A key objective of our work during the Covid-19 pandemic has been to support the organisation by reviewing major sources of data from within the Council for possible areas of fraud, error, duplicate payment or other suspicious activity. The primary objective of this work was to provide assurance that selected key controls, within Procure to Pay processes across the Council, were continuing to work effectively through the early stages of the Covid-19 pandemic. Using data analytics, the following areas were reviewed:

- Bank account changes to detect bank mandate fraud; and
- Payment trend analysis to identify potential overpayments.

Bank Account Changes

1.17 We undertook a data analytics exercise on vendor bank account changes made since lockdown and officers began working from home. This exercise involved identifying vendor accounts where changes had taken place and, on a cross-Orbis basis, completing a risk assessment of these in order to select the vendors and changes that we felt required further investigation. As part of the risk assessment, we sought to use a number of factors to influence our selection, including those where we felt it 'out of the ordinary' for companies to be making changes to their bank accounts at the time of a global pandemic (e.g. large multinational organisations or limited companies) and those which receive particularly high value and high volume payments. This cross-Orbis approach enabled the opportunity to share findings and intelligence for all partners and customers.

1.18 Throughout the investigation of these account changes, we did not identify any instances of potential fraud against the Council. However, opportunities to improve the control environment, particularly in relation to non-compliance with Council processes, were identified and improvements to processes agreed.

Payment Trends

1.19 Further analysis of payment trends against vendors was used to identify potential overpayments as a result of urgent payment requests. This work involved analysing average monthly spend against each vendor on a rolling 12-month basis, then selecting the top 20 increases, on both gross and percentage terms, for further investigation.

1.20 The investigation of these payments did not identify any potential overpayments as a result of fraud; however, an overpayment of £5,700 against one vendor in error was found. This was reported to the service area with subsequent action being taken to recover the funds.

1.21 It should be noted that the overpayment was identified after only a modest amount of time spent on the trend analysis. We concluded that it may therefore be cost effective for the Council to consider adopting and developing such an approach as part of its business as usual processes.

Direct Payments for Adult Social Care

1.22 Direct Payments are payments made directly to clients that allow them to choose and pay for support to meet the level of care required, which is based on an assessment of their needs. The legal framework for Direct Payments is set out in the Care Act 2014, Section 117(2C) of the Mental Health Act 1983 and the Care and Support (Direct Payments) Regulations 2014.

1.23 All clients are offered the option of a Direct Payment. Direct Payments are established through an Individual Service Agreement, which outlines the weekly amount paid by ESCC, and the amount that the client must contribute towards the cost of their care and support. Clients have the option to manage their own Direct Payment account or may choose to have the account managed by ESCC or an external service provider.

1.24 The Income and Payments Team transferred from Adult Social Care and Health (ASCH) to Business Operations, in May 2013. The administration of Direct Payments returned to Adult Social Care and Health in April 2019. On its return, ASCH recognised the need to strengthen controls and this need for improvement is reflected in some of the findings, below.

1.25 Since our work on this audit, up to and including February 2020, central government issued guidance in response to COVID-19 that superseded the Care Act (2014), resulting in the Direct Payments Team adapting and changing their working arrangements and processes, in order to accommodate the changed environment and statutory expectations. Additional testing of these revised, post Covid-19 processes, to meet the requirements of this government guidance, was not undertaken as part of this review, in order for the Direct Payments Team to focus their resources on their clients during this time.

1.26 The purpose of the audit was to provide assurance that:

- Amounts paid are correct and an appropriate level of care is received;
- Monies provided under the Direct Payment Scheme are used for their intended purpose;
- All client contributions are received; and
- Monies paid over to external Direct Payment providers are used to ensure that clients receive appropriate care, and excessive balances are not allowed to build up.

1.27 The needs assessment process, the calculation of direct payments and direct payments made through Children's Services were excluded from the scope of this review.

1.28 Based on our testing of the controls operating on Direct Payments, we gave an opinion of **partial assurance**, with some areas for improvement being identified, including the need to:

- Better monitor clients' Direct Payment account balances, where excessive balances were identified on some client accounts, and where we found that some balances had fallen below the permissible level on others, increasing the risk that clients do not receive the level of care that they have been assessed as needing, or that the Council is paying for care that is not required. It was acknowledged by management that this was an area that required improvement, and this may have been impacted, in part, by resourcing;
- Ensure there is a contractual requirement for external providers that manage clients' direct payments accounts, to review accounts' balances, as required under the Care and Support Regulation 2014;
- Ensure care plans are sufficiently clear to enable the Direct Payments Team to monitor account spend against care paid for, to ensure it is appropriate and, wherever possible, that transactions undertaken by clients on pre-paid cards contain enough information to allow analysis of the expenditure, so that any inappropriate use of funds can be identified; and
- Undertake annual reviews of all accounts in accordance with the requirements of the Care and Support Regulation (2014), where up to 40% of clients' accounts had not been reviewed, at the time of testing in February 2020, which may result in clients failing to receive care that meet their needs.

1.29 All of the above areas were discussed with management and appropriate actions to address them were agreed within a comprehensive management action plan. A formal follow-up review will be undertaken to assess the implementation of these.

1.30 It should also be noted, however, that several areas of good practice were identified as part of the review, as follows:

- Control over the creation of direct payment accounts is robust, as a signed and returned Individual Service Agreement (ISA) is in place prior to setting up each account;
- Payments to verified pre-paid card accounts are well controlled via four-weekly schedules, administered through ContrOCC;
- Clients are invoiced for their contributions; if these are not paid, there is an effective process in place to identify and chase payments owed; and
- Direct payment accounts are reconciled and closed promptly, once the client is no longer eligible to receive these payments.

Patch Management

1.31 With ever increasing reliance on computer systems, an effective patch management process is crucial to ensure that critical security weaknesses are promptly closed, and systems remain available and up to date. However, patch management processes need to ensure systems can continue to work effectively with other hard and software following the application of a patch.

1.32 This audit was undertaken with a focus on patching in relation to desktop and laptop devices via Microsoft System Centre Configuration Manager (SCCM), and a sample of critical systems hosted on-premises (namely SAP and ContrOCC). Infrastructure patching arrangements (including servers and switches) were not included within the scope of the audit as these were reviewed within the recent Cyber Security audit (which we reported on in our Q1 progress report).

1.33 In completing our work, we were able to provide an opinion of **reasonable assurance** because:

- Patches are identified and deployed in a timely manner to relevant Council devices;
- Testing of patches and updates is robust for both laptop/desktop devices and sampled critical systems, serving to identify and allow correction of problems prior to wider rollout;
- Rollback arrangements are also in place should application of a patch have an adverse effect on system or hardware functionality; and
- Patches and updates are applied with consideration to balancing the benefits of patching against the risk of doing so, and the desire for user convenience.

1.34 Some opportunities to improve controls were also identified, however, including:

- The need to improve the governance arrangements in respect of patching, where reports on the Council's patching status are not routinely run or viewed by management. This could mean that any concerns over the effectiveness of the patch deployment are not escalated and managed, compromising the security of Council systems and data;
- Ensuring the IT Security and Safeguarding Policy, which includes patch management, is up-to-date and includes roles and responsibilities in relation to patching, and stipulates target times for patches to be applied; and
- The need to routinely identify, record and monitor end-of-life software, for which patches are no longer available, to ensure risks associated with these programmes being mitigated.

1.35 A formal action plan to address these areas was agreed with management.

Cloud Computing

1.36 Cloud computing is the technological capability to use IT infrastructures and services that are not installed on a local computer or server. Using the internet, connections are made to external computers or servers that provide appropriate resources. Unmanaged, cloud computing creates significant risks to the security of the Council's systems and data.

1.37 From a sample of four applications and systems retained in the cloud, we reviewed the controls in place to manage the security, access, recovery and deletion of the data. The governance arrangements for managing the use of cloud-based systems were also reviewed.

1.38 We were able to provide an audit opinion of **reasonable assurance** over the controls operating within the area under review because:

- IT&D have a robust risk assessment for evaluating the controls in place for systems, including specific reference to cloud management controls. Risks are identified and informed to the risk owner;
- A Data Protection Impact Assessment (DPIA) has been conducted for the systems which hold personally identifiable information;
- All system providers outline adherence to Data Protection legislation, including GDPR; and
- A Business Continuity Plan is in place for service areas using these systems.

1.39 There were, however, areas which required improvement, including in relation to ensuring there is always IT&D oversight prior to staff procuring and accessing cloud-based systems, so that formal risk assessments can be undertaken, risks appropriately managed and assurance sought that the provider has sufficient arrangements for business continuity, data security and access control. We found a lack of oversight, due to a combination of insufficient staff guidance around requesting use of such systems, a lack of technical controls to prevent access to unapproved cloud-based systems and the ease with which these systems can be procured and configured.

