



**GOVERNANCE COMMITTEE**

**TUESDAY, 10 NOVEMBER 2020**

**10.15 AM (OR AT THE CONCLUSION OF THE CABINET, WHICHEVER IS THE LATER)**  
**ROOM CC2 – COUNTY HALL, LEWES**

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

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

**A G E N D A**

- 1 Minutes of the meeting held on 28 October 2020 (*Pages 3 - 4*)
- 2 Apologies for absence
- 3 Disclosures of interests  
Disclosures by all members present of personal interests in matters on the agenda, the nature of any interest and whether the member regards the interest as prejudicial under the terms of the Code of Conduct.
- 4 Urgent items  
Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda. Any members who wish to raise urgent items are asked, wherever possible, to notify the Chair before the start of the meeting. In so doing, they must state the special circumstances which they consider justify the matter being considered urgent.
- 5 Independent Auditor's Report to those charged with Governance and Statement of Accounts for 2019/20 (*Pages 5 - 198*)  
Report by Chief Finance Officer
- 6 Amendment to Constitution - Scheme of Delegation to Officers (*Pages 199 - 202*)  
Report by Director of Adult Social Care and Health
- 7 Local Managers' Pay 2020/21 (*Pages 203 - 206*)  
Report by Chief Operating Officer
- 8 Chief Executive, Chief Officers' and Deputy Chief Officers' Pay 2020/21 (*Pages 207 - 212*)  
Report by Head of Human Resources and Organisation Development
- 9 Any other items previously notified under agenda item 4

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2 November 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. The live broadcast is accessible at:*  
[www.eastsussex.gov.uk/yourcouncil/webcasts/default.htm](http://www.eastsussex.gov.uk/yourcouncil/webcasts/default.htm)

## GOVERNANCE COMMITTEE

MINUTES of a meeting of the Governance Committee held at County Hall, Lewes on 28 October 2020.

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

++ The Committee took the decisions remotely ++

### 20 MINUTES OF THE MEETING HELD ON 2 OCTOBER 2020

20.1 RESOLVED – that the minutes of the previous meeting of the Committee held on 2 October 2020 be confirmed and signed as a correct record.

### 21 DISCLOSURES OF INTERESTS

21.1 Councillor Tutt declared a personal interest in Item 6 as a member of the Pension Committee, but he did not consider this to be prejudicial.

### 22 REPORTS

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

### 23 PARTNERSHIP WORKING WITH WEST SUSSEX COUNTY COUNCIL

23.1 The Committee considered a report by the Chief Executive on joint working with West Sussex County Council.

23.2 The Committee RESOLVED to agree to the establishment of a post of Executive Director, Adult Social Care and Health who will work across East and West Sussex County Councils and that they be placed on the Chief Officer Band B for the purpose of East Sussex County Council's contribution to the remuneration.

### 24 THE LOCAL GOVERNMENT PENSION SCHEME - EMPLOYER DISCRETIONS

24.1 The Committee considered a report by the Chief Operating Officer on an updated policy in relation to the employer discretions under the Local Government Pension Scheme operated by the County Council.

24.2 The Committee RESOLVED to recommend the County Council approves the updated policy for employer discretions under the Local Government Pension Scheme as set out in Appendix 1 of the report.

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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.**

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## **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.**
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## **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 49 – 52) 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

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Local Member(s): All

### Appendices

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

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# The Audit Findings for East Sussex County Council

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Year ended 31 March 2020  
6 November 2020  
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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.

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# 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 9<sup>th</sup> July 2020. An updated set of statements (the statements which were published for inspection) were subsequently provided on 6<sup>th</sup> 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 6<sup>th</sup> 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 an 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.

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

### **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.


## Auditor commentary

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
<b>Land and Buildings – Other - £365.168m</b>	<p>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 (EUUV) 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.</p> <p>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.</p> <p>Management have assessed their assets for any impairments; no material impairments were noted.</p> <p>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).</p>	<ul style="list-style-type: none"> <li>We assessed management's valuer to be competent, capable and objective;</li> <li>The valuation method remains consistent with the prior year;</li> <li>We reviewed the completeness and accuracy of the underlying information provided to the valuer used to determine the estimation. We have so far not identified any significant discrepancies;</li> <li>We engaged our own valuation expert, to provide us with additional assurance on the valuation methodology and approach and the resulting assumptions for the £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.</li> <li>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.</li> <li>We confirmed consistency of the estimate and the reasonableness of changes against data produced by our valuers;</li> <li>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:</li> <li>We have agreed the valuation report to the fixed asset register and the statement of accounts.</li> <li>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.</li> </ul>	





## 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																								
<b>Net pension liability – £416.868m</b>	<p>The Authority recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.</p> <p>The Council's 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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>We assessed management's actuarial expert and concluded they are clearly competent, capable and objective in producing the estimate;</li> <li>We carried out analytical procedures to conclude on whether the Council's share of LGPS pension assets and liabilities was reasonable. We concluded the Council's share of assets and liabilities was analytically in line with our expectations;</li> <li>We engaged an auditor's actuary expert to challenge the reasonableness of the estimation method used and the approach taken by the actuary to verify the completeness and accuracy of information used. We were satisfied that the actuary was provided with complete and accurate information about the workforce, and that the method applied was reasonable;</li> <li>The auditors' expert provided us with indicative ranges for assumptions by which we have assessed the assumptions made by management's expert. As set out below all assumptions were within the expected range and were therefore considered reasonable:</li> </ul>																									
	<p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £144m net actuarial gain during 2019/20 (2018/19: £78m loss).</p>	<table border="1" data-bbox="803 676 1777 1082"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.3%</td> <td>2.3%</td> <td></td> </tr> <tr> <td>Pension increase rate</td> <td>1.9%</td> <td>1.8-2.0%</td> <td></td> </tr> <tr> <td>Salary growth</td> <td>1.9%</td> <td>1.90 - 2.90%</td> <td></td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.5 / 21.6</td> <td>21.6-23.3/ 20.5-22.5</td> <td></td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>25.3 / 23.9</td> <td>24.6-26.3/ 22.9-24.3</td> <td></td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>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.</li> </ul>	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		
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#### Assessment

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-  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
<b>Net pension liability – £416.868m</b> <b>Continued</b>		<ul style="list-style-type: none"> <li>We concluded that the disclosure of the estimate in the financial statements was adequate;</li> <li>We agree that it is reasonable to communicate the material uncertainty around the valuation of the net liability, along with sensitivity analysis.</li> </ul>	
<b>Level 2/3 investments</b>	<p>The Council have investment properties that are valued on the balance sheet as at 31 March 2020 at £11.063m.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>We assessed management's valuer to be competent, capable and objective;</li> <li>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;</li> <li>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;</li> <li>The valuation method remains consistent with the prior year;</li> <li>We confirmed consistency of the estimate and the reasonableness of changes against data produced by valuers Gerald Eve;</li> <li>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;</li> <li>We have agreed the valuation report to the fixed asset register and the statement of accounts;</li> <li>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.</li> </ul>	●

## 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

## Auditor commentary

Page 23

### 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 MTFP 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 MTFP 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;

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 MTFP, 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 MTFP 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
<b>Matters in relation to fraud</b>	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.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Written representations</b>	<ul style="list-style-type: none"> <li>A signed letter of representation has been requested.</li> </ul>
<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Disclosures</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>Except for the outstanding items noted on page 4, all information and explanations requested from management was provided.</li> </ul>



# Other responsibilities under the Code

Issue	Commentary
<b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>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.</p>
<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• If we have applied any of our statutory powers or duties.</li> </ul> <p>We have nothing to report on these matters.</p>
<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that full guidance from the NAO on the required procedures has yet to be issued.</p> <p>As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>Note that work is not yet completed and the work is planned to be completed subsequent to the accounts audit and signing of the financial statements. This would mean we cannot issue our completion certificate until this work has been finished.</p>
<b>Certification of the closure of the audit</b>	<p>For the reasons stated above, we are unable to certify the closure of the 2019/20 audit in the audit report.</p> <p>We will issue the completion certificate once we have considered the above point and completed the WGA work.</p>

# Value for Money

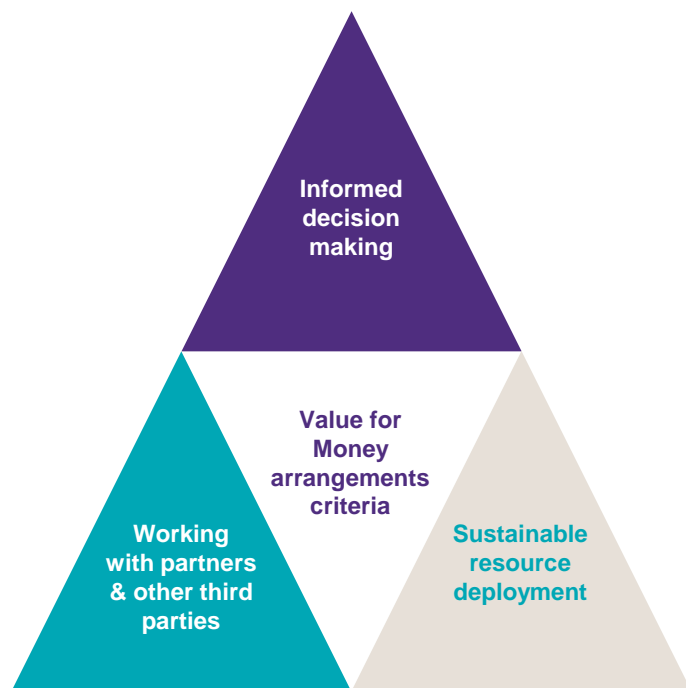
## Background to our VFM approach

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)
<b>2019/20 Revenue Underspend</b>	<b>(0.9)</b>

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

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 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.

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
<b>Audit related</b>			
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
<p> <b>Medium</b></p>	<p><b>Prompt updating of the leases register</b></p> <p>During our lease testing we identified a lease which was on the lease register and therefore part of the accounts disclosure of lease commitments, which was in fact no longer an ongoing lease commitment for the Council.</p> <p>There were £3.6m of forward commitments disclosed relating to this lease. On discussion with management the accounts disclosure was updated to correct the error. There is a risk that if the lease register is not correctly and promptly updated that the financial information that feeds into the accounts and forecasting processes for the Council could be inaccurate and as observed for the 2019/20 accounts this could lead to misstatement of disclosures in the accounts.</p> <p>In this case the misstatement was not material, but this type of error could potentially cause a material misstatement.</p>	<p>We recommend that management ensure there are adequate controls in place to ensure that the lease register is promptly and accurately updated.</p> <p><b>Management response</b></p> <p>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.</p>

## 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
✓	<p><b>Access to client maintenance functionalities (SCC4) (SAP access providing virtually full system rights)</b></p> <p>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.</p>	<p>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.</p> <p>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.</p>
✓	<p><b>Journals with no descriptions</b></p> <p>We identified journal entries being prepared and recorded with no descriptions, increasing the potential for erroneous or fraudulent posting to go unnoticed.</p>	<p>We recommended that management should consider running exception reports to identify and review journal entries with no narrative included</p> <p>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.</p>

#### 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?
<b>Critical judgements in applying accounting policies</b>	<p>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.</p>	<p>We recommended that a number of the critical judgements were removed from this note.</p> <p><b>Management response</b></p> <p>This was amended in the accounts.</p>	✓
<b>PPE land and buildings material uncertainty</b>	<p>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.</p> <p>The material uncertainty was not disclosed in the Authority's draft accounts Note 3 Critical Judgements and Assumptions Made.</p>	<p>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.</p> <p><b>Management response</b></p> <p>This was amended in the accounts.</p>	✓

# Audit adjustments

## Misclassification and disclosure changes (continued)

Disclosure omission	Detail	Auditor recommendations	Adjusted?
<b>Categorisation of investment properties at Level 2 or 3</b>	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.	<p>We recommended that the investment properties were recategorized from Level 3 to Level 2 in Note 18 to the accounts.</p> <p><b>Management response</b></p> <p>This was amended in the accounts.</p>	✓
<b>Related party transactions</b>	In our testing of related parties we identified a related party which did not meet the IAS24 criteria for definition as a related party.	<p>We recommended that the related party transaction disclosure in the accounts was updated to remove the disclosure relating to that entity.</p> <p><b>Management response</b></p> <p>This was amended in the accounts.</p>	✓

# 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
<b>Operating expenditure</b>	DR Operating Expenditure 5,153k	Nil	Nil	The difference is not material
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.	CR Other Revenues (5,153k)			
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.				
<b>Other Debtors</b>	DR Fees and charges 4,023k	CR Other Debtors (4,023k)	4,023k	The difference is not material
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.				
<b>Overall impact</b>	<b>4,023</b>	<b>(4,023k)</b>	<b>4,023k</b>	

# Fees

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

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Council Audit	80,350	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£80,350</b>	<b>TBC</b>

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.

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

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

## 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](http://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**

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#### **Additional Information**

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

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

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

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

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## 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

## Narrative Report

- 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.

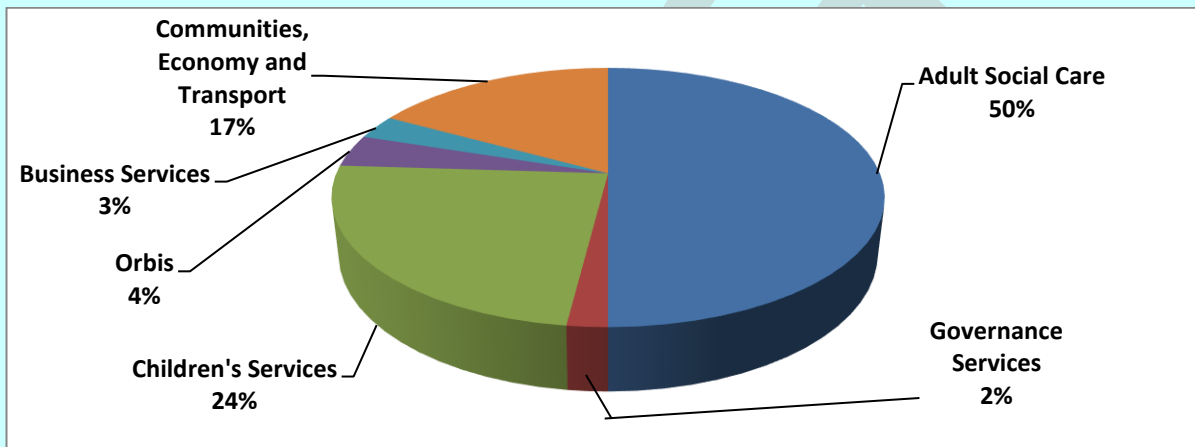
The Authority's 10 year planned programme is supported by a 20 year Capital Strategy. The purpose of the strategy is to drive the authority's capital investment ambition in support of the Council Plan, whilst ensuring appropriate capital expenditure, capital financing and treasury management. The strategy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

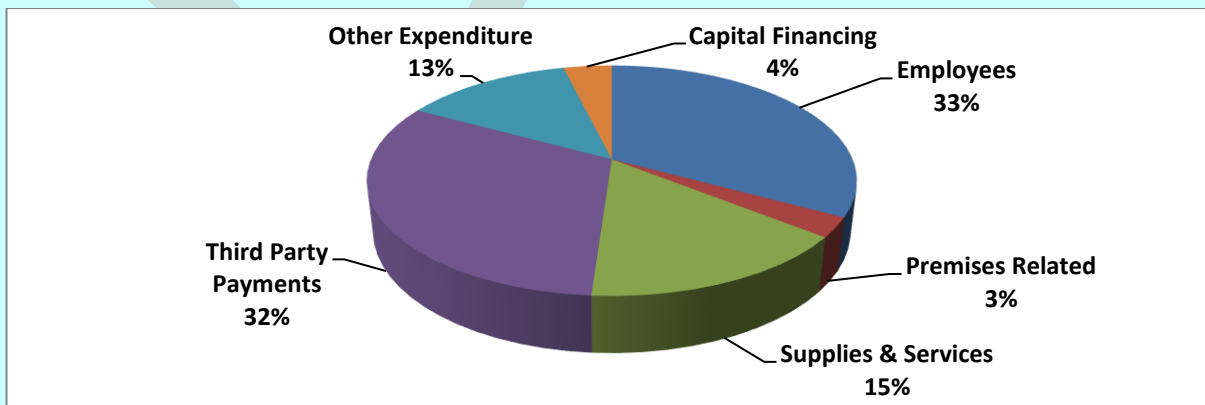
<https://democracy.eastsussex.gov.uk/ieListDocuments.aspx?CId=150&MId=3348&Ver=4>

## 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

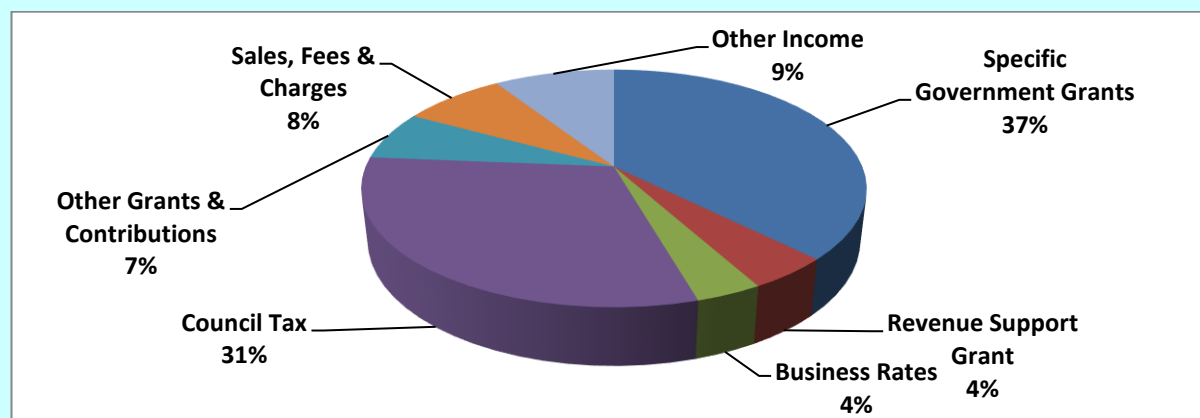


County Council services are staff intensive and employee costs account for 33% of the expenditure. Non-employee expenditure includes costs of premises at 3%, supplies and services at 15% and third party payments at 32%, with other expenditure at 13%. Capital financing (the cost of borrowing, interest 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)
<b>Service Spend (incl. DSG Related)</b>	<b>338.12</b>	<b>343.94</b>	<b>5.82</b>
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)
<b>Net Expenditure</b>	<b>375.89</b>	<b>376.57</b>	<b>0.68</b>

## Narrative Report

### 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)	-
	<b>(375.89)</b>	<b>(376.57)</b>	<b>(0.68)</b>

### Balances:

Opening	10.00	10.00	
Added / (withdrawn) during the year	-	-	
Closing	<b>10.00</b>	<b>10.00</b>	

## 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).

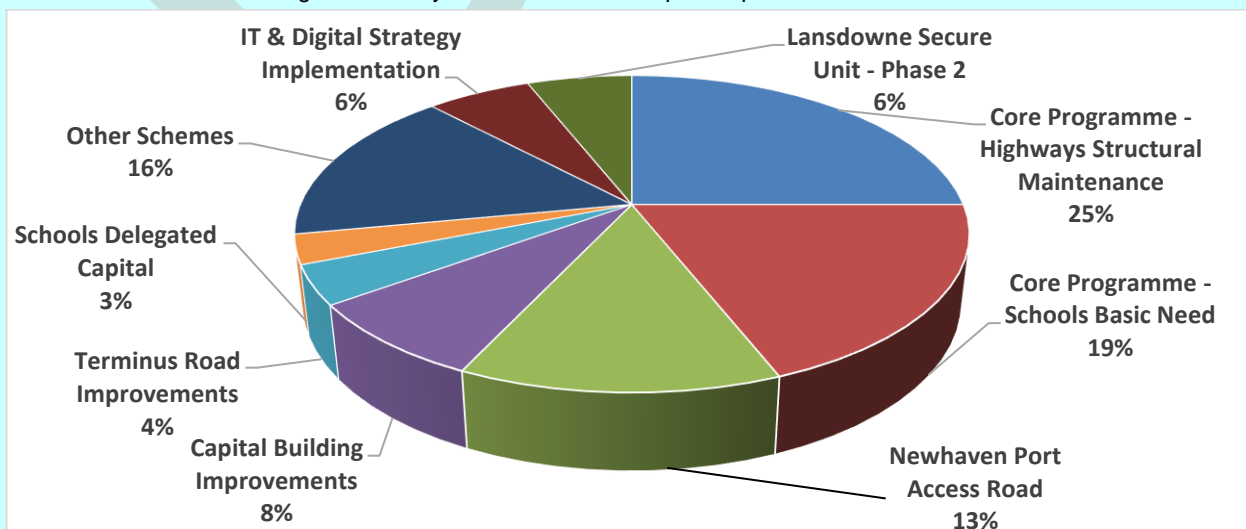
#### Capital Programme gross movements during 2019/20:

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

During the financial year the capital programme is regularly reviewed and where necessary projects are re-profiled as part of the ongoing RPPR process. The revised gross budget for the end of March 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
<b>Total resources</b>	<b>100.5</b>

### 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)
<b>278,603</b>	<b>Net Assets</b>	<b>385,614</b>
<i>Represented by:</i>		
147,963	Usable Reserves	166,913
130,640	Unusable Reserves	218,701
<b>278,603</b>	<b>Total Reserves</b>	<b>385,614</b>

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.

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

To Follow

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## 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](http://www.eastsussex.gov.uk) or can be obtained from the Council's Monitoring Officer. This statement also sets out how the County Council has complied with its Local Code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

### 2. Purpose of the governance framework

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

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

The Local Code of Corporate Governance and the system of internal control have been in place at East Sussex County Council for the year ended 31 March 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



## 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 identified 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 oversee its activities and provided assurance on its governance including financial governance	ESCC receives copies of Woodland Enterprise Limited's annual accounts. ESCC is required to disclose its interest in Woodland Enterprises in its own statements of accounts. A copy of the Woodland Enterprise Ltd annual accounts are requested each year and are included in the ESCC Statement of Accounts.

## Annual Governance Statement for year ended 31 March 2020

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	<p>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%.</p> <p>Sea Change Sussex is a delivery partner developing and managing key economic development and infrastructure schemes in East Sussex. The partner delivers capital infrastructure schemes which unlock housing and employment sites in the county – this includes new site infrastructure (access roads) as well as employment space.</p> <p>These schemes are largely funded by external funding from either the South East Local Enterprise Partnership (SELEP) - Local Growth Fund capital grant programme or the SELEP - Growing Places Fund (GPF) loan programme or the Getting Building Fund (GBF) capital grant programme that Sea Change Sussex has secured, alongside some of their own capital receipts from the sale of commercial properties/land in their portfolio. East Sussex County Council acts as the Local Accountable Body for overseeing the devolution of funds from the SELEP to external partners such as Sea Change Sussex and has contract agreements in place for each scheme awarded.</p>
What is the structure and form of the body (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	<p>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.</p> <p>As a scheme promoter of LGF, GBF and GPF funded projects, Sea Change Sussex enters into legal agreements for the County Council to monitor the delivery of this public funding and report back to SELEP. The authority to enter into these agreements is sought from the Lead Member for Strategic Management and Economic Development. Sea Change Sussex are bound by the terms of individual Grant and Loan agreements stipulating the guidelines for which Sea Change must adhere to.</p> <p>East Sussex officers regularly meet with Sea Change Sussex representatives and attend project progress meetings for individual schemes, along with attendance and participation at the SELEP Programme progress meetings.</p>

## Annual Governance Statement for year ended 31 March 2020

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

**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

<p>What the relationship is between the body and the local authority</p>	<p>The County Council is a partner authority of SELEP Ltd – one of six county/unitary authorities, as listed above. The Leader of the County Council is a Company Director of SELEP Ltd. There are no shares/shareholders in the company. The County Council has one seat on the Board of Directors of SELEP Ltd, occupied by the Leader of the County Council.</p>
<p>What is the structure and form of the body (e.g. private limited company etc)</p>	<p>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).</p>
<p>How the Council oversee its activities and provided assurance on its governance including financial governance</p>	<p>The SELEP Strategic Board (Board of Directors) meets at least quarterly, so the Leader of the County Council can directly oversee the activities of SELEP Ltd.</p> <p>SELEP Ltd has also established the following groups:</p> <ul style="list-style-type: none"> <li>• Accountability Board – a 'joint committee' made up of SELEP's six county/unitary authority members, to oversee the financial governance of SELEP Ltd, responsible for the sign-off of all funding decisions. The Leader of the County Council is our representative on the SELEP Accountability Board.</li> <li>• Investment Panel – a sub-committee of the Strategic Board to act as an advisory committee on matters pertaining to project prioritisation, recommendations on provisional funding allocations and future priorities. The Leader of the County Council is our representative on the SELEP Investment Panel.</li> <li>• Senior Officer Group – an advisory group made up of a senior officer from each of SELEP's six county/unitary authorities. ESCC's Head of Economic Development, Skills, Culture and Infrastructure is our representative on the SELEP Senior Officer Group.</li> </ul> <p>For projects within our local federated area, the County Council acts as the local accountable body for the defraying of funds (such as the Government's Growing Places Fund, Local Growth Fund or Getting Building Fund) from SELEP Ltd to external partners. A Service Level Agreement (SLA) is in place between the County Council and Essex CC as the accountable body to SELEP Ltd, and the County Council's S151 Officer is required to sign-off on all contract agreements between the County Council and project promoters.</p> <p>All of the governance arrangements for SELEP Ltd are set out in the SELEP Articles of Association, SELEP Framework Agreement and SELEP Local Assurance Framework. ESCC senior officers, including the Chief Finance Officer, collaborated on the development of all of these documents, and they have been approved through our own internal governance procedures (Lead Member SMED and Governance Committee).</p>
<p>What the relationship is between the body and individual councillors and whether councillor's' involvement is likely to constitute a conflict of interest</p>	<p>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.</p>
<p>How can councillors scrutinise the activities of the body, in particular if it will fall within the remit of the audit or scrutiny</p>	<p>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</p>

## Annual Governance Statement for year ended 31 March 2020

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.

Draft



## 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			2019/20			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	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)
<b>880,761</b>	<b>(450,225)</b>	<b>430,536</b>	<b>Cost of Services</b>	<b>896,688</b>	<b>(474,944)</b>	<b>421,744</b>
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)
		<b>36,595</b>	<b>Deficit on Provision of Services</b>			<b>45,257</b>
		(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)
		<b>52,366</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(152,268)</b>
		<b>88,961</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(107,011)</b>

## Movement in Reserves Statement

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

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
<b>Balance at 31 March 2018 - Notes 24 and 25</b>	<b>9,999</b>	<b>10,734</b>	<b>112,186</b>	<b>132,919</b>	<b>1,233</b>	<b>14,402</b>	<b>148,554</b>	<b>219,010</b>	<b>367,564</b>
IFRS 9 – Financial Instruments	184	-	-	184	-	-	184	(184)	-
<b>Restated Balance 1 April 2018</b>	<b>10,183</b>	<b>10,734</b>	<b>112,186</b>	<b>133,103</b>	<b>1,233</b>	<b>14,402</b>	<b>148,738</b>	<b>218,826</b>	<b>367,564</b>
<b>Movement in Reserves during 2018/19</b>									
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)	-
<b>Net Increase / (Decrease) before Transfers to Earmarked Reserves</b>	<b>(6,485)</b>	<b>-</b>	<b>-</b>	<b>(6,485)</b>	<b>1,889</b>	<b>3,821</b>	<b>(775)</b>	<b>(88,186)</b>	<b>(88,961)</b>
Transfers to / (from) Earmarked Reserves - Note 10	6,301	3,454	(9,755)	-	-	-	-	-	-
<b>Increase / (Decrease) in Year</b>	<b>(184)</b>	<b>3,454</b>	<b>(9,755)</b>	<b>(6,485)</b>	<b>1,889</b>	<b>3,821</b>	<b>(775)</b>	<b>(88,186)</b>	<b>(88,961)</b>
<b>Balance at 31 March 2019 - Notes 24 and 25</b>	<b>9,999</b>	<b>14,188</b>	<b>102,431</b>	<b>126,618</b>	<b>3,122</b>	<b>18,223</b>	<b>147,963</b>	<b>130,640</b>	<b>278,603</b>

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

## 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
<b>1,002,713</b>	<b>Long Term Assets</b>		<b>1,008,769</b>
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
<b>278,979</b>	<b>Current Assets</b>		<b>264,982</b>
(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)
<b>(146,125)</b>	<b>Current Liabilities</b>		<b>(145,380)</b>
(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)
<b>(856,964)</b>	<b>Long Term Liabilities</b>		<b>(742,757)</b>
<b>278,603</b>	<b>Net Assets</b>		<b>385,614</b>
147,963	Usable Reserves	24	166,913
130,640	Unusable Reserves	25	218,701
<b>278,603</b>	<b>Total Reserves</b>		<b>385,614</b>

I certify that this Statement of Accounts provides a true and fair view of the financial position of the Council as at 31 March 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
<b>19,450</b>	<b>Net (increase) / decrease in net cash and cash equivalents - Note 21</b>	<b>7,562</b>
(36,859)	Net cash and cash equivalents at the beginning of the reporting period - Note 21	(17,409)
<b>(17,409)</b>	<b>Net cash and cash equivalents at the end of the reporting period - Note 21</b>	<b>(9,847)</b>

# 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.



## 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.

## 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.

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.