1.40 We also identified a need for system owners of cloud applications to fully understand the responsibilities of their role, which was not always the case. Whilst the expectations of a system owner for new systems and those which are reassessed have now been established and documented, existing system owners may still be unaware of their responsibilities.

1.41 For all of the findings of this audit, we have agreed actions to improve controls within a formal management action plan.

Mobile Device Management

1.42 Mobile devices such as smartphones and tablet computers have the capability to store large amounts of data and can present a high risk of data leakage and loss. In addition, devices are often valuable and are therefore attractive to theft and misuse.

1.43 Mobile device management (MDM) involves monitoring, managing and securing mobile devices to ensure that the Council's information assets are not exposed. MDM is usually implemented through the use of third-party software. The Council's MDM solution is provided by VMware AirWatch.

1.44 At the time of the audit, the Council's mobile device assets comprised of 3,172 smartphones and a small number of tablet computers.

1.45 This audit considered the Council's approach to managing the risks associated with the security and control of the data contained on, and security of, smartphones and tablets. The audit did not review the controls in place for managing the contractual payments for calls and data or the procurement of the devices, nor did it cover the management of laptop devices as these are managed through different processes and procedures.

1.46 In providing an audit opinion of **reasonable assurance** in this area, we found:

- An appropriate MDM system is in place that enforces controls to help manage, monitor and secure mobile devices that access and/or store corporate data (including photos and footage) that may be of a sensitive or confidential nature;
- Security settings configured on the MDM system such as password rules, device encryption, data storage/backup, device inactivity etc. were found to be in line with common practice;
- Users of managed devices (devices that have been enrolled on to the MDM platform) are only granted access to a device via an authentication mechanism (e.g. use of passcode);
- Ability to install third party applications on managed devices has been restricted and users can only install applications that are on the Council's approved applications catalogue;
- A response plan is in place to respond to security incidents such as loss or theft of mobile devices; and
- The MDM system has the ability to lock or wipe managed devices remotely in the event of loss or theft.

1.47 Some areas for improvement were noted and agreed with management, including the need to update the mobile phone policy (which had originally been developed for traditional mobile devices with only basic telephony and messaging services and limited data storage and processing capabilities), and to ensure that devices no longer in use are monitored and action taken to cancel contracts as appropriate (at the time of the audit approximately £2k per month was being spent on mobile device contracts that had been inactive for over a year).

Troubled Families

1.48 The Troubled Families (TF2) programme has been running in East Sussex since January 2015 and is an extension of the original TF1 scheme that began in 2012/13. The programme is intended to support families who experience problems in certain areas, with funding for the local authority received from the Ministry of Housing, Communities and Local Government (MHCLG), based on the level of engagement and evidence of appropriate progress and improvement.

1.49 Children's Services submit periodic claims to the MHCLG to claim grant funding under its 'payment by results' scheme. The MHCLG requires Internal Audit to verify 10% of claims prior to the Local Authority's submission of its claim. We therefore reviewed 11 of the 111 families included in the July/September 2020 grant cohort.

1.50 In completing this work, we found that valid 'payment by results' (PBR) claims had been made and outcome plans had been achieved and evidenced. All the families in the sample of claims reviewed had firstly met the criteria to be eligible for the TF2 programme and had either achieved significant and sustained progress and/or had moved from out of work benefits into continuous employment. We therefore concluded that the conditions attached to the TF2 grant determination programme had been complied with.

Department for Transport Grants

Capital Grants

1.51 Well maintained highways not only improve local productivity but also the environment by reducing delays, and makes cycling, horse riding and walking more attractive. The Department for Transport (DfT) provides funding to highway authorities to ensure that our local roads and other highway assets are fit for the future.

1.52 The funding allocated to each local highway authority in England in is based on a formula using road length data provided by each local authority, and also takes into account the number of highways assets such as bridges and lighting columns for which they are each responsible for.

1.53 Grants paid to the Council may be used only for the purposes that a capital receipt may be used for in accordance with regulations made under section 11 of the Local Government Act 2003. Our work in this area concluded that the conditions attached to the following grant allocations had been complied with and a signed declaration was sent to the DfT by 30 September 2020:

- Integrated Transport Block;
- Highways Maintenance Block Needs Element;
- Highways Maintenance Block Incentive Element; and
- Pothole Action Fund and Flood Resilience Fund.

Bus Service Operators Grant (BSOG)

1.54 BSOG payments from the DfT are made to local authorities for running community transport and bus services. BSOG aims to benefit passengers by:

- Helping to keep fares down; and
- Enabling operators to run services that might otherwise be unprofitable and could lead to cancellation.

1.55 The BSOG grant is ring fenced and can be used to fund the provision of supported bus services or other related transport provision. Internal Audit are required to annually audit a sample of routes and payments to operators to ensure that payments are accurately calculated in-line with the formula provided by the DfT and that the conditions attached to the grant are complied with. This was all confirmed and a signed declaration was returned to the DfT within the required timescales.

Covid-19 Bus Service Support Grant

1.56 The nationwide lockdown imposed in March as a result of the COVID-19 pandemic led to a significant drop in patronage on public bus services. To support operators through this time of reduced income, the DfT released funding for Local Transport Authorities (LTA's) to distribute to tendered services that had been affected by, or needed to be adjusted because of, the impact of COVID-19.

1.57 The grant conditions required all bus operators in receipt of funding to provide between 40-50% of usual service capacity, or agree lower levels with the Local Authority in conjunction with the DfT, whilst Local Authorities were required to maintain contractual payments at normal levels throughout the funding period. Operators receiving the commercial element of the COVID-19 Bus Service Support Grant could not submit a claim for this LTA funding, and were required to confirm that no services would be double funded.

1.58 Internal Audit were required to confirm that the funding had been used in line with the grant conditions. Our testing concluded that the grant conditions had been met and that unused funding had been returned to the DfT as required.

Blue Badge Grant

1.59 In August 2019, an extension to the Blue Badge scheme came into force, allowing people with non-visible disabilities to apply for a Blue Badge. This change allows those with conditions such as dementia, epilepsy and Parkinson's to access a Blue Badge that would previously have been provided only for those with a physical disability. To support the implementation of the new criteria, the DfT provided Local Authorities with additional funding to be used to support expenditure lawfully incurred or to be incurred by them.

1.60 The conditions of this grant were non-specific and were interpreted as allowing the authority to utilise the funding to support the provision of Blue Badge services within the county. Analysis of the Blue Badge budget took place, and it was confirmed that an amount equivalent to the grant funding amount had been used to provide Blue Badge services. A confirmation letter was signed by the Chief Internal Auditor and Chief Executive, which was returned to the DfT by the deadline of 31st July 2020.

2. Counter Fraud and Investigation Activities

Proactive Counter Fraud Work

2.1 We deliver both reactive and proactive counter fraud services across the Orbis partnership. Work to date has focussed on the following areas:

National Fraud Initiative Exercise

2.2 We are currently working with the appropriate departments to ensure that the relevant datasets are uploaded for the next National Fraud Initiative exercise. The results from the exercise are due on 31 January 2021.

Counter Fraud Policies

2.3 Each Orbis partner has in place a Counter Fraud Strategy that sets out their commitment to preventing, detecting and deterring fraud. We have reviewed the sovereign strategies to align with best practice and to ensure a robust and consistent approach to tackling fraud. These were approved by Audit Committee on 10 July 2020.

Fraud Risk Assessments

2.4 Fraud risk assessments are regularly reviewed to ensure that the current fraud threat for the Council has been considered and appropriate mitigating actions identified. We have updated the risk assessment to include new and emerging threats as a result of the COVID19 pandemic. This includes potential threats to payroll, staff frauds relating to home working and cyber frauds.

Fraud Response Plans

2.5 The Fraud Response Plans take into consideration the results of the fraud risk assessments and emerging trends across the public sector in order to provide a proactive counter fraud programme. The fraud response plans include an emphasis on data analytics. During the quarter, we developed a data analytics programme for key financial systems and work on this will continue in quarter three.

Fraud Awareness

2.6 The team are continuing to monitor intel alerts and the latest fraud bulletin is currently on the Council's intranet.

Reactive Counter Fraud Work - Summary of Completed Investigations

Salary Overpayment

2.7 We provided a team within Adult Social Care with support and advice following an allegation that an employee had claimed additional night hours. The employee had already received payment for these hours in their salary. The employee accepted a warning letter and the overpayment is in the process of being recovered.

Schools - Invoicing and Collection of Income at Breakfast Club

2.8 We investigated an allegation of irregularity in the management of invoicing and the collection of income at a Breakfast Club linked to a school. A report of our findings was issued to the school. The school held a disciplinary interview and the member of staff subsequently resigned from their extended roles.