## 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:

## Notes to the Accounting Statements

- 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.

### xxxii. 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
<b>Total</b>	<b>149</b>	<b>23</b>	<b>10</b>	<b>3</b>	<b>185</b>

### 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
<b>Property Plant and Equipment</b>	<p>The Council estimates the useful lives of Property, Plant and Equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of Property, Plant, and Equipment are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of Property, Plant, and Equipment is based on external technical evaluation and experience with similar assets.</p> <p>It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the Property, Plant and Equipment would increase recorded expenses and decrease non-current assets.</p> <p>The Council operates a policy of revaluing its Property, Plant, and Equipment on a rolling three year basis, with the aim of revaluing all of its assets within this period. Indexation may be applied to those assets not valued in</p>	<p>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.</p> <p>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.</p> <p>If the useful life of assets reduces, depreciation increases and the carrying amount of each asset falls. It is estimated that the annual depreciation charge for non-current assets would increase by £6.6m for every one year that useful lives had to be reduced.</p>

## Notes to the Accounting Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	<p>the year if the carrying value is calculated as materially different to the fair value at the Balance Sheet date.</p> <p>Impairment / reversal of impairment - The Council has significant investments in Property, Plant and Equipment and intangible assets. Changes in the circumstances or expectations of future performance of an individual asset may be an indicator that the asset is impaired, thus requiring the book value to be written down to its recoverable amount. Impairments are reversed if conditions for impairment are no longer present. Evaluating whether an asset is impaired or if impairment should be reversed requires a high degree of judgement and may depend to a large extent on the selection of key assumptions about the future use. Assets / properties are assessed for impairment when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount, and at least annually.</p>	<p>The Council carries out an annual impairment review of its asset base, which takes into account such factors as the current economic climate. 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.</p>
<p><b>Pension Liability</b></p>	<p>The Council recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.</p> <p>When estimating the present value of defined pension benefit obligations that represent a gross long-term liability in the Balance Sheet, and, indirectly, the period's net pension expense in the Comprehensive Income and Expenditure Statement, the actuary makes a number of critical assumptions affecting these estimates. Most notably, assumptions include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries, life expectancy, and the annual rate of compensation increase, which have a direct and potentially material impact on the amounts presented. Significant changes in these assumptions between periods can have a material effect on the financial statements. However, the assumptions interact in complex ways.</p>	<p>The value of the Pension Liability is calculated by a qualified Actuary in accordance with current accounting requirements and based on the information provided by the Pension Fund.</p> <p>During 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.</p> <p>Details of the sensitivity analysis of the actuarial assumptions can be found in Note 42 on page 96.</p> <p>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.</p> <p>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.</p>



## Notes to the Accounting Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
		<p>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.</p> <p>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.</p>
<p><b>Provisions and Reserves</b></p>	<p>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.</p> <p>Insurance Provision &amp; Reserve - This estimate of the potential liability is provided through an independent review (Marsh) undertaken according to standard actuarial techniques, based on outstanding claims already submitted (provision) and an estimate of potential claims that have yet to be made (reserve). An increase over the forthcoming year in either the total number of claims or the estimated average settlement would each have an effect on the provision needed.</p>	<p>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.</p>
<p><b>Decommissioning landfill sites</b></p>	<p>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.</p> <p>The Council has a legal obligation to restore, monitor and maintain landfill sites.</p>	<p>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.</p>

## Notes to the Accounting Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<p><b>Fair Value estimations</b></p>	<p>When the fair values of Investment Properties, Surplus Assets and Assets Held for Sale cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using the following valuation techniques:</p> <ul style="list-style-type: none"> <li>• For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date;</li> <li>• For level 3 inputs, valuations based on most recent valuations adjusted to current valuation by the use of indexation and impairment review.</li> </ul> <p>Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgment is required in establishing fair values. These judgments typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the Council's assets and liabilities.</p> <p>Where Level 1 inputs are not available, the authority employs RICS qualified valuers (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.</p>	<p>The Council uses External valuer valuations models to measure the fair value of its Investment Properties, Surplus Assets and Assets Held for Sale under IFRS13 depending on which technique it considers most appropriate.</p> <p>The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, occupancy levels, floor area repairs backlogs, beacon classifications and others.</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for these assets</p> <p>Information about the valuation techniques and inputs used in determining the fair value of these assets is set out in Notes 2, 14 and 15.</p> <p>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.</p> <p>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.</p>

6. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by the Council in comparison with those resources consumed or earned by 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
<b>Total</b>	<b>325,384</b>	<b>(5,649)</b>	<b>319,735</b>	<b>92,292</b>	<b>412,027</b>
Corporate Expenditure	10,157	-	10,157	8,352	18,509
<b>Net Cost of Services</b>	<b>335,541</b>	<b>(5,649)</b>	<b>329,892</b>	<b>100,644</b>	<b>430,536</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>					
Other Corporate Expenditure	38,664	12,427	51,091	(12,226)	38,865
Financing	(374,205)	(293)	(374,498)	(58,308)	(432,806)
<b>Total</b>	<b>(335,541)</b>	<b>12,134</b>	<b>(323,407)</b>	<b>(70,534)</b>	<b>(393,941)</b>
<b>Deficit for the Year</b>	<b>-</b>	<b>6,485</b>	<b>6,485</b>	<b>30,110</b>	<b>36,595</b>
<b>General Fund Balance at 1 April 2018</b>			<b>(10,183)</b>		
Less: Deficit for the Year			6,485		
Add: Transfer from Reserves			(6,301)		
<b>General Fund Balance at 31 March 2019</b>			<b>(9,999)</b>		

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

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

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

Adjustments from General Fund to arrive at the CIES amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
<b>2018/19</b>				
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
<b>Total</b>	<b>78,323</b>	<b>14,153</b>	<b>(184)</b>	<b>92,292</b>
Corporate Expenditure	-	8,352	-	8,352
<b>Net Cost of Services</b>	<b>78,323</b>	<b>22,505</b>	<b>(184)</b>	<b>100,644</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>(91,203)</b>	<b>11,368</b>	<b>9,301</b>	<b>(70,534)</b>
<b>Difference between General Fund deficit and CIES deficit in provision of services</b>	<b>(12,880)</b>	<b>33,873</b>	<b>9,117</b>	<b>30,110</b>

**Adjustments for Capital Purposes**

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

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

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

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

**Net Change for the Pensions Adjustments**

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

## Other Differences

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

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

	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
<b>Total Income analysed on a segmental basis</b>	<b>450,225</b>	<b>474,944</b>

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

	2018/19	2019/20
	£000	£000
<b>Expenditure</b>		
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
<b>Total Expenditure</b>	<b>924,758</b>	<b>959,597</b>
<b>Income</b>		
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)
<b>Total Income</b>	<b>(888,163)</b>	<b>(914,340)</b>
<b>Deficit on the Provision of Services</b>	<b>36,595</b>	<b>45,257</b>

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



2018/19	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
<b>Adjustments to the Revenue Resources</b>			
<b>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</b>			
Pensions Costs transferred to / (from) the Pensions Reserve	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
<b>Total Adjustments to Revenue Resources</b>	<b>67,925</b>	<b>-</b>	<b>3,821</b>
<b>Adjustments between Revenue and Capital Resources</b>			
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)	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(37,815)</b>	<b>4,511</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	(2,622)	-
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>(2,622)</b>	<b>-</b>
<b>Total Adjustments</b>	<b>30,110</b>	<b>1,889</b>	<b>3,821</b>



## 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
<b>Total</b>		<b>20,493</b>

## 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
<b>Strategic Reserves</b>							
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
<b>Service Reserves</b>							
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
<b>Other Reserves</b>							
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
<b>Total</b>	<b>86,653</b>	<b>6,757</b>	<b>(14,733)</b>	<b>78,677</b>	<b>7,049</b>	<b>(3,187)</b>	<b>82,539</b>
<b>Revenue Grants and Contributions Reserve</b>							
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
<b>Total</b>	<b>25,533</b>	<b>-</b>	<b>(1,779)</b>	<b>23,754</b>	<b>19,230</b>	<b>(826)</b>	<b>42,158</b>
<b>Total</b>	<b>112,186</b>	<b>6,757</b>	<b>(16,512)</b>	<b>102,431</b>	<b>26,279</b>	<b>(4,013)</b>	<b>124,697</b>

### 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: <ul style="list-style-type: none"> <li>Invest-to-save</li> <li>Seed funding for innovation (notably digital) and developments contributing to the County Council's priorities</li> <li>Investment in the redesign of the way services are delivered.</li> </ul>
Financial Management	This is to enable the effective management of the medium-term financial strategy by managing cash flow across financial years; along with providing funding to invest to save and attract other sources of income.
Capital Programme	To provide resources which may be used for capital spending, and in recognition of the reducing forecasts of capital receipts.
Waste	To smooth the large year-on-year budget increases that will be needed to finance the Waste PFI project over the whole life of the service.
Insurance	To cater for internal insurance and risk management on Council services. Self Insurance through this reserve is more economical than external insurance for these classes of risks.
Public Health	The Public Health Reserve represents income from Government received which have no conditions attached, and set aside for the health and wellbeing of the local communities under the Government's healthcare.
Held on behalf of others	Represents money that is held on behalf of others or statutorily ring-fenced.
Revenue Grants and Contributions	These are grants and contributions that have been received with no conditions attached but are yet to be applied to expenditure. The Council has earmarked these revenue grants and contributions until they are applied.

### Balances held by schools under a scheme of delegation

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

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

	Balance at 1 April 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
<b>Balances held by schools</b>	<b>10,734</b>	<b>4,308</b>	<b>(854)</b>	<b>14,188</b>	<b>2,563</b>	<b>(1,710)</b>	<b>15,041</b>

### 11. Other Operating Expenditure

	2018/19 £000	2019/20 £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
<b>Total</b>	<b>5,342</b>	<b>25,402</b>

**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)
<b>Total</b>	<b>33,523</b>	<b>34,388</b>

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

## 13. Taxation and Non Specific Grant Income

	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
<b>Total</b>	<b>374,498</b>	<b>376,574</b>
Share of Collection Fund Surplus / (Deficit)	(1,785)	1,191
Capital Grants and Contributions	60,093	58,512
<b>Total</b>	<b>432,806</b>	<b>436,277</b>

**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
<b>Cost or Valuation</b>								
<b>At 1 April 2019</b>	<b>369,877</b>	<b>171,981</b>	<b>570,163</b>	<b>2,521</b>	<b>16,041</b>	<b>16,199</b>	<b>1,146,782</b>	<b>90,174</b>
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	-
<b>At 31 March 2020</b>	<b>365,168</b>	<b>165,155</b>	<b>604,936</b>	<b>2,521</b>	<b>16,130</b>	<b>33,137</b>	<b>1,187,047</b>	<b>68,537</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2019</b>	<b>(340)</b>	<b>(19,193)</b>	<b>(167,883)</b>	<b>-</b>	<b>(86)</b>	<b>-</b>	<b>(187,502)</b>	<b>-</b>
Depreciation charge	(10,468)	(15,479)	(24,401)	-	(200)	-	(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	-	-	-	-	-	-	-	-
<b>At 31 March 2020</b>	<b>(4,594)</b>	<b>(27,314)</b>	<b>(192,284)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(224,192)</b>	<b>(1,052)</b>

	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment*
<b>Movements in 2019/20:</b>								
<b>Net Book Value</b>								
<b>At 31 March 2020</b>	<b>360,574</b>	<b>137,841</b>	<b>412,652</b>	<b>2,521</b>	<b>16,130</b>	<b>33,137</b>	<b>962,855</b>	<b>67,485</b>
<b>At 31 March 2019</b>	<b>369,537</b>	<b>152,788</b>	<b>402,280</b>	<b>2,521</b>	<b>15,955</b>	<b>16,199</b>	<b>959,280</b>	<b>90,174</b>
<b>Movements in 2018/19:</b>								
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>								
<b>At 1 April 2018</b>	<b>373,692</b>	<b>171,286</b>	<b>515,341</b>	<b>1,943</b>	<b>16,585</b>	<b>25,709</b>	<b>1,104,556</b>	<b>93,138</b>
Additions	19,289	3,995	38,221	-	576	7,092	<b>69,173</b>	109
Revaluation increases recognised in the Revaluation Reserve	19,829	5,178	-	757	1,115	-	<b>26,879</b>	-
Revaluation decreases recognised in the Revaluation Reserve	(10,583)	(1,653)	-	-	(1,726)	-	<b>(13,962)</b>	(3,073)
Revaluation increases (reversal of previous losses) recognised in the Provision of Services	2,159	(264)	-	-	771	-	<b>2,666</b>	-
Revaluation decreases recognised in the Provision of Services	(22,087)	(2,750)	-	(179)	(871)	-	<b>(25,887)</b>	-
Derecognition – disposals	(39)	-	-	-	(275)	-	<b>(314)</b>	-
Derecognition – disposals - schools	(4,574)	(2,272)	-	-	-	-	<b>(6,846)</b>	-
Assets reclassified within PPE	(1,398)	(377)	16,601	-	1,776	(16,602)	-	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	(1,557)	-	<b>(1,557)</b>	-
Assets reclassified (to) / from Investment Property	(6,411)	(1,162)	-	-	(353)	-	<b>(7,926)</b>	-
<b>At 31 March 2019</b>	<b>369,877</b>	<b>171,981</b>	<b>570,163</b>	<b>2,521</b>	<b>16,041</b>	<b>16,199</b>	<b>1,146,782</b>	<b>90,174</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2018</b>	<b>(210)</b>	<b>(16,081)</b>	<b>(145,249)</b>	-	-	-	<b>(161,540)</b>	-
Depreciation charge	(9,716)	(15,120)	(22,634)	-	(39)	-	<b>(47,509)</b>	(3,583)
Depreciation written out to the Revaluation Reserve	4,351	8,580	-	-	26	-	<b>12,957</b>	3,583
Revaluation losses recognised in the deficit on the Provision of Services	3,414	2,075	-	-	4	-	<b>5,493</b>	-
Reversal of previous losses	1,662	1,074	-	-	-	-	<b>2,736</b>	-
Derecognition – disposals	-	-	-	-	2	-	<b>2</b>	-