Schools - Collection of Income for Swimming Pool

2.9 Following local press articles that a swimming pool had been closed despite the local community raising £100,000 towards its running over the last five years, we reviewed whether the money had been collected and had been banked appropriately.

2.10 No evidence was found to suggest any sums in the region of £100,000 had been raised by the local community to support the swimming pool and we therefore found no evidence to suggest any income had been misappropriated.

3. Action Tracking

3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. There were two high-priority actions outstanding that were due to be implemented by management by the end of quarter two, both of which related to the Libraries Asset Management audit which was reported to Audit Committee in September this year. Revised dates for these have been agreed with management and progress over implementation will continue to be monitored and reported on.

4. Amendments to the Audit Plan

4.1 As previously reported, a significant proportion of our planned work was paused in response to the Covid-19 pandemic. It has therefore been necessary to prepare a revised audit plan for the remainder of the year, starting September 2020. Further detail on this can be found in our additional report to this meeting.

5. Internal Audit Performance

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	**G**	Plan prepared for April approval, but formal reporting to Committee delayed due to Covid. Agreed by Committee on 13 May 2020.
	Annual Audit Report and Opinion	By end July	**G**	2019/20 Annual Report and Opinion approved by Audit Committee on 10 July 2020.
	Customer Satisfaction Levels	90% satisfied	**G**	100%.
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	**N/A**	During the Covid pandemic, the audit plan was suspended to allow the internal audit service to support the organisation's response. A revised audit plan has been developed from September and this target will be reported on from quarter 3 onwards.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	**G**	January 2018 – External assessment by the South West Audit Partnership gave an opinion of 'Generally Conforms' – the highest of three possible rankings. June 2020 - internal self-assessment completed – no major areas of non-compliance with PSIAS identified. Internal quality review also completed – no major areas of non-compliance with our own processes identified.
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	**G**	No evidence of non-compliance identified.

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score	Actual Performance
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	95% for high priority agreed actions	**R**	See Section 4 of this report.
Our staff	Professionally Qualified/Accredited	80%	**G**	90%[1]

[1] Includes part-qualified staff and those undertaking professional training

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Report to:	**Audit Committee**
Date:	**6 November 2020**
By:	**Chief Finance Officer**
Title of report:	**Treasury Management – Stewardship Report 2019/20**
Purpose of report:	**To present a review of the Council's performance on treasury management for the year 2019/20 and Mid Year review for 2020/21.**

RECOMMENDATION: The Audit Committee is recommended to note the Treasury Management performance in 2019/20 incorporating the Mid Year review for the first half of 2020/21.

1. Background

1.1 The annual stewardship report presents the Council's treasury management performance for 2019/20 and Mid Year performance for 2020/21 as required by the Code of Practice for Treasury Management.

2. Supporting Information

2.1 The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance. The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates the treasury management function in compliance with this Code. These require that the prime objective of the treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis and treasury management practices demonstrate a low risk approach. The Code requires the regular reporting of treasury management activities to:

- Forecast the likely activity for the forthcoming year (in the Annual Treasury Strategy Report); and
- Review actual activity for the preceding year (this Stewardship Report).
- A mid year performance review (this Stewardship Report).

2.2 This report sets out:

- A summary of the original strategy agreed for 2019/20 and the economic factors affecting this strategy (Appendix A).
- The treasury management activity during the year (Appendix B);
- The treasury management mid year activity for 2020/21 (Appendix C);
- The Prudential Indicators, which relate to the Treasury Management function, Minimum Revenue Policy (MRP) and compliance with limits (Appendix D).

3. The economic conditions compared to our Strategy for 2019/20

3.1 The strategy and the economic conditions prevailing in 2019/20 are set out in Appendix A. 2019/20 remained a challenging environment with concerns over the UK, European and global economies rising especially in the latter part of 2019/20. The global impact of the coronavirus pandemic and the national response and lockdown started to be felt towards the end of 2019/20; it did not have a material impact on the 2019/20 performance.

4. The Treasury activity during the year on short term investments and borrowing

<u>The Treasury Management Strategy</u>

4.1 The strategy for 2019/20, agreed in February 2019, continued the prudent approach and ensured that all investments were only to the highest quality rated institutions with regard to security, liquidity and yield. For banks the maximum investment period was one year and for other local authority lending two years. For the 2019/20 strategy Equity Funds were included to broaden the risk profile by reducing liquidity and to include suitable, alternative investment products. The inclusion of an investment product category in the strategy does not automatically result in investments being placed – investments will only be placed following due diligence and consideration of prevailing market conditions.

Short term lending

4.2 The Bank of England (BoE) Base Rate was reduced from 0.75% to 0.25% on 11 March 2020 and again to 0.10% on 19 March 2020 as a measure to support the economy in the early stages of lockdown due to the COVID 19 pandemic.

4.3 The total amount received in short term interest for 2019/20 was £2.3m at an average rate of 1.08%. This was above the average base rates in the same period (0.72%) and above the average returns achieved with peer authorities from treasury advisors (Link Asset Services) investment benchmarking. The Return for 2019/20 was against a backdrop of ensuring, so far as possible in the current financial climate, the security of principal and the minimisation of risk with a view to broaden options where appropriate.

Longer term lending

4.4 During 2019/20 a number of longer term local authority investments were placed with the aim of locking in certainty of return. These investments will generate £774,000 in interest receivable in the next two years without compromising credit quality.

Long term borrowing

4.5 Details of long term borrowing are included in Appendix B of the report. The important points are:

- No new borrowing was undertaken in 2019/20.
- The average interest rate of all debt at 31 March 2020 (£239m) was 4.73% (4.77% at 31 March 2019).
- Public Works Loan Board (PWLB) Debt maturing during 2019/20 totalled £3.95m and was at an average rate of 8.17%.
- HM Treasury imposed changes of margins over gilt yields for PWLB rates in 2019-20 without any warning. This took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates.

Minimum Revenue Provision (MRP)

4.6 Full details of the 2019/20 MRP policy are set out in appendix D.

5. Treasury Management Mid Year Review 2020/21

5.1 The Treasury Management and Annual Investment Strategy for 2020/21 were approved by Full Council on 11 February 2020 and was prepared within the context of the financial challenge being faced by the County Council.

5.2 Events moved quickly in the latter part of 2019/20 with the outbreak of the COVID 19 pandemic, a range of measures were taken to adapt working practices within Treasury Management to facilitate working from home with no business disruption to report.

5.3 Ensuring the County Council had significant liquidity to fund cashflow in the early stages of lockdown was a key priority. On the 1 April 2020 a £10m short term Local Authority loan was taken to cover potential cashflow gaps, the loan was paid back on the 15 May 2020. Cashflow continues to be monitored closely as we move into further uncertainty.

5.4 As in 2019/20 a number of Local Authority investments were placed during the period to secure a fixed rate of return. Deposits placed were at rates between 0.95-1.25% and will outperform bank deposits in the current climate without reducing credit quality.

5.5 The total amount received in short term interest for 6 months to 30 September 2020 was £995k at an average rate of 0.84%. This was above the average base rates in the same period (0.10%) and investment benchmarking with peer authorities.

5.6 No additional PWLB borrowing was undertaken in the period and no cost effective opportunities to restructure debt have taken place. During 2020/21 PWLB to mature totals £2.64m, taking total debt down to £236.6m by 31 March 2021; this historic debt is at an average rate of 8.13%.

5.7 HM Treasury released a consultation with local authorities on possibly further amending margins over PWLB gilt yields; this was to end on 4th June, but that date was subsequently put back to 31 July 2020. It is clear HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield). The final report is due in the coming year.

6. Prudential Indicators which relate to the Treasury function and compliance with limits

6.1 The Council is required by the CIPFA Prudential Code to report the actual prudential indicators after the end of each year. There are eight indicators which relate to treasury management and they are set out in Appendix D, the Council is fully compliant with these indicators.

7. Conclusion and reason for recommendation

7.1 This report updates the Audit Committee and fulfils the requirement to submit an annual/half yearly report in the form prescribed in the Treasury Management Code of Practice. Short term lending throughout the 18 month period covered achieved returns between 0.75% and 1.12%. The key principles of security, liquidity and yield are still relevant. Officers are currently investigating further opportunities within the strategy to increase investment income whilst minimising costs and maintaining security, in a period of significant uncertainty.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Ian Gutsell Tel No. 01273 481399

BACKGROUND DOCUMENTS

Cabinet 22 January 2019 Treasury Management Strategy for 2019/20
28 January 2020 Treasury Management Strategy for 2020/21

CIPFA Prudential Code and Treasury Management in the Public Services- Code of practice
Local Government Act 2003 Local Government Investments guidance.

Appendix A

A summary of the strategy agreed for 2019/20 and the economic factors affecting this strategy

1. Background information

1.1 Full Council approved the annual Treasury Management Strategy report in February 2019, which sets out the proposed strategy for the year ahead. This strategy includes the limits and criteria for organisations to be used for the investment of cash surpluses and has to be approved by the Council.

1.2 This Council has always adopted a prudent approach to its investment strategy and in the last few years, there have been regular changes to the list of the approved organisations used for investment of surpluses. This list is regularly reviewed to ensure that the Council is able to invest in 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.

1.3 The original strategy for 2019/20 was prepared within the context the financial challenge being faced by the County Council over the Medium Term Financial Plan, and the resulting Core Offer that the Council is exploring through the Reconciling Policy, Performance and Resources process for 2019/20. The 2019/20 TMSS seeked to complement the Council's Core Offer by:

- Utilising long term cash balances as effectively as possible by investing in longer term instruments and/or using to fund borrowing to reduce borrowing costs;
- Ensuring the investment portfolio is working hard to maximise income by exploring alternative appropriate investment opportunities during 2019/20;
- Ensuring effective management of the borrowing portfolio by exploring rescheduling opportunities and identifying and exploiting the most cost effective ways of funding the Council's borrowing requirement.

1.4 At the same time, the Treasury Management Policy Statement was agreed as unchanged for 2019/20.

East Sussex County Council defined its treasury management activities as:

"The management of the organisation's cash flows, its banking, money market and Capital market transactions (other than those of the Pension Fund) the effective management of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council regards the successful identification, monitoring and management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

This authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management".

2. Investment

2.1 When the strategy was agreed in January 2019, it emphasised the continued importance of credit quality. The Treasury Management advisors Link Asset Services commented on short term interest rates, the UK economy, inflation, the outlook for long term interest rates and these factors were taken into account when setting the strategy. The key principles of security, liquidity and yield are still relevant. Officers are currently investigating further opportunities within the strategy to minimise costs and increase investment income within the key principles.

2.2 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.

2.3 This Council in addition to other tools uses the creditworthiness service provided by Link 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 (CDS) spreads to give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

2.4 The strategy going forward was to continue with the policy of ensuring minimum risk but was also intended to deliver secure investment income on the Councils cash balances.

2.5 As was clear from the events globally and nationally since 2008, it is impossible in practical terms to eliminate all credit risk.

2.6 The strategy aimed to ensure that in the economic climate it was essential that a prudent approach was maintained. This would be achieved through investing with selected banks and funds which met the Council's rating criteria. The emphasis would continue on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed) rather than yield.

2.7 The Council's investment policy has regard to the Ministry of Housing, Communities & Local Government's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Link Asset Services al Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return.

2.8 Investment instruments identified for use in the financial year are listed in section 3.2 and 4.1 under the 'Specified and Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

2.9 The weighted scoring system produces an end product of a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments, i.e., using counterparties within the following durational bands provided they have a minimum AA+ sovereign rating from three rating agencies:

- 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

Y	*P*	*B*	*O*	*R*	*G*	*N/C*
Up to 2yrs	*Up to 2yrs*	*Up to 1yr*	*Up to 1yrs*	*Up to 6 mths*	*Up to 100days*	*No Colour*

2.10 The Link 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 influence to just one agency's ratings.

2.11 Typically the minimum credit ratings criteria the Authority use, will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. The Authority is alerted to changes to ratings of all three agencies through its use of the Link Asset Services credit worthiness service.

- if a downgrade results in the counterparty or investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

2.12 The Link Asset Services methodology was revised in October 2015 and determines the maximum investment duration under the credit rating criteria. Key features of Link Asset Services credit rating policy are:

- a mathematical based scoring system is used taking ratings from all three credit rating agencies;
- negative and positive watches and outlooks used by the credit rating agencies form part of the input to determine a counterparty's time band (i.e. 3, 6, 9, 12 months etc.).
- CDS spreads are used in Link Asset Services creditworthiness service as it is accepted that credit rating agencies lag market events and thus do not provide investors with the most instantaneous and "up to date" picture of the credit quality of a particular institution. CDS spreads provide perceived market sentiment regarding the credit quality of an institution.
- After a score is generated from the inputs a maximum time limit (duration) is assigned and this is known as the Link Asset Services colour which is associated with a maximum suggested time boundary.

2.13 All of the investments were classified as Specified (i.e., investment is sterling denominated and has a maximum maturity of 1 year) and non-Specified Investments (i.e., any other type of investment not defined as Specified). These investments were sterling investments for up to two years maturity with institutions deemed to be high credit quality or with the UK Government (Debt Management Account Deposit Facility). These were considered low risk assets where the possibility of loss of principal or investment income was small.

2.14 If investment instruments identified in the financial year under the 'Non-Specified and Specified' Investments categories were used, the Council funds would be invested as follows:

3. Specified Investments

3.1 An investment is a specified investment if all of the following apply:

- the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
- the investment is not a long term investment (i.e. up to 1 year);
- the making of the investment is not defined as Capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended];

- the investment is made with a body or in an investment scheme of high credit quality (see below) or with one of the following public-sector bodies:
    - The United Kingdom Government;
    - A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland; and
    - High credit quality is defined as a minimum credit rating as outlined in section 4.2 of this strategy.

3.2 The use of Specified Investments

Investment instruments identified for use in the financial year are as follows:

- The Table below set out the types of investments that fall into each category, counterparties available to the Council, and the limits placed on each of these. A detailed list of each investment type is available in the Treasury Management Practices guidance notes;
- all investments will be within the UK or AA+ sovereign rated countries.

Criteria for specified Investments:

Counterparty	Country/ Domicile	Instrument	Min. Credit Criteria/LAS colour band	Max. Amount	Max. maturity period
Debt Management and Deposit Facilities (DMADF)	UK	Term Deposits (TDs)	N/A	unlimited	12 Months
Government Treasury bills	UK	TDs	UK Sovereign Rating	unlimited	12 Months
UK Local Authorities	UK	TDs	UK Sovereign Rating	£60m	12 Months
Banks – part nationalised	UK	▪ TDs ▪ Deposits on Notice ▪ Certificates of Deposit (CDs)	N/A	£60m	12 Months
Banks	UK	▪ TDs ▪ Deposits on Notice ▪ CDs	Blue	£60m	12 Months
			Orange	£60m	12 Months
			Red	£60m	6 Months
			Green	£60m	100 Days
Building Societies	UK	▪ TDs ▪ Deposits on Notice ▪ CDs	Blue	£60m	12 Months
			Orange	£60m	12 Months
			Red	£60m	6 Months
			Green	£60m	100 Days
Individual Money Market Funds (MMF) CNAV and LVNAV	UK/Ireland/ EU domiciled	AAA Rated Money Market Fund Rating	N/A	£60m	Liqiuid
VNAV MMF's and Ultra Short Dated Bond Funds	UK/Ireland/EU domiciled	AAA Rated Bond Fund Fund Rating	N/A	£60m	Liquid

Counterparty	Country/ Domicile	Instrument	Min. Credit Criteria/LAS colour band	Max. Amount	Max. maturity period
Banks – Non-UK	Those with sovereign rating of at least AA+*	▪ TDs ▪ Deposits on Notice ▪ CDs	Blue	£60m	12 Months
			Orange	£60m	12 Months
			Red	£60m	6 Months
			Green	£60m	100 Days

4. Non Specified Investments

4.1 Non-Specified investments are any other types of investment that are not defined as specified. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below.

Counterparty	Minimum credit criteria	Maximum investments	Period
UK Local Authorities	Government Backed	£60m	2 years
Corporate Bond Fund(s)	Investment Grade	£30m	2 - 5 years
Pooled Property Fund(s)	N/A	£30m	5+ years
Mixed Asset Fund(s)	Appropriate rating	£30m	2 - 5 years

4.2 The maximum amount that can be invested will be monitored in relation to the Council surplus monies and the level of reserves. The approved counterparty list will be maintained by referring to an up-to-date credit rating agency reports, and the Council will liaise regularly with brokers for updates. Counterparties may be added to or removed from the list only with the approval of the Chief Finance Officer.

5. The economy in 2019/20 – Commentary from Link Asset Services in April 2020.

5.1 Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth.

5.2 Since then, the whole world has changed as a result of the coronavirus outbreak. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

5.3 The Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in quantitative easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn.

5.4 The Government and the Bank were also very concerned to stop people losing their jobs during this lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income.

5.5 Inflation has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

5.6 Employment had been growing healthily through the last year but it is obviously heading for a big hit in March – April 2020. The good news over the last year is that wage inflation has been significantly higher than CPI inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth. However, while people cannot leave their homes to do non-food shopping, retail sales will also take a big hit.

5.7 The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Teresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. The House of Commons duly frustrated that renewed effort and so a general election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January 2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet impact on this deadline; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.