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

### 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 takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The following statement shows the progress of the Council's programme for the revaluation of land, buildings and plant. The valuations are carried out by an external firm of valuers, 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
<b>Carried as at historical cost</b>	-	38,194	-	<b>38,194</b>
<b>Valued at fair value in:</b>				
31 March 2020	190,927	66,801	16,130	<b>273,858</b>
31 March 2019	174,241	60,160	-	<b>234,401</b>
31 March 2018	-	-	-	-
<b>Gross Valuation</b>	<b>365,168</b>	<b>165,155</b>	<b>16,130</b>	<b>546,453</b>



## 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) £000	Other significant observable Inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Total £000
Surplus assets (NBV) 31 March 2020	-	14,222	1,908	<b>16,130</b>
Surplus assets (NBV) 31 March 2019	-	14,165	1,790	<b>15,955</b>

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

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

	2018/19 £000	2019/20 £000
<b>Balance at start of the year</b>	<b>7,849</b>	<b>17,962</b>
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)
<b>Balance at end of the year</b>	<b>17,962</b>	<b>11,063</b>

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

### Fair value hierarchy

The fair value hierarchy at 31 March is as follows:

Recurring fair value measurements using:	31 March 2020			Total
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	£000	£000	£000	
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
<b>Total</b>	-	<b>8,163</b>	<b>2,900</b>	<b>11,063</b>

Recurring fair value measurements using:	31 March 2019			Total
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	£000	£000	£000	
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
<b>Total</b>	-	<b>13,244</b>	<b>4,718</b>	<b>17,962</b>

## 16. Intangible Assets

The Council accounts for its software as Intangible Assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. Intangible Assets represent purchased software licences and are valued at acquisition cost and written off over the period of the licence. The Council has no material intangible asset trademarks, artistic originals, or patents.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The carrying amount of Intangible Assets is amortised on a straight-line basis. The amortisation of £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 £000	2019/20 £000
<b>Balance at start of year:</b>		
Gross carrying amounts	13,161	14,239
Accumulated amortisation	(6,596)	(8,997)
<b>Net carrying amount at start of year</b>	<b>6,565</b>	<b>5,242</b>
Purchases	1,078	1,971
Amortisation for the period	(2,401)	(2,468)
Disposal (Gross carrying amount)	-	(2,714)
Disposal (Accumulated amortisation)	-	2,714
<b>Net carrying amount at end of year</b>	<b>5,242</b>	<b>4,745</b>
<b>Comprising:</b>		
Gross carrying amounts	14,239	13,496
Accumulated amortisation	(8,997)	(8,751)
<b>Net carrying amount at end of year</b>	<b>5,242</b>	<b>4,745</b>

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

Description	Carrying Amount		Remaining Amortisation (Years)
	31 March 2019 £000	31 March 2020 £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
<b>Total</b>	<b>5,242</b>	<b>4,745</b>	

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 Precincts 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
<b>1 April 2018</b>	<b>13</b>	<b>484</b>	<b>40</b>	<b>116</b>	<b>37</b>	<b>690</b>
Additions	-	-	-	-	28	28
Revaluation Gain	-	-	20	-	-	20
<b>31 March 2019</b>	<b>13</b>	<b>484</b>	<b>60</b>	<b>116</b>	<b>65</b>	<b>738</b>
Additions	-	-	-	-	-	-
Revaluation / Impairment Loss	-	-	(21)	-	(65)	(86)
<b>31 March 2020</b>	<b>13</b>	<b>484</b>	<b>39</b>	<b>116</b>	<b>-</b>	<b>652</b>

#### Heritage Assets – Further Information

**East Sussex Record Office, The Keep** - holds the historic and administrative archives for the County of East Sussex and, under an agreement, for the City of Brighton & Hove. These comprise records dating from 1101 to the present and they are held for the express purpose of ensuring their preservation and providing public access to resources recording the county's and city's heritage. The archives, ranging from a single piece of paper to thousands of documents, include paper and parchment, books, maps, photographs and modern media, and are held by us under a variety of terms, the most common ones being deposit (long-term loan), gift or purchase. The majority of archives held are on deposit. Obtaining a valuation of all these assets would be a lengthy, resource intensive and costly exercise, and therefore no valuation was obtained.

**East Sussex Schools Library and Museum Service** - the Artefact loan box collection was established in 1962 and developed throughout the 1960's and 1970's. Record keeping consisted of hand written ledgers with rather sparse information about the provenance of items. Most were purchased or gifted from individuals or other museums. Many of the artefacts have been presented in wooden loan boxes which are available for schools to borrow as part of a subscription service. The loan boxes are catalogued using the same computerised management system as for book loans. There are still a large number of items owned by the service which are not included in loan boxes. The collection has a wide scope, including natural history e.g. taxidermy specimens, British wildlife, fossils and minerals, historical artefacts, both original items e.g. small mummified animals, Roman and Greek items, flints and tools, and museum standard models e.g. model of the 'Victory', replica Viking helmet, geographical and cultural items e.g. bronzes and beadwork from Africa, textiles and masks from South East Asia and Art and design e.g. samples of fabric, ceramics, large collection of posters depicting well known works of art. There are also some travelling displays which are large sets that can be constructed in schools depicting a Victorian classroom, laundry or kitchen and a World War Two living room with many original artefacts. These items have not been included in the accounts because the Council does not consider that a reliable cost or valuation information can be obtained for these items, due to the diverse nature of these items and lack of comparable market values.

**Art Collection** - consists of four oil on canvas paintings, three dating from the 1880's and one more recent; being a portrait of Henry Thomas Pelham by Frank Holl, a portrait of John George Dodson by Frank William Warwick Topham, Lewes from Chapel Hill by Edmund Niemann and a portrait of HM Queen Elizabeth II by Amanda Bigden. The Council's external valuer for its art work (Gorrings Auction House) has previously carried out a full valuation of the collection of paintings with the valuations based on those for insurance replacement purposes.

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

**Listed Buildings** - the Council has reviewed its listed buildings register and established that a number of the buildings are being used for the delivery of services. These buildings therefore continue to be included as operational Property, Plant and Equipment on the Council's Balance Sheet. In addition there are a number of listed buildings that are non operational assets and are not included in the Council's Balance Sheet as there is no cost or value information available and the cost of obtaining that information outweighs the benefits to the user of the Statement of Accounts. The assets are Remains of Wayside Cross, Firlie and Albert Memorial Well, Frant.

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

**Castle Precincts Wall** – remains of castle wall at Lewes Castle. A section of the wall collapsed in November 2019.

## 18. Financial Instruments

### A. Categories of Financial Instruments

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

<b>Financial Assets</b>	<b>31 March 2019 £000</b>	<b>31 March 2020 £000</b>
<b>Fair value through profit or loss</b>		
Long Term Investments	4,660	4,493
Long Term Debtors	-	-
Short Term Investments & Cash Equivalents	22,100	18,150
Short Term Debtors	-	-
<b>Total</b>	<b>26,760</b>	<b>22,643</b>
<b>Amortised Cost</b>		
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
<b>Total</b>	<b>245,612</b>	<b>235,244</b>
<b>Total Financial Assets</b>	<b>272,372</b>	<b>257,887</b>
<b>Non Financial Assets</b>	<b>22,629</b>	<b>33,903</b>
<b>Total</b>	<b>295,001</b>	<b>291,790</b>

<b>Financial Liabilities</b>	<b>31 March 2019 £000</b>	<b>31 March 2020 £000</b>
<b>Fair value through profit or loss</b>		
Short & Long Term Borrowings and Creditors	-	-
<b>Amortised Cost</b>		
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)
<b>Total Financial Liabilities</b>	<b>(419,086)</b>	<b>(399,714)</b>
<b>Non Financial Liabilities</b>	<b>(48,528)</b>	<b>(54,747)</b>
<b>Total</b>	<b>(467,614)</b>	<b>(454,461)</b>

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**

	<b>2018/19</b>		<b>2019/20</b>	
	<b>Surplus or Deficit on the Provision of Services £000</b>	<b>Other Comprehensive Income and Expenditure £000</b>	<b>Surplus or Deficit on the Provision of Services £000</b>	<b>Other Comprehensive Income and Expenditure £000</b>
<b>Net gains/losses on:</b>				
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)	-
<b>Total net (gains) / losses</b>	<b>204</b>	<b>-</b>	<b>(34)</b>	<b>-</b>
<b>Interest revenue:</b>				
Financial assets measured at amortised cost	(2,185)	-	(2,362)	-
<b>Interest expense:</b>				
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
<b>Fair Value through Profit or Loss</b>				
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)
<b>Total Long Term</b>	<b>(312,299)</b>	<b>(430,483)</b>	<b>(304,974)</b>	<b>(400,923)</b>
Short Term Borrowings and Creditors	(106,789)	(106,789)	(94,740)	(94,740)
<b>Total Long and Short Term</b>	<b>(419,088)</b>	<b>(537,272)</b>	<b>(399,714)</b>	<b>(495,663)</b>



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

This shows a notional future loss, based on economic conditions at 31 March 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
<b>Total Long Term</b>	<b>14,831</b>	<b>14,957</b>	<b>24,961</b>	<b>25,343</b>
Short Term Investments and Debtors	230,781	230,781	210,283	210,283
<b>Total Long and Short Term</b>	<b>245,612</b>	<b>245,738</b>	<b>235,244</b>	<b>235,626</b>

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

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



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
<b>Financial liabilities</b>				
Financial liabilities held at amortised cost	-	(329,536)	-	<b>(329,536)</b>
Long Term Creditors	-	(82)	-	<b>(82)</b>
PFI and Finance Lease Liabilities	-	-	(100,865)	<b>(100,865)</b>
<b>Total</b>	<b>-</b>	<b>(329,618)</b>	<b>(100,865)</b>	<b>(430,483)</b>
<b>Financial assets</b>				
Financial assets held at amortised cost	-	10,127	-	<b>10,127</b>
Long Term Debtors	-	4,830	-	<b>4,830</b>
<b>Total</b>	<b>-</b>	<b>14,957</b>	<b>-</b>	<b>14,957</b>

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

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

#### Financial Assets

- no early repayment or impairment is recognised;
- estimated ranges of interest rates at 31 March 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
<b>Balance outstanding at start of year</b>	<b>4,009</b>	<b>3,445</b>
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)
<b>Balance outstanding at year end</b>	<b>3,445</b>	<b>2,624</b>

Assets Held for Sale are valued at fair value which takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. As at 31 March 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	31 March 2020
	£000	£000
<b>Current</b>		
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
<b>Total</b>	<b>51,262</b>	<b>62,040</b>
<b>Long Term</b>		
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
<b>Total</b>	<b>4,830</b>	<b>4,960</b>

### 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	31 March 2020	Movement
	£000	£000	£000
Cash in hand	122	113	(9)
Short-term deposits	24,110	18,159	(5,951)
<b>Total Cash and Cash Equivalents</b>	<b>24,232</b>	<b>18,272</b>	<b>(5,960)</b>
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
<b>Total bank overdraft and accrued balance for third parties</b>	<b>(6,823)</b>	<b>(8,425)</b>	<b>(1,602)</b>
<b>Net cash and cash equivalent balances / (overdrawn)</b>	<b>17,409</b>	<b>9,847</b>	<b>(7,562)</b>

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

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

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

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

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
<b>Total</b>	<b>128,112</b>	<b>129,199</b>

## 23. Provisions

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

	31 March 2019	Additional provisions	Amounts used	31 March 2020
	£000	£000	£000	£000
<b>Long Term Provisions</b>				
Insurance claims	2,818	-	(265)	2,553
Closed Landfill Sites	8,943	-	(132)	8,811
<b>Total Long Term</b>	<b>11,761</b>	<b>-</b>	<b>(397)</b>	<b>11,364</b>
<b>Short Term Provisions</b>				
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
<b>Total Short Term</b>	<b>2,302</b>	<b>3,441</b>	<b>(299)</b>	<b>5,444</b>
<b>Total Provisions</b>	<b>14,063</b>	<b>3,441</b>	<b>(696)</b>	<b>16,808</b>

Insurance claims - the provision (pre 1997 & post 1997 liabilities) represents an estimate of the amounts which the Council will have to pay for claims arising before 31 March 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	31 March 2020
	£000	£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
<b>Total Usable Reserves</b>	<b>147,963</b>	<b>166,913</b>

### Capital Receipts Reserve

The capital receipts reserve holds the proceeds of non-current asset sales available to meet future capital investment. The Capital Receipts Reserve is only used to fund capital expenditure or repay debt. Capital receipts are held in this reserve until such time they are used to finance capital expenditure.

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

## Capital Grants and Contributions Unapplied Account

This account holds capital grants and contributions received by the Council, with either no conditions or where conditions have been met, where expenditure is yet to be incurred. The account holds grants and contributions available to meet future capital investment. The grants and contributions are held in this reserve until such time they are used to finance capital expenditure.