The Treasury Management activity during the year 2019/20

1. Investment activity interest rates

1.1 Investments were placed with reference to the core balance and cash flow requirements and the outlook for interest rates. Base interest rate were decreased twice in March 2020 to 0.10% the current record low for UK interest rates. The average rate for the year was 0.72%.

1.2 Following consultation, changes to the strategy were made from 2018/19 to broaden the risk profile by reducing liquidity and to include some suitable, alternative investment products that are held for the medium (2-5 years) to longer term (5 years+). These products can generate better overall returns but there is a higher risk of volatility of performance so a longer term commitment is required.

1.3 The following table below summarises the changes to the 2019/20 strategy from those approved since 2017/18. The inclusion of an investment product category in the strategy does not automatically result in investments being placed.

Investment options	2017/18	2018/19	2019/20
Money Market Funds (Including LVNAV)	✓	✓	✓
Bank Notice Accounts	✓	✓	✓
Fixed Term Bank Deposits	✓	✓	✓
UK Local Authorities	✓	✓	✓
Enhanced Money Market Funds (VNAV)	✓	✓	✓
Building Societies	✗	✓	✓
Pooled Property Funds	✗	✓	✓
Corporate Bond Funds	✗	✓	✓
Multi Asset Funds	✗	✓	✓
Equity Funds	✗	✗	✓

The primary principle governing the Council's investment criteria is the security of its investments, although the return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security;
- It has sufficient liquidity in its investments.

1.4 The total amount received in short term interest for 2019/20 was £2.3m at an average rate of 1.08%. This was above the average of base rates in the same period (0.72%) and against a backdrop of ensuring, so far as possible in the financial climate, the security of principal and the minimisation of risk within a broader boundary.

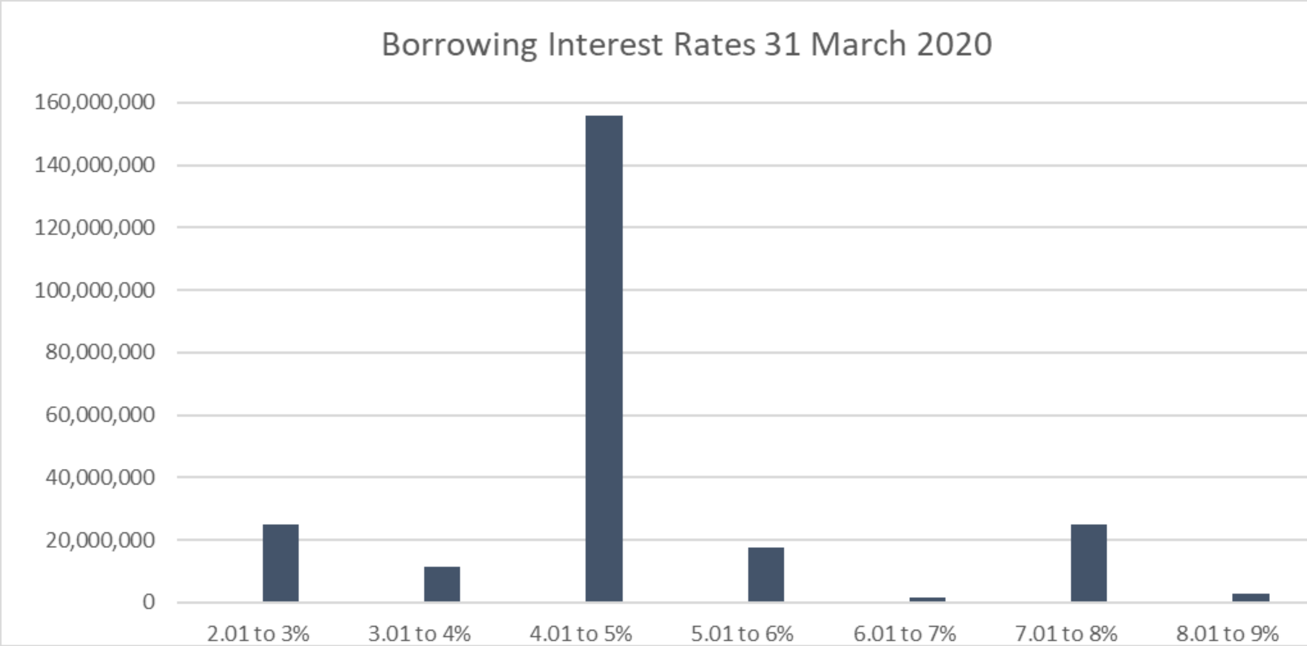
2. Long term borrowing

2.1 Officers constantly reviewed the need to borrow taking into consideration the potential movements in borrowing costs, the need to finance new capital expenditure, refinancing maturing debt, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns.

2.2 During 2019/20 £3.95m of PWLB debt matured at a coupon rate of 8.17%. This historic maturing debt was not replaced with additional in year new borrowing.

2.3 The average interest rate of all debt at 31 March 2020 of £239.2m was 4.73%. No beneficial rescheduling of debt has been available, due to a considerable widening of the difference between new borrowing and repayment rates, which has made PWLB debt restructuring much less attractive. Consideration would have to be given to the large premiums (cash payments) which would be incurred by prematurely repaying existing PWLB loans. It is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.

2.4 The range of interest rates payable in all of the loans is illustrated in the graph below:



3. Short term borrowing

3.1 Overnight borrowing was undertaken on two separate occasions during 2019/20 to cover temporary overdraft situations.

4. Treasury Management Advisers

4.1 The Strategy for 2019/20 explained that the Council uses Link Asset Services as its treasury management consultant on a range of services which include:

- Technical support on treasury matters, Capital finance issues and advice on reporting;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;
- Credit ratings from the three main credit rating agencies and other market information;
- Assistance with training on treasury matters

4.2 Whilst the advisers provide support to the internal treasury function, under current market rules and the CIPFA Code of Practice the final decision on treasury matters remained with the Council. This service remains subject to regular review.

4.3 Link Asset Services is the largest provider of Treasury Management advice services to local authorities in the UK and they claim to be the market leading treasury management service provider to their clients. The advice has been and will continue to be monitored regularly to ensure a continued excellent advisory service.

Appendix C

The Treasury Management Activity Mid-Year Report – 2020/21

1. Background

1.1 The Treasury Management and Annual Investment Strategy for 2020/21 were approved by the Cabinet 22 January 2020. The 2020/21 strategy broadened the approved instruments to improve yield and diversify the investment portfolio. Changes to the strategy are summarised below.

Investment options	2017/18	2018/19	2019/20	2020/21
Money Market Funds (Including LVNAV)	✓	✓	✓	✓
Bank Notice Accounts	✓	✓	✓	✓
Fixed Term Bank Deposits	✓	✓	✓	✓
UK Local Authorities	✓	✓	✓	✓
Enhanced Money Market Funds (VNAV)	✓	✓	✓	✓
Building Societies	✗	✓	✓	✓
Pooled Property Funds	✗	✓	✓	✓
Corporate Bond Funds (Including Short Dated Bond Funds)	✗	✓	✓	✓
Multi Asset Funds	✗	✓	✓	✓
Equity Funds	✗	✗	✓	✓

1.2 This report considers treasury management activity over six months of the financial year.

2. Summary of financial implications

2.1 The Bank of England's Monetary Policy Committee have held interest rates at 0.10% over the period. Our Treasury Advisors Link Asset Services are forecasting a low interest rate environment for the next 2 years and beyond.

2.2 During the first half year investments have been held in money market funds, bank notice accounts, other local authorities and the CCLA Local Authority Property Fund. Counterparty credit quality remains a primary concern for the treasury team, with security, liquidity and yield in that order a priority.

2.3 Measures have been undertaken to ensure that levels of liquidity are available during the last 6 months but also opportunities explored to protect investment returns into the current year and beyond. Several local authority investments were placed upto a 2 year period securing a fixed rate of return between 0.95-1.25% within a low credit risk parameter.

2.4 The average investment balance to September 2020 was £235m and generated investment income of £995k. The forecast for 2020/21 is £1.7m.

2.5 A short term loan was arranged on the 1st April 2020 with another local authority to cover potential gaps in the Council's cashflow, the £10m loan was paid back on maturity 15th May 2020 and was at a rate of 0.15%. Future short-term borrowing in the current year is not forecasted but remains an option to cover temporary cashflow requirements.

2.6 The level of Council long-term debt at 30 September 2020 was £237.9m with a loan totalling £1.3m maturing with the PWLB in the next 6 months to 31st March 2021. The forecast for interest paid on long-term debt in 2020/21 is approximately £11.15m and is within the budgeted provision.

2.7 Opportunities to reduce the cost of carry (interest paid against interest received) are constantly being explored as and when options arise.

3. Treasury Management Strategy

3.1 The Council approved the 2020/21 treasury management strategy at its meeting on 22 January 2020. The Council's stated investment strategy is to prudently manage an investment policy achieving first of all, security (protecting the Capital sum from loss), liquidity (keeping money readily available for expenditure when needed), and to consider what yield can be obtained consistent with those priorities.

3.2 The 2020/21 investment strategy continues with officers seeking new opportunities to invest long-term cash in suitable longer term instruments in order to assist in delivering treasury savings by increasing investment income. Modelling of the Council's use or reserves and planned capital programme has identified £5-10m of balances that could be invested for a longer duration (for approximately 3 years). An options appraisal review was undertaken during 2019/20 to identify investment options which matched the three year time horizon. Short Dated Bond Funds and Multi Asset Funds have been identified as suitable instruments that match the Council's risk appetite and investment time horizon.

3.3 At its meeting of 15 October 2019, Full Council declared a Climate Emergency (Item 37), and discussed the Environmental, Social and Governance (ESG) considerations for the East Sussex Pension Fund (Item 34). Treasury Officers have been exploring ways in which the Council's cash balances can be utilised to support the Council's commitment to tackle climate change. As a result, consideration of ESG factors has been built into the 2020/21 Annual Investment Strategy.

3.4 The Chief Finance Officer is pleased to report that all treasury management activity undertaken from April 2020 to September 2020 period complied with the approved strategy, the CIPFA Code of Practice, and the relevant legislative provisions.

4. Economic Review (provided by Link Asset Services, September 2020)

4.1 The coronavirus outbreak has done huge economic damage to the UK and economies around the world.

4.2 As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August (and subsequently 16th September). It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

- The fall in GDP in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
- The peak in the unemployment rate was revised down from 9% in Q2 to 7½% by Q4 2020.
- It forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

4.3 It also squashed any idea of using negative interest rates, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.

4.4 The MPC expected the £300bn of quantitative easing purchases announced between its March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.

4.5 In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to downside risks, which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six month package from 1 November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid September.

4.6 Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE

5.0 Link Asset Services interest rate forecasts

5.1 As shown in the forecast table below, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

5.2 Forecasts for average investment earnings beyond December 2021 will be heavily dependent on economic and political developments.

Link Group Interest Rate View 11.8.20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

6. Borrowing advice:

6.1 As the interest forecast table for PWLB certainty rates, (gilts plus 180bps), above shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

6.2 Any new borrowing should also take into account the continuing cost of carry, the difference between investment earnings and borrowing rates.

Appendix D

1. Prudential Indicators which relate to the Treasury function and compliance with limits

1.1 The Council is required by the Prudential Code to report the actual prudential indicators after the end of each year. There are eight indicators which relate to treasury management and they are set on an annual basis and monitored, they comprise:-:

- Operational and authorised borrowing limits which includes short term borrowing (paragraph 2.1 below)
- Interest rate exposure (paragraph 3.1 below)
- Interest rate on long term borrowing (paragraph 4.1 below)
- Maturity structure of investments (paragraph 5.1 below)
- Compliance with the Treasury Management Code of Practice (paragraph 6.1 below)
- Interest on investments (paragraph 7.1 below)
- Capital Financing Requirement and Minimum Revenue Provision (paragraph 8.1 below)

2. Operational and authorised borrowing limits.

2.1 The tables below sets out the estimate and projected Capital financing requirement and long-term borrowing in 2019/20

	Capital Financing Requirement	**2019/20 Estimate**	**2019/20 Actual**
		£m	**£m**
	Capital Financing Requirement at 1 April 2019	**335**	**329**
add	Financing of new assets	14	24
add	Long Term Loans	-	-
less	Provision for repayment of debt	(6)	(11)
	Capital Financing Requirement at 31 March 2020	**343**	**342**
add	Short Term Borrowing Provision	10	
	Operational Boundary	**353**	
add	Short Term Borrowing Provision	20	
	Authorised Limit	**373**	

	Actual Borrowing	**2019/20 Actual**
		£m
	Long Term Borrowing at 1 April 2019	**243**
less	Loan redemptions	(4)
add	New Borrowing	-
	Long Term Borrowing at 31 March 2020	**239**

2.2 The Capital Financing Requirement includes PFI Schemes and Finance Leases totalling £81m, excluding these results in an underlying need to borrow of £261m.

2.3 The Operational Boundary was consistent with the Council's current commitments, existing plans and the proposals for Capital expenditure and financing, and with its approved treasury management policy statement and practices. It was based on the estimate of most likely, prudent but not worst case scenario. Risk analysis and risk management strategies were taken into account as were plans for Capital expenditure, estimates of the Capital financing requirement and estimates of cash flow requirements for all purposes. The Operational boundary represents a key management tool for in year monitoring and long term borrowing control.

2.4 The Authorised Limit for borrowing was based on the same estimates as the Operational Boundary but includes additional headroom for a short term borrowing to allow, for example, for unusual cash movements or late receipt of income.

2.5 The Authorised limit is the “Affordable Borrowing Limit” required by S3 of the Local Government Act 2003 and must not be breached. The Long Term borrowing at 31st March 2020 of £239m is under the Operational boundary and Authorised limit set for 2019/20. The Operational boundary and Authorised limit have not been exceeded during the year.

3. Interest rate exposure

3.1 The Council continued the practice of seeking to secure competitive fixed interest rate exposure for 2019/20. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs or improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the council’s exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

	2019/20	**2020/21**	**2021/20**
Interest rate exposure	**Upper**	**Upper**	**Upper**
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	15%	15%	15%
Maturity structure of fixed interest rate borrowing 2019/20			
	Lower	**Upper**	**Actual 2019/20**
Under 12 months	0%	25%	1%
12 months and within 24 months	0%	40%	2%
24 months and within 5 years	0%	60%	6%
5 years and within 10 years	0%	80%	11%
10 years and within 20 years	0%	80%	21%
20 years and within 30 years	0%	80%	24%
30 years and within 40 years	0%	80%	35%
40 years and above	0%	80%	0%

3.2 The Council has not exceeded the limits set in 2019/20. Not more than £20m of debt should mature in any financial year and not more than 15% to mature in any two consecutive financial years. Borrowing has been undertaken giving due consideration to the debt maturity profile, ensuring that an acceptable amount of debt is due to mature in any one financial year. This helps to minimise the authority’s exposure to the risk of having to replace a large amount of debt in any one year or period when interest rates may be unfavourable. The bar chart in the attached Annex 1 shows the maturity profile.

4. Interest rate on long term borrowing

4.1 The rate of interest taken on any new long term borrowing will be been defined with the assistance of Link Asset Services. However, due to the increase in PWLB margins over gilt yields in October 2019, and the subsequent consultation on these margins by HM Treasury - which ended on 31 July 2020 - the Council has refrained from undertaking new long-term PWLB borrowing for the present.

5. Maturity structure of investments

5.1 The Investment Guidance issued by the government, allowed local authorities the freedom to invest for more than for one year. All investments over one year were to be classified as Non-Specified Investments. The Council had taken advantage of this freedom and non-Specified Investments are allowed to be held within our overall portfolio of investments and in line with our prudent approach in our strategy.

6. Compliance with the Treasury Management Code of Practice

6.1 East Sussex County Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA), Code of Practice for Treasury Management in the Public Services. In December 2018, CIPFA, issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.
A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. The outcome is a new Capital Strategy document which was presented to Cabinet as part of the 2019/20 budget papers.

7. Interest on investments 2019/20

7.1 The table below sets out the average monthly rate received on our investments and compares it to the Bank of England Base rate to reflect both the interest rates available in the market and limitation in the use of counterparties.

Month	Amount £'000	Monthly rate	Margin against Base Rate
April	194	1.08%	0.33%
May	204	1.04%	0.29%
June	199	1.05%	0.30%
July	205	1.07%	0.32%
August	202	1.07%	0.32%
September	188	1.06%	0.31%
October	198	1.06%	0.31%
November	192	1.08%	0.33%
December	189	1.10%	0.35%
January	195	1.12%	0.37%
February	177	1.11%	0.36%
March	186	1.10%	0.75%*
Total for 2019/20	**2,329**	**1.08%**	**0.36%**

*Average base rate in March 2020 0.35% (all other months 0.75%) 0.72% for 2019/20.

7.2 The total amount received in short term interest for the year was £2.3m at an average rate of 1.08%. This was above the average of base rates in the same period (0.72%) but ensuring, so far as possible in the financial climate, the security of principal and the minimisation of risk. This Council has continued to follow a prudent approach with security and liquidity as the main criteria before yield.