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

## 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)
<b>Total Unusable Reserves</b>	<b>130,640</b>	<b>218,701</b>

### Revaluation Reserve

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

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

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

	2018/19 £000	2019/20 £000	£000
<b>Balance at 1 April</b>	<b>238,161</b>		<b>246,588</b>
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)
<b>Balance at 31 March</b>	<b>246,588</b>		<b>227,245</b>

## Capital Adjustment Account

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

	2018/19	2019/20	
	£000	£000	£000
<b>Balance at 1 April</b>	<b>391,697</b>	<b>415,663</b>	
IFRS 9 Financial Instruments adjustment	(185)	-	
<b>Restated Balance at 1 April</b>	<b>391,512</b>	<b>415,663</b>	
<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>			
Charges for depreciation and impairment of non-current assets	(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)	
	<b>(87,537)</b>	<b>(99,816)</b>	
Adjusting amounts written out of the Revaluation Reserve	16,957	27,088	
<b>Net written out amount of the cost of non-current assets consumed in the year</b>	<b>(70,580)</b>	<b>(72,728)</b>	
<b>Capital financing applied in the year</b>			
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	
	<b>92,198</b>	<b>80,850</b>	
Movements in the market value of Investment Properties credited or debited to the Comprehensive Income and Expenditure Statement	2,533	(6,476)	
<b>Balance at 31 March</b>	<b>415,663</b>	<b>417,309</b>	

### Financial Instruments Adjustment Account

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

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

### Pooled Investment Funds Adjustment Account

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

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

### 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
<b>Balance at 1 April</b>	<b>(409,788)</b>	<b>(521,412)</b>
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
<b>Balance at 31 March</b>	<b>(521,412)</b>	<b>(416,868)</b>



### 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
<b>Balance at 1 April</b>	<b>4,327</b>	<b>2,837</b>
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(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
<b>Net movement in the Collection Fund Adjustment Account</b>	<b>(1,490)</b>	<b>1,191</b>
<b>Balance at 31 March</b>	<b>2,837</b>	<b>4,028</b>

### Accumulated Absences Account

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

	2018/19 £000	2019/20 £000
<b>Balance at 1 April</b>	<b>(5,364)</b>	<b>(5,179)</b>
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)
<b>Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements</b>	<b>185</b>	<b>-</b>
<b>Balance at 31 March</b>	<b>(5,179)</b>	<b>(5,179)</b>

## 26. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2018/19	2019/20
	£000	£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)
<b>Total</b>	<b>(101,331)</b>	<b>(123,612)</b>

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

Proceeds from the sale of PPE, investment property and intangible assets	4,511	3,044
Capital grants credited to deficit on provision of services	60,093	58,512
<b>Total</b>	<b>64,604</b>	<b>61,556</b>
<b>Net cash flows from operating activities</b>	<b>(132)</b>	<b>(16,799)</b>

The cash flows for operating activities include the following items:

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

## 27. Cash Flow Statement – Investing Activities

	2018/19	2019/20
	£000	£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)
<b>Net cash flows from investing activities</b>	<b>(11,251)</b>	<b>14,403</b>

## 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
<b>Net cash flows from financing activities</b>	<b>30,833</b>	<b>9,958</b>

## 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)
<b>Net cash flows from financing activities</b>	<b>(316,172)</b>	<b>9,958</b>	<b>-</b>	<b>(306,214)</b>

	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)
<b>Net cash flows from financing activities</b>	<b>(347,005)</b>	<b>30,833</b>	<b>-</b>	<b>(316,172)</b>

## 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:

Arrangement	2018/19			2019/20		
	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)
<b>Total Funding</b>	<b>(59,819)</b>	<b>(60,351)</b>
Expenditure met from the joint budget	59,819	60,351
<b>Net surplus / deficit on the joint budget</b>	<b>-</b>	<b>-</b>

### 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
<b>Total</b>	<b>934</b>	<b>952</b>

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	-	-	-
<b>Total</b>			<b>639,176</b>	<b>223,483</b>	<b>28,772</b>	<b>1,451</b>

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	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			2019/20		
	Number of employees			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
<b>Total</b>	<b>32</b>	<b>591</b>	<b>102</b>	<b>935</b>	<b>134</b>	<b>1,526</b>

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
<b>Total</b>	<b>102</b>	<b>1,096</b>	<b>162</b>	<b>2,335</b>	<b>264</b>	<b>3,431</b>

### 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	-
<b>Total External auditor remuneration</b>	<b>78</b>	<b>94</b>
Refund from Public Sector Audit Appointments (PSAA) ***	-	(8)
<b>Total</b>	<b>78</b>	<b>86</b>

#### 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
<b>Credited to Taxation and Non Specific Grant Income</b>				
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
<b>Total</b>		<b>432,806</b>		<b>436,277</b>
<b>Grants Credited to Services</b>				
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
<b>Total</b>		<b>320,721</b>		<b>344,315</b>

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

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

	31 March 2019 £000	31 March 2020 £000
<b>Current Liabilities – Receipts in Advance</b>		
Revenue Grants & Contributions	-	-
<b>Long Term Liabilities – Receipts in Advance</b>		
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)
<b>Total DSG after Academy recoupment for 2019/20</b>	<b>71,595</b>	<b>153,735</b>	<b>225,330</b>
Plus: Brought Forward from 2018/19	3,248	-	3,248
Less: Carry forward to 2020/21 agreed in advance	(3,208)	-	(3,208)
<b>Agreed initial budgeted distribution in 2019/20</b>	<b>71,635</b>	<b>153,735</b>	<b>225,370</b>
In year adjustments	-	-	-
<b>Final budgeted distribution for 2019/20</b>	<b>71,635</b>	<b>153,735</b>	<b>225,370</b>
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	-	-	-
<b>Carry forward to 2020/21</b>	<b>6,182</b>	<b>-</b>	<b>6,182</b>

### 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
<b>All schools with surpluses</b>					
Number of schools	<b>No.</b>	110	10	1	121
Total surplus	£000	10,945	4,070	152	15,167
<b>All schools with deficits</b>					
Number of schools	<b>No.</b>	4	-	-	4
Total deficit	£000	(126)	-	-	(126)
<b>Carry forward</b>	<b>£000</b>	<b>10,819</b>	<b>4,070</b>	<b>152</b>	<b>15,041</b>
Less: Capital Loan to Schools	£000	-	-	-	-
<b>Net carry forward</b>	<b>£000</b>	<b>10,819</b>	<b>4,070</b>	<b>152</b>	<b>15,041</b>

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

### 37. Related Parties

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

#### Central Government

UK government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from government departments are set out in the subjective analysis in Note 35 on reporting for resources allocation decisions, and further details are shown in Note 35. Grant receipts in advance at 31 March 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
<b>Opening Capital Financing Requirement</b>	<b>336,316</b>	<b>329,085</b>
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
<b>Total capital investment</b>	<b>84,181</b>	<b>93,857</b>
Capital receipts	(2,622)	(3,122)
Government grants and contributions	(56,272)	(62,603)
Revenue financing	(23,192)	(4,618)
<b>Total financing other than from loans</b>	<b>(82,086)</b>	<b>(70,343)</b>
Long Term capital debtors	786	130
<b>Net investment financed from loans</b>		
Minimum Revenue Provision (MRP) for the repayment of loans	(10,112)	(10,507)
<b>Closing Capital Financing Requirement</b>	<b>329,085</b>	<b>342,222</b>
<b>Explanation of movements in year</b>		
Increase / (decrease) in underlying need to borrow, that is not supported by government financial assistance	<b>(7,231)</b>	<b>13,137</b>

### 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:

	<b>31 March 2019</b>	<b>31 March 2020</b>
	<b>Restated*</b>	
	<b>£000</b>	<b>£000</b>
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
<b>Total</b>	<b>20,761</b>	<b>16,080</b>

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

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

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:

	<b>31 March 2019</b>	<b>31 March 2020</b>
	<b>£000</b>	<b>£000</b>
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
<b>Total</b>	<b>11,205</b>	<b>13,400</b>

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

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
<b>Total</b>	<b>71,740</b>	<b>67,051</b>

#### Schools PFI

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

#### Waste PFI

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

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

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

Waste PFI	Hollingdean WTS & MRF £000	Crowborough HWRS £000	Maresfield WTS & HWRS £000	Whitesmith Composting Facility £000	Newhaven Energy Recovery Facility £000	Pebsham HWRS £000	Total £000
<b>1 April 2019</b>	<b>7,186</b>	<b>-</b>	<b>8,018</b>	<b>15,199</b>	<b>29,858</b>	<b>23</b>	<b>60,284</b>
Revaluations	-	-	(971)	-	(3,341)	440	(3,872)
Depreciation	(384)	-	-	(657)	-	-	(1,041)
<b>31 March 2020</b>	<b>6,802</b>	<b>-</b>	<b>7,047</b>	<b>14,542</b>	<b>26,517</b>	<b>463</b>	<b>55,371</b>

#### 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
<b>Total</b>	<b>62,391</b>	<b>28,344</b>	<b>262,442</b>	<b>55,018</b>	<b>8,534</b>	<b>416,729</b>

#### 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
<b>Total</b>	<b>9,275</b>	<b>3,670</b>	<b>12,111</b>	<b>6,413</b>	<b>2,596</b>	<b>34,065</b>

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

#### 41. Pensions Schemes Accounted for as Defined Contribution Schemes

## Teachers' Pension Scheme

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

In 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.

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

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

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

#### Comprehensive Income and Expenditure Statement

Cost of Services:

Service Cost Comprising:

- current service cost
- past service costs
- (gain) / loss from settlements

*Financing and Investment Income and Expenditure*

Net interest expense

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

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

Re-measurement of the net defined benefit liability comprising:

- Return on plan assets (excluding the amount included in the net interest expense)
- Actuarial gains and losses arising on changes in demographic assumptions
- Actuarial gains and losses arising on changes in financial assumptions
- Other (if applicable)

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

#### Movement in Reserves Statement

- Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code

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

**Employers' contributions payable to the scheme**

	2018/19 £000	2019/20 £000
	52,223	67,211
	6,112	474
	-	-
	11,358	12,859
	<b>69,693</b>	<b>80,544</b>
	(59,192)	146,603
	-	(50,573)
	133,342	(159,336)
	3,601	(81,217)
	<b>147,444</b>	<b>(63,979)</b>
	(111,624)	104,544
	<b>35,820</b>	<b>40,565</b>

#### Pensions Assets and Liabilities Recognised in the Balance Sheet

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

	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
<b>Deficit in the scheme: Local Government Pension Scheme</b>	<b>(416,950)</b>	<b>(415,151)</b>	<b>(409,788)</b>	<b>(521,412)</b>	<b>(416,868)</b>

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
<b>Opening balance at 1 April:</b>	<b>1,691,088</b>	<b>1,890,390</b>
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)
<b>Closing balance at 31 March</b>	<b>1,890,390</b>	<b>1,666,341</b>

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

	2018/19 £000	2019/20 £000
<b>Opening fair value of scheme asset at 1 April:</b>	<b>1,281,300</b>	<b>1,368,978</b>
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)
<b>Closing fair value of scheme assets at 31 March</b>	<b>1,368,978</b>	<b>1,249,473</b>

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

The interest income on plan assets in the year was £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	%
<b>Cash and cash equivalents</b>	<b>54,551</b>	<b>4</b>	<b>23,100</b>	<b>2</b>
<b>Equity instruments:</b>				
<b>By industry type</b>				
• 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	-	-	-
<b>Sub-total equity</b>	<b>51,135</b>	<b>4</b>	<b>-</b>	<b>-</b>
<b>Bonds:</b>				
By sector				
• Government	33,135	2	-	-
• Other	25,347	2	11,026	1
<b>Sub-total bonds</b>	<b>58,482</b>	<b>4</b>	<b>11,026</b>	<b>1</b>
<b>Private equity:</b>				
All	84,190	6	82,369	7
Overseas	-	-	-	-
<b>Sub-total private equity</b>	<b>84,190</b>	<b>6</b>	<b>82,369</b>	<b>7</b>
<b>Other investment funds:</b>				
• UK Property	128,224	9	114,692	9
• Overseas Property	-	-	-	-
<b>Sub-total other investment funds</b>	<b>128,224</b>	<b>9</b>	<b>114,692</b>	<b>9</b>
<b>Investment funds and unit trusts:</b>				
• 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
<b>Sub-total Investment funds and unit trusts</b>	<b>992,553</b>	<b>73</b>	<b>1,018,286</b>	<b>81</b>
<b>Derivatives:</b>				
• Foreign exchange	(157)	-	-	-
<b>Total assets</b>	<b>1,368,978</b>	<b>100</b>	<b>1,249,473</b>	<b>100</b>

### 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:**

0.5% decrease in Real Discount Rate  
0.5% increase in the Salary Increase Rate  
0.5% increase in the Pension Increase Rate

Impact on the Defined Benefit Obligation in the Scheme	
Approximate increase to Employer	Approximate monetary amount
%	£000
9	148,791
1	11,014
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
<b>Opening balance 1 April 2019</b>	<b>34</b>	<b>153</b>	<b>1,539</b>	<b>1,726</b>
Change in credit loss	(1)	(36)	48	11
<b>Closing balance 31 March 2020</b>	<b>33</b>	<b>117</b>	<b>1,587</b>	<b>1,737</b>

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:

	<b>31 March 2019</b>	<b>31 March 2020</b>
	<b>£000</b>	<b>£000</b>
Less than one year	238,168	215,862
Between one and two years	19,491	29,454
<b>Total</b>	<b>257,659</b>	<b>245,316</b>

### 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):

	<b>Approved Minimum Limit</b>	<b>Approved Maximum Limit</b>	<b>31 March 2019</b>	<b>31 March 2020</b>
	<b>%</b>	<b>%</b>	<b>£000</b>	<b>£000</b>
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
<b>Total</b>			<b>419,087</b>	<b>399,714</b>

**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:

	<b>£000</b>
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	<u>182</u>

**Price risk**

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

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

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			Closing Balance £000
	Opening Balance £000	Expenditure £000	Income £000	
<b>Sole trustee funds</b>				
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)
<b>Total sole trustee funds</b>	<b>(266)</b>	<b>2</b>	<b>(2)</b>	<b>(266)</b>
<b>Comforts funds</b>	(54)	25	(8)	(37)
<b>Total trust funds</b>	<b>(320)</b>	<b>27</b>	<b>(10)</b>	<b>(303)</b>
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).

## 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 | 5. Norfolk          | 8. Hertfordshire  |
| 2. Kent           | 6. Essex            | 9. Suffolk        |
| 3. Hampshire      | 7. Northamptonshire | 10. Isle of Wight |
| 4. West Sussex    |                     |                   |

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.

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/>.