8. Capital Financing Requirement and Minimum Revenue Provision (MRP)

8.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement - CFR) through a revenue charge (the minimum revenue provision - MRP). Ministry of Housing, Communities and Local Government (MHCLG) regulations require the full Council to approve an MRP Statement in advance of each year. A variety of options are available to councils, so long as the principle of any option selected ensures a prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

8.2 The below 2019/20 MRP Policy Statement reflects a change in policy for borrowing incurred both before and after 2008. The Policy (as required by Ministry of Housing, Communities & Local Government Guidance) was approved as part of the Treasury Management Strategy Report for 2019/20 on 22 January 2019.

8.3 The Council was recommended to approve the following MRP Statement for 2019/20 onwards:

For borrowing incurred before 1 April 2008, the MRP policy will be:

- Annuity basis over a maximum of 40 years.

From borrowing incurred after 1 April 2008, the MRP policy will be:

- Asset Life Method (annuity method) – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations. A maximum useful economic life of 50 years for land and 40 years for other assets. This option will also be applied for any expenditure capitalised under a capitalisation directive.

For PFI schemes, finance leases and closed landfill sites that come onto the Balance Sheet, the MRP policy will be:

- Asset Life Method (annuity method) - The MRP will be calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. Any related MRP will be equivalent to the “capital repayment element” of the annual charge payable.

There is the option to charge more than the prudent provision of MRP each year through a Voluntary Revenue Provision (VRP).

8.4 For loans to third parties that are being used to fund expenditure that is classed as capital in nature, the policy will be to set aside the repayments of principal as capital receipts to finance the initial capital advance in lieu of making an MRP.

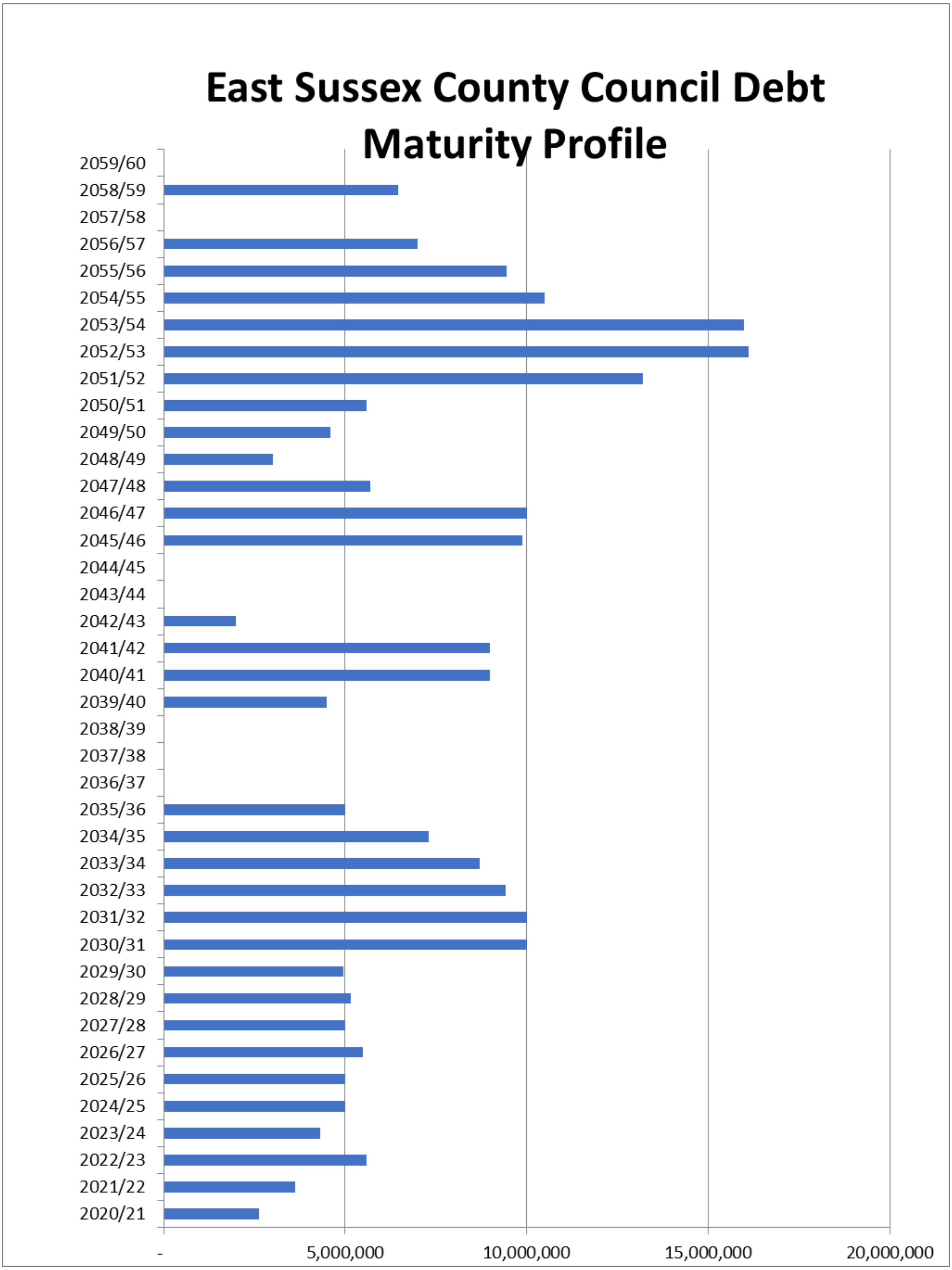
8.5 In view of the variety of different types of capital expenditure incurred by the Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure. This approach also allows the Council to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending.

8.6 The Council’s CFR for the year is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council’s borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR including appropriate balances and MRP charges for PFI Schemes and Finance Leases.

	2019/20 Actual	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
	£m	**£m**	**£m**	**£m**
Total CFR	**342**	**395**	**410**	**421**
Movement in CFR	-	53	15	11

Annex 1


East Sussex County Council Debt Maturity Profile
2059/60
2058/59
2057/58
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Report to: **Audit Committee**

Date of meeting: **6 November 2020**

By: **Chief Operating Officer**

Title: **Property Asset Disposal and Investment Strategy (PADIS)**

Purpose: **To provide Audit Committee with an annual report on the progress and implementation of the Strategy**

RECOMMENDATIONS

It is recommended for Audit Committee to:

1. **note the contents of this report;**
2. **consider, and recommend, any actions that should be taken in response of the contents of this report;**
3. **note that progress continues against the background of wider operational and market uncertainties, and the need to support capacity to ensure delivery; and**
4. **identify any new or emerging items for consideration.**

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1. Background

1.1 The County Council's strategic framework for investment supports the development of income and funding streams to enhance the financial resilience of the Council. In April 2018 Cabinet resolved to approve a Property Asset Disposal and Investment Strategy, as part of its suite of activities and this Committee requested that an Annual Report be brought back to this Committee.

1.2. The Strategy provides the Council with three principle activities:

i) the ability to drive added value from its current estate from disposal activity;

ii) the option to retain assets to support corporate or service needs; and

iii) enable investment in new assets or projects in support of economic growth opportunities.

The County Council had determined not to follow the route of purchasing income generating property assets to support its operational funding activities – ie through taking on PWLB loans to acquire commercial investments. This decision, given the market dynamics seen over the past 12 to 18 months, together with the economic shocks arising from COVID, remains fully justified as commercial property centric investment risk remains high.

1.3 Programme and Project governance remains primarily through the Capital Board, which remains an important gateway review mechanism for any evolving business opportunities and review of the capital receipts programme.

1.4 The recent period has seen a mixed, but generally positive, picture of progress across income generating, investment and disposal activities of the Council, as new transactions have come to the fore, (generating new income streams), with anticipated completion of a number of land transfers and assets, which support some of our wider education and local community development needs.

Whilst there is a notable level of increased caution from the private sector markets, interest in bidding has not waned significantly to this point, save for some of the more secondary locations or particularly complex sites where local town planning uncertainties continue.

1.5 The County Council's Capital Strategy has been updated as part of the RPPR Process for 2020/21 with a new 20 year strategy, supported by a 10 year planned Capital programme. This programme will continue to be reviewed annually as part of the RPPR process to ensure it reflects Service need, and County Council priorities The Capital Strategy links strategies, and plans, for investment with Departmental service plans, which themselves are subject to ongoing transformational reviews. In some instances this may hold back our ability to fix the future outcome for a particular asset.

1.6. As reported in November 2019, a revised Strategic Asset Management Plan for the period 2020 to 2025 had been drafted, and this was adopted in the early part of 2020 to support strategic, operational and service led improvements across our estate functions. Whilst progress has been made in key areas, such as the procurement of a new data management system (now in implementation stage) and completed procurement of new frameworks to fully support both our maintenance, service to schools and audit valuation and rating work, our capacity has continued to be constrained with much activity re directed to support the Covid emergency response of the Council. Covid has, however, opened up some opportunities for the Council in so far as there has been a greater sharing and collaboration of activities and notably, from a property perspective, several agreements now in place to lease our vacant space to NHS and CCG partnerships in support of our own income generating needs.