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## Pension Fund Account for the year ended 31 March 2020

Restated 2018/19			2019/20	
£000	£000	Notes	£000	£000
		<b>Dealings with members, employers and others directly involved in the fund</b>		
		Contributions		
(92,084)		From Employers	(99,018)	
<u>(29,613)</u>		From Members	<u>(31,403)</u>	
	(121,697)			(130,421)
	<u>(6,113)</u>	Transfers in from other pension funds		<u>(8,298)</u>
	(127,810)			<b>(138,719)</b>
	122,183	Benefits		125,670
	<u>3,409</u>	Payments to and on account of leavers		<u>8,597</u>
	125,592			<b>134,267</b>
	<b>(2,218)</b>	<b>Net (additions)/withdrawals from dealings with members</b>		<b>(4,452)</b>
	14,038	Management expenses		17,333
	<b>11,820</b>	<b>Net (additions)/withdrawals including fund management expenses</b>		<b>12,881</b>
		<b>Returns on investments</b>		
	(26,191)	Investment income		(26,546)
	272	Taxes on income		59
	<u>(234,733)</u>	Profit and losses on disposal of investments and changes in the value of investments		<u>166,725</u>
	<b>(260,652)</b>	<b>Net return on investments</b>		<b>140,238</b>
	<b>(248,832)</b>	<b>Net (increase)/decrease in net assets available for benefits during the year</b>		<b>153,119</b>
	<u>(3,383,380)</u>	Opening net assets of the scheme		<u>(3,632,212)</u>
	<b>(3,632,212)</b>	<b>Closing net assets of the scheme</b>		<b>(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
<b>3,623,210</b>	<b>Total net investments</b>		<b>3,465,246</b>
12,153	Current assets	21	16,622
(3,151)	Current liabilities	22	(2,774)
<b>3,632,212</b>	<b>Net assets of the fund available to fund benefits at the year end</b>		<b>3,479,094</b>

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 20.

### Treasurers Certificate

I certify that the accounts of the East Sussex Pension Fund provide a true and fair view of the Pension Fund at 31 March 2020 and of the movements for the year then ended.

### Ian Gutsell

Chief Finance Officer (Section 151 Officer)

Business Services Department

XX XX 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 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
<b>Number of employees</b>		
County Council	7,978	7,980
Other employers	15,668	15,855
<b>Total</b>	<b>23,646</b>	<b>23,835</b>
<b>Number of pensioners</b>		
County Council	9,318	9,500
Other employers	11,085	11,835
<b>Total</b>	<b>20,403</b>	<b>21,335</b>
<b>Deferred pensioners</b>		
County Council	14,008	13,860
Other employers	16,908	17,762
<b>Total</b>	<b>30,916</b>	<b>31,622</b>

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 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 the actuarial present value of promised retirement benefits. The code gives administering authorities the option to disclose this information in the net asset statement, in the notes to the accounts or appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 20.

The 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 is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

### Use of Financial Instruments

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

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the 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
<b>Actuarial present value of promised retirement benefits</b>	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. As a result of Coronavirus pandemic there is a increase in the uncertainty around the mortality provisions within the Fund, however it is too early to assess this figure at the current time so has not been included in our calculations. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2019 Valuation the actuary advised that: <ul style="list-style-type: none"> <li>• A 0.2% increase in the discount rate assumption would result in a decrease in the pension liability by approximately £113 million (3%).</li> <li>• A 0.2% increase in benefit increases and CARE revaluation would increase the value of liabilities by approximately £95 million (3%).</li> <li>• A 0.25% change in mortality rates would increase the liability by approximately £22 million (0.7%).</li> </ul>
<b>Private equity</b>	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2015). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £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.
<b>Pooled Property Investments</b>	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
<b>By category</b>		
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
<b>Total</b>	<b>121,697</b>	<b>130,421</b>
<b>By authority</b>		
Scheduled bodies	77,498	83,613
Admitted bodies	3,576	4,303
Administrative Authority	40,623	42,505
<b>Total</b>	<b>121,697</b>	<b>130,421</b>

### 8: Transfers in from other pension funds

	2018/19 £000	2019/20 £000
Group transfers	-	-
Individual transfers	6,113	8,298
<b>Total</b>	<b>6,113</b>	<b>8,298</b>

### 9: Benefits payable

	Restated 2018/19 £000	2019/20 £000
<b>By category</b>		
Pensions	99,457	104,544
Commutation and lump sum retirement benefits	19,722	18,555
Lump sum death benefits	3,004	2,571
<b>Total</b>	<b>122,183</b>	<b>125,670</b>
<b>By authority</b>		
Scheduled bodies	69,441	73,625
Admitted bodies	3,778	3,690
Administrative Authority	48,964	48,355
<b>Total</b>	<b>122,183</b>	<b>125,670</b>

### 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
<b>Total</b>	<b>3,409</b>	<b>8,597</b>

# 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
<b>Total</b>	<b>14,038</b>	<b>17,333</b>

### 11a: Investment management expenses

	2018/19	2019/20
	£000	£000
Management fees	11,750	14,746
Custody fees	124	54
Transaction costs*	508	219
<b>Total</b>	<b>12,382</b>	<b>15,019</b>

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

Investment management expenses are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are grossed up.

During the year, the Pension Fund incurred management fees which were deducted at source for 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
<b>Total</b>	<b>26,191</b>	<b>26,546</b>

## 13: Other fund account disclosures

### 13a: Taxes on income

	2018/19	2019/20
	£000	£000
Withholding tax – equities	(177)	(59)
Withholding tax – pooled	(95)	-
<b>Total</b>	<b>(272)</b>	<b>(59)</b>

### 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
<b>Total</b>	<b>20</b>	<b>35</b>

\*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
<b>Investment assets</b>		
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	-
<b>Derivative contracts:</b>		
Forward Currency Contracts	425	-
	<b>3,479,349</b>	<b>3,401,666</b>
Cash deposits with Custodian	149,156	63,715
Other Investment balances (Note 21)	4,937	340
<b>Total investment assets</b>	<b>3,633,442</b>	<b>3,465,721</b>
Investment Liabilities (Note 22)	(9,392)	(475)
<b>Derivative contracts:</b>		
Forward Currency Contracts	(840)	-
<b>Total Investment Liabilities</b>	<b>(10,232)</b>	<b>(475)</b>
<b>Net investment assets</b>	<b>3,623,210</b>	<b>3,465,246</b>

### 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)	-
	<b>3,478,924</b>	<b>1,280,291</b>	<b>(1,188,813)</b>	<b>(168,736)</b>	<b>3,401,666</b>
<b>Derivative contracts</b>					
■ Forward currency contracts	(415)	12,995	(12,095)	(485)	-
	<b>3,478,509</b>	<b>1,293,286</b>	<b>(1,200,908)</b>	<b>(168,221)</b>	<b>3,401,666</b>
<b>Other investment balances:</b>					
■ Cash deposits	149,156			2,496	63,715
■ Other Investment Balances	4,937				340
■ Investment Liabilities	(9,392)				(475)
<b>Net investment assets</b>	<b>3,623,210</b>			<b>(166,725)</b>	<b>3,465,246</b>

## Notes to the East Sussex Pension Fund Accounts

	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
	<b>3,242,924</b>	<b>1,899,188</b>	<b>(1,894,461)</b>	<b>231,273</b>	<b>3,478,924</b>
<b>Derivative contracts</b>					
■ Forward currency contracts	480	6,452	(8,160)	813	(415)
	<b>3,243,404</b>	<b>1,905,640</b>	<b>(1,902,621)</b>	<b>232,086</b>	<b>3,478,509</b>
<b>Other investment balances:</b>					
■ Cash deposits	133,789			2,647	149,156
■ Other Investment Balances	1,777				4,937
■ Investment Liabilities	(3,198)				(9,392)
<b>Net investment assets</b>	<b>3,375,772</b>			<b>234,733</b>	<b>3,623,210</b>

## Notes to the East Sussex Pension Fund Accounts

### 14b: Analysis of investments

	2018/19 £000	2019/20 £000
<b>Bonds</b>		
<b>UK</b>		
Corporate quoted	137,675	-
Public sector quoted	295,107	212,331
<b>Overseas</b>		
Public sector quoted	66,968	-
	<b>499,750</b>	<b>212,331</b>
<b>Equities</b>		
<b>UK</b>		
Quoted	23,830	-
Unquoted	-	-
<b>Overseas</b>		
Quoted	129,865	-
	<b>153,695</b>	<b>-</b>
<b>Pooled funds - additional analysis</b>		
<b>UK</b>		
Unit trusts	288,663	396,834
<b>Overseas</b>		
Unit trusts	1,943,772	2,182,959
	<b>2,232,435</b>	<b>2,579,793</b>
Pooled property investments	339,442	318,129
Private equity/infrastructure	245,135	291,413
Commodities	6,125	-
Multi Asset	2,342	-
Derivatives	425	-
	<b>593,469</b>	<b>609,542</b>
Cash deposits	149,156	63,715
Other investment balances (Note 21)	4,937	340
	<b>154,093</b>	<b>64,055</b>
<b>Total investment assets</b>	<b>3,633,442</b>	<b>3,465,721</b>
Investment Liabilities (Note 22)	(9,392)	(475)
Derivatives	(840)	-
<b>Total Investment Liabilities</b>	<b>(10,232)</b>	<b>(475)</b>
<b>Net investment assets</b>	<b>3,623,210</b>	<b>3,465,246</b>

## 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	%
<b>Investments in the ACCESS Pool</b>				
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%
	<b>274,988</b>	<b>7.6%</b>	<b>1,216,352</b>	<b>35.2%</b>
<b>Investments held directly by the Fund</b>				
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%
	<b>3,348,222</b>	<b>92.4%</b>	<b>2,248,894</b>	<b>64.8%</b>
	<b>3,623,210</b>		<b>3,465,246</b>	

\* Schroders mandate is to oversee the East Sussex Pension Fund's investments in a range of underlying property funds this is not a single investment into a Schroders property fund.

\*\* 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 13<sup>th</sup> 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 may be 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
	-	-	-	-	-	-
					-	-
<b>Net forward currency contracts at 31 March 2020</b>						-
<b>Prior year comparative</b>						
Open forward currency contracts at 31 March 2019					425	(840)
<b>Net forward currency contracts at 31 March 2019</b>						<b>(415)</b>

## 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 £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
<b>Total</b>		<b>625,576</b>	<b>752,489</b>	<b>498,663</b>

- (a) All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate assets, the range in the potential movement of 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	Total
	Level 1 £000	Level 2 £000	Level 3 £000	
Financial assets at fair value through profit and loss	222,079	2,539,802	640,125	3,402,006
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(475)	-	(475)
<b>Net investment assets</b>	<b>222,079</b>	<b>2,539,327</b>	<b>640,125</b>	<b>3,401,531</b>

# Notes to the East Sussex Pension Fund Accounts

Values at 31 March 2019	Quoted market price	Using observable inputs	With Significant unobservable inputs	Total
	Level 1 £000	Level 2 £000	Level 3 £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)
<b>Net investment assets</b>	<b>554,112</b>	<b>2,301,695</b>	<b>618,247</b>	<b>3,474,054</b>

## 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
<b>Total</b>	<b>618,247</b>	<b>-</b>	<b>-</b>	<b>116,705</b>	<b>(97,220)</b>	<b>(11,034)*</b>	<b>13,427*</b>	<b>640,125</b>

\*Reconciliation to Change in market value during the year in Note 14a

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
<b>Total</b>	<b>(280,155)</b>	<b>(113,430)</b>	<b>(166,725)</b>

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
<b>Total</b>	<b>566,130</b>	<b>-</b>	<b>-</b>	<b>71,820</b>	<b>(61,583)</b>	<b>10,365*</b>	<b>31,515*</b>	<b>618,247</b>

\*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
<b>Total</b>	<b>68,817</b>	<b>165,916</b>	<b>234,733</b>

# 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
<b>Financial Assets</b>					
499,750	-	-	212,331	-	-
153,695	-	-	-	-	-
2,232,435	-	-	2,579,793	-	-
339,442	-	-	318,129	-	-
245,135	-	-	291,413	-	-
6,125	-	-	-	-	-
2,342	-	-	-	-	-
425	-	-	-	-	-
-	149,156	-	-	63,715	-
-	499	-	-	1,746	-
4,937	-	-	340	-	-
-	11,654	-	-	14,876	-
<b>3,484,286</b>	<b>161,309</b>	-	<b>3,402,006</b>	<b>80,337</b>	-
<b>Financial liabilities</b>					
(840)	-	-	-	-	-
(9,392)	-	-	(475)	-	-
-	-	-	-	-	-
-	-	(3,151)	-	-	(2,774)
<b>(10,232)</b>	-	<b>(3,151)</b>	<b>(475)</b>	-	<b>(2,774)</b>
<b>3,474,054</b>	<b>161,309</b>	<b>(3,151)</b>	<b>3,401,531</b>	<b>80,337</b>	<b>(2,774)</b>

\*Reconciliation to Current Assets Note 21

	2018/19 £000	2019/20 £000
Cash held by ESCC	499	1,746
Debtors	11,654	15,481
<b>Current Assets</b>	<b>12,153</b>	<b>16,622</b>

### 17b: Net gains and losses on financial instruments

	31 March 2019 £000	31 March 2020 £000
<b>Financial assets</b>		
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
<b>Financial liabilities</b>		
Fair value through profit and loss	6,115	(35)
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	-	-
<b>Total</b>	<b>234,733</b>	<b>(150,691)</b>

## 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 from shares sold short is unlimited.

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

#### Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for the 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	Value on	Value on
	March 2020	increase	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	-	-	-
<b>Total assets available to pay benefits</b>	<b>3,401,666</b>	<b>4,060,474</b>	<b>2,742,858</b>

Asset Type	Values at 31	Value on	Value on
	March 2019	increase	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)
<b>Total assets available to pay benefits</b>	<b>3,478,509</b>	<b>3,993,446</b>	<b>2,963,572</b>

### Interest rate risk

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

The fund's interest rate risk is routinely monitored by the Fund and its investment advisors in accordance with the 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	Impact of 1%	Impact of 1%
	amount as at 31	increase	decrease
	March 2020	£000	£000
	£000	£000	£000
Cash and cash equivalents	63,715	63,715	63,715
Cash balances	1,746	1,746	1,746
Fixed interest securities	413,943	418,082	409,804
Index linked securities	212,331	212,331	212,331
<b>Total change in assets available</b>	<b>691,735</b>	<b>695,874</b>	<b>687,596</b>



## Notes to the East Sussex Pension Fund Accounts

Asset type	Carrying amount as at 31 March 2019 £000	Impact of 1% increase £000	Impact of 1% decrease £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
<b>Total change in assets available</b>	<b>900,688</b>	<b>904,737</b>	<b>896,639</b>

Income Source	Interest receivable 2019/20 £000	Value on 1% increase £000	Value on 1% decrease £000
Cash deposits/cash and cash equivalents	673	1,328	18
Fixed interest securities	6,665	6,665	6,665
Index linked securities	169	2,292	(1,954)
<b>Total change in assets available</b>	<b>7,507</b>	<b>10,285</b>	<b>4,729</b>

Income Source	Interest receivable 2018/19 £000	Value on 1% increase £000	Value on 1% decrease £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)
<b>Total change in assets available</b>	<b>4,161</b>	<b>9,119</b>	<b>(797)</b>

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances.