1.7 To bring sites forward, revenue and people resource continues to be required to support added value, stakeholder engagement and individual project led activities. Whilst we have been able to resource on an interim basis over the recent past, we have continued to experience ongoing constraints in capacity due to some key staff being diverted to cover for absent staff, or diverted to other Covid led priorities.

1.8 The Council has successfully appointed a new Assistant Director Property - Nigel Brown who started this week (1 November 2020), who will be tasked to bring forward plans on rebuilding capacity and capabilities.

1.9 The Council has nevertheless continued to progress work across individual sites with many subject to their own specific constraints, issues, risks and opportunities. Timing across most sites is always difficult to predict but close monitoring of projects benefits and financial outcomes remain key. Whilst the below is a summary of activity over the past 12 months, a more detailed summary of activities, concluded and in hand is provided in a later agenda item (Part 2 Exempt).

1.10 A highlight of completed activity across key sites include:

a) Marketing and terms agreed to lease over 15,500 sq ft of space at our office investment, at Sackville House Lewes, to Health partners on a 10 year+ arrangement (Sept 20), to bring the building up to almost full occupancy.

b) Marketing and terms agreed to lease all vacant space (3,500 sq ft) at Warwick House Seaford to Health partners on a 10+year lease (Sept 20)

c) Transfer of the former Helenswood Upper school site Hastings to the Dept for Education to enable the development of a New Free Special School (Sept 20)

d) Agreement to lease land to the Department of Education at Cross levels way Eastbourne for the development of a free special school (Oct 20)

e) Contracts exchanged to dispose of the Isabel Blackman Centre to a consortia of local community groups (June 20) with planned completion on 8th December.

f) Transfer of the Rye Creative Centre, Rye, (plus 30+ tenants) under a new long term lease to locally based community interest/property management company (Jun 20)

g) Sale of land at Winchelsea with the benefit of planning consent for 4 houses (Feb 20)

h) Land at former HWRS site, Wadhurst – Marketing and terms agreed to sell (Sept 20)

i) Successful receipt of detailed planning consent for 39 houses, remarketing, and acceptable bid under negotiations in respect of a joint land sale with a private Trust for lands at Westfield Down (at previously forecast levels)

j) Bid received and under negotiation to dispose of land at Moorhurst at Westfield conditional upon planning for a 70 bed care scheme

1.11 A core focus of activity, up until the end of the financial year 19/20 was around options for our leased Corporate Office estate, where operational leases at Eastbourne and Hastings are due to expire within the short term (12 to 24 months). A plan to modernise the workplace and rationalise our estate through acquisition and/or refurbishment work, whilst facilitating greater co sharing opportunities, had to be placed on ice as COVID impacted, and we saw the structural shift toward more home working.

Whilst the principles and drivers for savings and opportunities has not changed, a review of post COVID workstyles is now underway, as a corporate project, and thus shorter term plans are being proposed for the current leased offices, ahead of longer term reviews and locality decisions.

1.12 Key sites identified for disposal within our established capital receipts programme remain part of a four-year target to deliver £16m of receipts to support the current Medium term financial plan by 2023/4. Disposals largely remain on target, with almost half the targeted receipt potentially available against one specific site which is now being marketed at Hastings.

2. Supporting Information

2.1 The current emphasis remains on land sales as against new investment per se, largely due to the nature of the assets and the market conditions. Some sites, previously identified for sale may be withdrawn, where levels of demand or market bids do not reflect fair value, and the County will continue to take a long term position.

2.2 The level of opportunities already identified, or in hand, continue to offer considerable encouragement, and outcome benefits.

3. Conclusion and recommendations

3.1 Audit Committee is asked to note the contents of this report and the further information provide in the later agenda item and consider and recommend any actions that should be taken in response to the contents.

KEVIN FOSTER
Chief Operating Officer

Contact Officer: Nigel Brown
Email: Nigel.Brown@eastsussex.gov.uk

Local Members: All
Background Documents: None

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Audit Committee – Work Programme

List of Suggested Potential Future Work Topics		
Issue	**Detail**	**Meeting Date**
Orbis	Update on the potential effect of Surrey becoming a unitary authority	Post publication of the Devolution White Paper
Audit Committee Working Groups		
Working Group Title	**Subject area**	**Meeting Dates**
To be agreed.		
Training and Development		
Title of Training/Briefing	**Detail**	**Date**
Internal Audit Strategy and Plan	A briefing and consultation on the development and content of the Internal Audit Strategy and Plan for 2021/22, prior to the Committee endorsing the Strategy prior to agreement by Cabinet.	January 2021

Future Committee Agenda Items		Author
6 November 2020 (revised date)		
Review of Annual Governance Report & 2019/20 Statement of Accounts	Report of the external auditors following their audit of the Council's statutory accounts. It allows the committee to review the issues raised and assess the management response.	External Auditors/ Ian Gutsell, Chief Finance Officer

Review of Annual Pension Fund Governance Report & 2019/20 Statement of Accounts	Report of the external auditors following their audit of the Pension Fund. It allows the committee to review the issues raised and assess the management response.	External Auditors/ Ian Gutsell, Chief Finance Officer
Sir Tony Redmond report on local authority audit	Consideration of the "Independent Review into the Oversight of Local Audit and the transparency of Local Authority financial reporting"	Ian Gutsell, Chief Finance Officer
Revised Internal Audit Plan	To consider the revised Internal Audit Plan	Russell Banks, Chief Internal Auditor
Internal Audit Progress Report	Internal Audit Progress report – Quarter 2, 2020/21 (01/07/20 – 30/09/20)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Treasury Management	To consider a report on the review of Treasury Management performance for 2019/20 and for outturn for the first six months of 2020/21, including the economic factors affecting performance, the Prudential Indicators and compliance with the limits set within the Treasury Management Strategy.	Ian Gutsell, Chief Finance Officer
Property Asset Disposal and Investment Strategy	Consideration of an annual report on the implementation of the Property Asset Disposal and Investment Strategy.	Tina Glen, Head of Property Operations / Graham Glenn, Acquisition & Disposals Manager
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Democratic Services Officer
26 March 2021		
External Audit Plan 2020/21	This report sets out in detail the work to be carried out by the Council's External Auditors on the Council's accounts for the financial year 2019/20.	Ian Gutsell, Chief Finance Officer & External Auditors
External Audit Plan for East	To consider and comment upon the External Audit Plan for the East Sussex Pension Fund for the financial year 2019/20.	Ian Gutsell, Chief Finance Officer & External Auditors

Sussex Pension Fund 2020/21		
Internal Audit Strategy and Plan	Consideration of the Internal Audit Strategy and Plan for 2021/22	Russell Banks, Chief Internal Auditor/ Nigel Chilcott, Audit Manager
Annual Audit Letter	To consider the Annual Audit letter and fee update from the External Auditor	Ian Gutsell, Chief Finance Officer
Internal Audit Progress Report	Internal Audit Progress report – Quarter 3, 2020/21 (01/10/20 – 31/12/20)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 3, 2020/21 (01/10/20 – 31/12/20)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Democratic Services Officer
9 July 2021		
Review of Annual Governance Report & 2020/21 Statement of Accounts	Report of the external auditors following their audit of the Council's statutory accounts. It allows the committee to review the issues raised and assess the management response.	External Auditors/ Ian Gutsell, Chief Finance Officer
Review of Annual Pension Fund Governance Report & 2020/21 Statement of Accounts	Report of the external auditors following their audit of the Pension Fund. It allows the committee to review the issues raised and assess the management response.	External Auditors/ Ian Gutsell, Chief Finance Officer

Assessment of the Corporate Governance Framework and Annual Governance Statement for 2020/21	Sets out an assessment of the effectiveness of the Council's governance arrangements and includes an improvement plan for the coming year, and the annual governance statement (AGS) which will form part of the statement of accounts.	Philip Baker, Assistant Chief Executive
Internal Audit Services Annual Report and Opinion 2020/21	An overall opinion on the Council's framework of internal control, summarises the main audit findings and performance against key indicators (includes Internal Audit Progress reports – Quarter 4, 2020/21, (01/01/21 – 31/03/21).	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 4, 2020/21 (01/01/21 – 31/03/21)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Democratic Services Officer
17 September 2021		
Internal Audit Progress Report	Internal Audit Progress report – Quarter 1, 2021/22 (01/04/21 – 30/06/21)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Management	Strategic risk monitoring report – Quarter 1, 2021/22 (01/04/21 – 30/06/21)	Kevin Foster, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Democratic Services Officer

Agenda Item 15

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Appendix 1

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