### Currency risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on any cash balances and investment assets not denominated in 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
<b>Total change in assets available</b>	<b>2,182,959</b>	<b>218,296</b>	<b>2,401,255</b>	<b>1,964,663</b>

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
<b>Total change in assets available</b>	<b>1,871,993</b>	<b>243,359</b>	<b>2,115,352</b>	<b>1,628,634</b>

## 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
<b>Bank current accounts</b>		
NT custody cash accounts	149,070	63,629
<b>Total overseas assets</b>	<b>149,156</b>	<b>63,715</b>

## c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The fund therefore takes steps to ensure that the 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
<b>Total</b>	<b>4,868</b>	<b>4,378</b>

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
<b>Other Investment Balances</b>		
Sales inc Currency	3,313	-
Investment Income Due	1,704	193
Recoverable Taxes	345	147
<b>Total</b>	<b>5,362</b>	<b>340</b>
	31 March 2019 £000	31 March 2020 £000
<b>Current Assets</b>		
Contributions receivable from employers and employees	10,167	13,436
Sundry Debtors	1,487	1,440
Cash	499	1,746
<b>Total</b>	<b>12,153</b>	<b>16,622</b>

### 22: Current liabilities

	31 March 2019 £000	31 March 2020 £000
<b>Investment Liabilities</b>		
Purchases including currency	(8,893)	-
Managers Fees	(1,339)	(475)
<b>Total</b>	<b>(10,232)</b>	<b>(475)</b>
	Restated 31 March 2019 £000	31 March 2020 £000
<b>Current Liabilities</b>		
Pension Payments (inc Lump Sums)	(574)	(264)
Cash	-	-
Professional Fees	(55)	(434)
Administration Recharge	(1,046)	(1,194)
Sundry Creditors	(1,476)	(882)
<b>Total</b>	<b>(3,151)</b>	<b>(2,774)</b>

### 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
Vardean College	2	2
London Borough of Ealing	2	2
Newhaven TC	1	1
East Sussex College Group	1	1
Plumpton College	-	1
<b>Total</b>	<b>9,577</b>	<b>8,420</b>

\* 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
<b>Total</b>	<b>20</b>	<b>21</b>

### 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)
<b>Scheduled Bodies - Major Authorities</b>						
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
<b>Other Scheduled Bodies</b>						
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	-

## 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)
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	-
<b>Academy Schools</b>						
Annecey 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	-
<b>Colleges</b>						
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	-
<b>Admission Bodies</b>						
BHCC - Wealden Leisure Ltd	21.2	-	33.0	11	33.0	-
Biffa Municipal 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	-

## 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 48<sup>nd</sup> percentile (23<sup>rd</sup> 2018/19) in the local authority universe. Over three years the fund performed inline (0.7% underperformance 2018/19) and was placed in the 55<sup>th</sup> percentile (65<sup>th</sup> 2018/19). Over five years the fund outperformed by 0.1% (0.2% outperformance in 2018/19) and was placed in the 37<sup>th</sup> percentile (32<sup>nd</sup> 2018/19). Over ten years the fund years, the fund underperformed by 0.1% (0.3% underperformance 2018/19) and was placed in the 45<sup>th</sup> percentile (60<sup>th</sup> 2018/19).

Relative performance is calculated on a geometric basis as follows:

$$((1 + \text{Fund Performance}) / (1 + \text{Benchmark Performance})) - 1$$

As opposed to the simpler arithmetic method, the geometric method makes it possible to directly compare long-term relative performance with shorter-term relative performance.

# 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		Restated 2018/19		Change
£000	£000	£000	£000	£000
		<b>Dealings with members, employers and others directly involved in the fund</b>		
		Contributions		
(101,093)		(92,084)		9,009
(29,613)		(29,613)		-
	(130,706)		(121,697)	-
	(6,113)		(6,113)	-
	(136,819)		(127,810)	9,009
	130,541		122,183	(8,358)
	3,409		3,409	-
	133,950		125,592	(8,358)
	(2,869)		(2,218)	651
	14,038		14,038	-
	11,169		11,820	651
		<b>Returns on investments</b>		
	(26,191)		(26,191)	-
	272		272	-
	(234,733)		(234,733)	-
	(260,652)		(260,652)	-
	(249,483)		(248,832)	651
	(3,383,380)		(3,383,380)	-
	(3,632,863)		(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	-
<b>3,623,210</b>	<b>Total net investments</b>	<b>3,623,210</b>	-
12,153	Current assets	12,153	-
(2,500)	Current liabilities	(3,151)	(651)
<b>3,632,863</b>	<b>Net assets of the fund available to fund benefits at the year end.</b>	<b>3,632,212</b>	<b>(651)</b>

### 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
<b>By category</b>			
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
<b>Total</b>	<b>130,706</b>	<b>121,697</b>	<b>9,009</b>
<b>By authority</b>			
Scheduled bodies	81,178	77,498	3,680
Admitted bodies	3,582	3,576	6
Administrative Authority	45,946	40,623	5,323
<b>Total</b>	<b>130,706</b>	<b>121,697</b>	<b>9,009</b>

### 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
<b>By category</b>			
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	-
<b>Total</b>	<b>130,541</b>	<b>122,183</b>	<b>8,358</b>
<b>By authority</b>			
Scheduled bodies	72,886	69,441	3,445
Admitted bodies	3,808	3,778	30
Administrative Authority	53,847	48,964	4,883
<b>Total</b>	<b>130,541</b>	<b>122,183</b>	<b>8,358</b>

### 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			Restated 31 March 2019			Change £000
Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000	Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000	
<b>Financial Assets</b>						
499,750	-	-	499,750	-	-	-
153,695	-	-	153,695	-	-	-
2,232,435	-	-	2,232,435	-	-	-
339,442	-	-	339,442	-	-	-
245,135	-	-	245,135	-	-	-
6,125	-	-	6,125	-	-	-
2,342	-	-	2,342	-	-	-
425	-	-	425	-	-	-
-	149,156	-	-	149,156	-	-
-	499*	-	-	499	-	-
4,937	-	-	4,937	-	-	-
-	11,654*	-	-	11,654	-	-
<b>3,484,286</b>	<b>161,309</b>	-	<b>3,484,286</b>	<b>161,309</b>	-	-
<b>Financial liabilities</b>						
(840)	-	-	(840)	-	-	-
(9,392)	-	-	(9,392)	-	-	-
-	-	-	-	-	-	-
-	-	(2,500)	-	-	(3,151)	(651)
<b>(10,232)</b>	-	<b>(2,500)</b>	<b>(10,232)</b>	-	<b>(3,151)</b>	<b>(651)</b>
<b>3,474,054</b>	<b>161,309</b>	<b>(2,500)</b>	<b>3,474,054</b>	<b>161,309</b>	<b>(3,151)</b>	<b>(651)</b>

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
<b>Current Liabilities</b>			
Pension Payments (inc Lump Sums)	(574)	(574)	-
Cash	-	-	-
Professional Fees	(55)	(55)	-
Administration Recharge	(1,046)	(1,046)	-
Sundry Creditors	(825)	(1,476)	(651)
<b>Total</b>	<b>(2,500)</b>	<b>(3,151)</b>	<b>(651)</b>



### **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.

## 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.

### **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.

### **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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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:

<b>Report to:</b>	<b>Governance Committee</b>
<b>Date of meeting:</b>	<b>10 November 2020</b>
<b>By:</b>	<b>Director of Adult Social Care and Health</b>
<b>Title:</b>	<b>Amendment to Constitution – Scheme of Delegation to Officers</b>
<b>Purpose:</b>	<b>To seek approval to amend the Scheme of Delegation in relation to the functions delegated to the Director Public Health</b>

---

**RECOMMENDATION:** The Governance Committee is recommended to recommend the County Council to:

- 1) agree to delegate the functions as set out in paragraph 3.1 and amend the Scheme of Delegation to Officers accordingly;**
- 

## **1 Background Information**

1.1 Local authorities have a specific and distinct range of legal powers under public health, environmental health and health and safety laws which allow them to temporarily close individual settings for a specific reason and period. These powers apply under a patchwork of triggers or, in some cases, require an application to a magistrate.

1.2 Government considered that these powers were insufficient to enable local authorities to fully implement the measures potentially needed to prevent, protect against, delay or otherwise control the incidence or spread of coronavirus in their area. New legislation ensures that a uniform suite of powers exists to enable local decision-makers to promptly take action to mitigate local Covid-19 outbreaks through a new and consistent set of regulations.

## **2 The Health Protection (Coronavirus, Restrictions) (No.3) Regulations 2020**

2.1 The Health Protection (Coronavirus, Restrictions) (England) (No. 3) Regulations 2020 (“the No. 3 Regulations”) form part of that suite of powers and make specific provision for a County Councils and London Borough Councils to give Directions relating to premises, events and public outdoor places in its area. The No. 3 Regulations include powers for the County Council to make a Direction to:

- restrict access to, or close, individual premises (which could include a pub, restaurant, shop, factory etc.)
- prohibit a specified event or events of a specified description from taking place (events could include garden shows, festivals, marathons, hospitality attractions, fairgrounds etc.)
- restrict access to, or close, a specific public outdoor place in its’ area or public outdoor places in its’ area of a specified description (which could include parks, public toilets, stadiums etc.)

2.2 Anyone can request the County Council to make a Direction. More usually, it is likely to be the District or Borough Council’s Licensing or Environmental Health Officer, the County Council’s Trading Standards/Highways Officer, a Safety Advisory Group Chair, a

Councillor/MP or the Police. Partner organisations will be encouraged to submit their request at the earliest opportunity so as to allow reasonable advance notice to those concerned that a Direction is being considered.

2.3 Once the request has been formally received a County Council must be satisfied and have evidence that all of the following three conditions are met:

<p>The Direction responds to a serious and imminent threat to public health</p>	<p><i>Threats could include localised transmission rate/s or rising local / national alert levels, the possibility of attracting people from areas with a higher prevalence of COVID and/or unsustainable pressures to the health system.</i></p>
<p>The Direction is necessary to prevent, protect against, control or provide a public health response to the incidence or spread of infection of coronavirus in the local authority's area</p>	<p><i>Consideration would need to be given to factors that would cause the spread of infection.</i></p>
<p>The prohibitions, requirements or restrictions imposed by the Direction are a proportionate means of achieving that purpose</p>	<p><i>Consideration would need to be given as to whether all alternatives to mitigate risks have been exhausted.</i></p>

2.4 Issuing a Direction is an action of last resort and all other methods to ensure risks are fully mitigated should be explored. However, if these conditions have been met and the County Council has decided to make a Direction it must:

- consult with the Director of Public Health and although it is not in the legislation, it may be usually be appropriate to consult the Police if the Direction prohibits, requires or restricts access to premises, an event or public outdoor place);
- have due regard to the Public Sector Equality Duty (s.149 of the Equality Act 2010) and consider carrying out an equalities impact assessment to determine whether the measure may disproportionately affect people with protected characteristics. Identifying disproportionate impact would not prohibit a local authority from taking action, but this should be balanced against the wider public health risk in the area, and mitigations should be considered and implemented wherever possible;
- have regard to the need to ensure the public has access to essential public services; and
- be clear about why they are taking directive action and communicate this clearly to the Secretary of State, the persons to whom the Direction applies (i.e. to a person carrying on a business from premises within a public outdoor place to which the direction relates and any person who owns, occupies or is responsible for any land or premises in a public outdoor place to which the direction relates) and, where appropriate, those impacted by the Direction.

2.5 Once the decision has been made to issue a Direction, it will be served by Trading Standards on the event organiser / business or premises owner with details of the right of

appeal to the Magistrates' Court. A copy of the Direction will be provided to the Secretary of State together with the reasons for that decision.

2.6 Trading Standards will monitor compliance. Contravention of a Direction is a criminal offence and non-compliance may result in either a Fixed Penalty Notice or Police enforcement.

2.7 The Direction must be reviewed every seven days. The County Council will have responsibility for deciding whether the Direction should remain in place or whether any modifications are necessary. This will involve reassessing local risk using updated data sources that provided the initial evidence, any new information, consulting with relevant stakeholders as necessary, and using professional judgement.

### **3 Proposed amendments to the Scheme of Delegation**

3.1 It is proposed to authorise the Director of Public Health, the Chief Executive and the Assistant Chief Executive to make a Direction (and review that Direction every seven days) in accordance with the No.3 Regulations and/or any updating legislation.

### **4 Conclusion and Reason for Recommendation**

4.1 It is considered that the amendments proposed will aid in the ability for decisions to be taken in an efficient and timely manner, which is considered particularly important where deadlines need to be met for certain actions to be undertaken.

**KEITH HINKLEY**  
**Director of Adult Social Care and Health**

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**Report to:** Governance Committee  
**Date of meeting:** 10 November 2020  
**By:** Chief Operating Officer  
**Title:** LMG Managers Pay 2020/21  
**Purpose:** To agree the pay award for LMG Managers for 2020/21

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## RECOMMENDATIONS

**The Governance Committee is recommended to agree the pay award for LMG Managers for the financial year 2020/21 as being 2.75% (in line with the national NJC award)**

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### 1 Background

1.1 At its meeting on 2 October 2020, the Governance Committee received a report with regards to the 2020/21 pay offer for LMG Managers to be negotiated with Unison. Following due consideration, the Committee agreed the offer to be made as 2.75%, in line with the national NJC award.

### 2 Supporting information

2.1 The annual Consumer Prices Index (CPI) inflation measures changes in the price level of consumer goods and services purchased by households. On 21 March 2017, the CPI was replaced by a new measure: the Consumer Prices Index, including owner occupier's housing costs (CPIH). This extends the CPI to include a measure of the costs associated with owning, maintaining and living in one's own home (owner occupiers' housing costs OOH), along with council tax. This is the most comprehensive measure of inflation. The CPIH 12 month rate between August 2019 and July 2020 stood at 1.4% (Office for National Statistics, August 2020); down from 2% in between August 2018 and July 2019.

2.2 Ending July 2020, average weekly earnings for employees in Great Britain in real terms (that is, adjusted for price inflation) decreased by 2% to -2.2% including bonuses compared with a year earlier. The overall decrease of average weekly earnings is a result of service and manufacturing closures and bonuses not being paid during the last quarter (Labour Market Statistics, ONS). Pay awards in the private sector in the last 12 months, ending July 2020, averaged 2.2%. The public sector organisations that have so far agreed a pay award for 20/21 include: armed forces (2%), prisons (2.5%), doctors and dentists (2.8%) and the NJC and JNC for local government (2.75%).

2.3 The wastage figure for voluntary leavers among LMG Managers (e.g. resignations) for the half year period April to August 2020 is 0.97%. For comparison purposes, for the period April to Sept 2019 it was 4.03% and for April to Sept 2017 2.54%. However, it should be noted that this period covers the key period of lockdown due to the coronavirus pandemic, which explains the very low figure. As such, this is not reflective of the usual position.

#### Pay Negotiations 2020/21

2.4 Following the Governance Committee's decision on 2 October 2020, negotiations with UNISON have taken place and local managers have indicated their acceptance of the 2.75% pay offer, equivalent to the national pay offer for 2020/21. Attached at Appendix 1 is a copy of the LMG salary scales showing 2019/20 and 2020/21.

### **3. Recommendation**

3.1 The Governance Committee is recommended to agree the pay award for LMG Managers for the financial year 2020/21 as being 2.75% (in line with the national NJC award).

**KEVIN FOSTER**  
**Chief Operating Officer**

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**Local Managerial Grades (LMG) salary scale**



<i>Grade</i>	<i>Scale point</i>	<i>01/04/2019</i>	<i>01/04/2020</i>
LMG 1	5	£38,650	£39,713
	6	£39,810	£40,905
	7	£41,002	£42,130
	8	£42,236	£43,397
LMG 2	9	£43,504	£44,700
	10	£44,812	£46,044
	11	£46,159	£47,428
	12	£47,546	£48,854
LMG 3	13	£48,974	£50,321
	14	£50,445	£51,832
	15	£51,965	£53,394
	16	£53,518	£54,990
LMG 4	17	£55,132	£56,648
	18	£56,785	£58,347
	19	£58,488	£60,096
	20	£60,246	£61,903
LMG 5	21	£62,061	£63,768
	22	£63,913	£65,671
	23	£65,844	£67,655
	24	£67,818	£69,683
LMG 6	25	£69,860	£71,781
	26	£71,953	£73,932
	27	£74,112	£76,150
	28	£76,331	£78,430
LMG 7	29	£78,625	£80,787
	30	£80,988	£83,215
	31	£83,427	£85,721
	32	£85,925	£88,288
LMG 8	33	£88,502	£90,936
	34	£91,163	£93,670
	35	£93,901	£96,483
	36	£96,724	£99,384

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<b>Report to:</b>	<b>Governance Committee</b>
<b>Date of meeting:</b>	<b>10 November 2020</b>
<b>By:</b>	<b>Head of Human Resources and Organisation Development</b>
<b>Title:</b>	<b>Chief Executive, Chief Officers' and Deputy Chief Officers' Pay 2020/21</b>
<b>Purpose:</b>	<b>To consider the position in relation to the pay award for the Chief Executive, Chief Officers and Deputies for 2020/21.</b>

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## **RECOMMENDATIONS**

**The Governance Committee is recommended to agree the pay award for the Chief Executive, Chief Officers and Deputy Chief Officers for the financial year 2020/21 as 2.75%, in line with the national NJC and JNC awards.**

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### **1 Background**

1.1 Chief Officers' pay is locally determined and any annual increases approved by this Committee normally take effect on 1 April.

1.2 The national (NJC and JNC) pay awards are relevant to these local negotiations as the decision made regarding the local pay offer needs to take into account the impact on the wider workforce and organisation as a whole.

1.3 Set against this background, the local pay award for the Chief Executive, Chief Officers and Deputy Chief Officers has therefore historically mirrored the national awards. Any consideration of a pay increase should, however, take into account future savings requirements and the significant financial challenges facing the Council.

### **2. Supporting information**

2.1 The annual Consumer Prices Index (CPI) inflation measures changes in the price level of consumer goods and services purchased by households. On 21 March 2017, the CPI was replaced by a new measure; the Consumer Prices Index, including owner occupier's housing costs (CPIH). This extends the CPI to include a measure of the costs associated with owning, maintaining and living in one's own home (owner occupiers' housing costs OOH), along with council tax. This is the most comprehensive measure of inflation. The CPIH 12 month rate between August 2019 and July 2020 stood at 1.4% (Office for National Statistics, August 2020); down from 2% in between August 2018 and July 2019.

2.2 Ending July 2020, average weekly earnings for employees in Great Britain in real terms (that is, adjusted for price inflation) decreased by 2% to -2.2% including bonuses compared with a year earlier. The overall decrease of average weekly earnings is a result of service and manufacturing closures and bonuses not being paid during the last quarter (Labour Market Statistics, ONS). Pay awards in the private sector in the last 12 months, ending July 2020, averaged 2.2%. The public sector organisations that have so far agreed a pay award for 20/21 include: armed forces (2%), prisons (2.5%), doctors and dentists (2.8%) and the NJC and JNC for local government (2.75%).

#### Pay Negotiations 2020-21

2.3 As noted above, the national NJC local government services pay award has been agreed as 2.75% and set against that background, the national JNC pay awards for both Chief Executives and

Chief Officers of Local Authorities were also agreed as 2.75%, thereby providing parity with the local government services award.

### Benchmarking

2.4 An assessment of the market position in relation to the Chief Executive, Chief Officers and Deputies' pay levels has been undertaken. Attached at Appendix 1 is high level benchmarking data in relation to other similar sized local authorities and our closest neighbours. As can be seen from this, the Chief Officer and Deputy grades are within the middle mean range of local authorities. For the Chief Executive, the substantive pay is also within the middle mean range.

2.5 In considering this data further, it is important to recognise that Councils do not have consistent staffing structures so it is not possible to be confident that we are comparing on a 'like for like' basis. It is, however, useful to note that a number of Councils have introduced the role of 'Executive Director', which sits between the Chief Executive and departmental Chief Officers, thereby providing additional senior strategic capacity. This is not a layer that generally exists within East Sussex.

2.6 A further relevant factor is the context in which the Council is currently operating. The scale of the leadership challenge, running a complex organisation and services in the face of financial challenge, complex needs and multiple risks is significant. Working collaboratively and in partnership is vital to support the challenges around service reconfiguration and integration and our senior leaders have significant external facing roles in addition to the services they manage. The position this year has been made even more complex as a result of Covid-19 and the Chief Executive and Chief Officers have played a critical role in leading the County Council's response, as well as the wider partnership response, at a local level. This will continue as we work through the reset and recovery arrangements whilst remaining ready to respond to the second wave.

2.7 It is recognised that there is a level of scrutiny on pay for senior officers. It is, however, equally important that the Council is able to attract and retain high calibre staff to ensure the best delivery of services to the residents of East Sussex. Whilst acknowledging that pay is only one element of the overall employment package, it is, nonetheless an important one. Given the current operating context, it is essential that our pay rates are appropriately competitive.

2.8 Given this backdrop, it would seem appropriate to offer a 2.75% pay award to mirror the national NJC and JNC pay awards. The Committee will be aware that at its meeting on 28 January 20, it agreed an additional payment to be made to the Chief Executive in recognition of the significant additional responsibilities arising from being appointed as shared Chief Executive across both East and West Sussex County Councils. As an element of pay, it is appropriate that any increase agreed applies equally to this additional payment.

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

3.1 At its meeting on 2 October 2020 the Governance Committee considered a report in relation to the pay offer to be made to LMG Managers and following due consideration, agreed the offer as 2.75%, in line with the national NJC award. This consideration is equally valid in relation to the pay position for the Chief Executive, Chief Officers and Deputies and as such, the Governance Committee is recommended to agree a pay award of 2.75% for 2020/21 for the Chief Executive, Chief Officers and Deputy Chief Officers.

### **SARAH MAINWARING**

#### **Head of Human Resources and Organisation Development**

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### Comparison against similar sized or neighbouring authorities

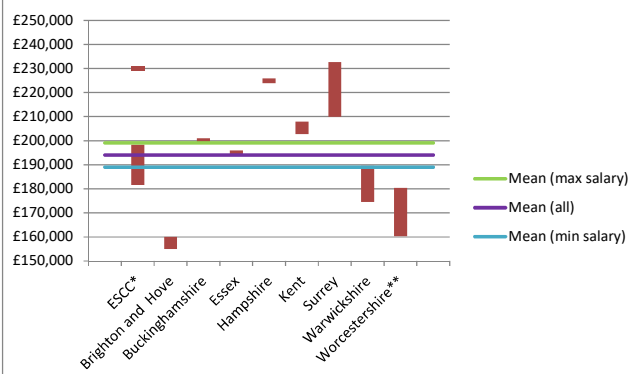
#### Chief Executive

	Min Salary	Max Salary
ESCC	£ 181,567	£ 198,397
ESCC*	£	230,000
Brighton and Hove	£ 155,000	£ 159,999
Buckinghamshire	£	200,000
Essex	£	195,000
Hampshire	£	224,929
Kent	£ 202,661	£ 207,884
Surrey	£ 209,984	£ 232,683
Warwickshire	£ 174,500	£ 189,500
Worcestershire**	£ 160,261	£ 180,429

\* Additional payment made in respect of the significant additional responsibilities arising as joint CE for ESCC and WSCC (£31,603)

\*\* reduced salaries by moving to 35 hour week

#### Chief Executive benchmark salaries 2020

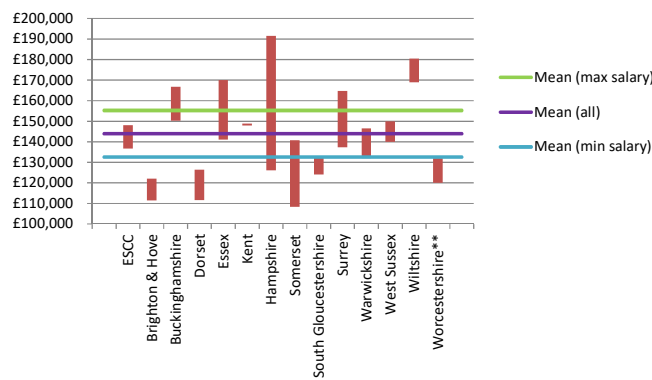


#### Chief Officer (Director)

	Min Salary	Max Salary
ESCC	£ 136,676	£ 147,962
Brighton & Hove	£ 111,438	£ 122,051
Buckinghamshire	£ 150,274	£ 166,802
Dorset	£ 111,630	£ 126,281
Essex	£ 141,000	£ 170,000
Hampshire	£ 126,096	£ 191,454
Kent	£ 147,888	£ 201,616
Somerset	£ 108,255	£ 140,730
South Gloucestershire	£ 123,955	£ 132,654
Surrey	£ 137,287	£ 164,744
Warwickshire	£ 132,038	£ 146,464
West Sussex	£ 140,000	£ 150,000
Wiltshire	£ 168,863	£ 180,388
Worcestershire**	£ 119,931	£ 131,919

\*\* reduced salaries by moving to 35 hour week

#### Chief Officer (Director) benchmark salaries 2020

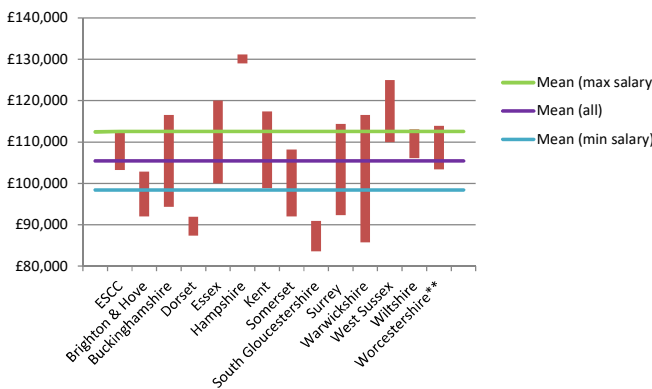


#### Deputy Chief Officer

	Min Salary	Max Salary
ESCC	£ 103,231	£ 112,350
Brighton & Hove	£ 92,016	£ 102,839
Buckinghamshire	£ 94,343	£ 116,606
Dorset	£ 87,365	£ 91,910
Essex	£ 100,000	£ 120,000
Hampshire	£130,000	£ 130,159
Kent	£ 98,804	£ 117,432
Somerset	£ 92,019	£ 108,204
South Gloucestershire	£ 83,537	£ 90,945
Surrey	£ 92,279	£ 114,404
Warwickshire	£ 85,719	£ 116,555
West Sussex	£ 110,000	£ 125,000
Wiltshire	£ 106,103	£ 113,111
Worcestershire**	£ 103,392	£ 113,881

\*\* reduced salaries by moving to 35 hour week

#### Deputy Chief Officer benchmark salaries 2020



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## Chief Officer's salary scales



	<i>01/04/2019</i>	<i>01/04/2020</i>
Deputy Chief Officer - Band A	£103,231	£106,070
	£106,328	£109,252
	£109,342	£112,349
	£112,350	£115,440
Deputy Chief Officer - Band B	£109,342	£112,349
	£112,350	£115,440
	£115,363	£118,535
	£118,368	£121,623
Chief Officer - Band A	£129,042	£132,591
	£132,909	£136,564
	£136,676	£140,435
	£140,439	£144,301
Chief Officer - Band B	£136,676	£140,435
	£140,439	£144,301
	£144,198	£148,163
	£147,962	£152,031
Chief Executive	£181,567	£186,560
	£187,010	£192,153
	£192,620	£197,917
	£198,397	£203,853



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