



AUDIT COMMITTEE

FRIDAY, 18 NOVEMBER 2022

10.00 AM COMMITTEE ROOM, COUNTY HALL, LEWES

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

A G E N D A

1. Minutes of the previous meeting (*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. Review of Annual Governance Report & 2021/22 Statement of Accounts (*Pages 5 - 210*)
Report by the Chief Finance Officer
6. Review of Annual Pension Fund Governance Report and 2021/22 Statement of Accounts (*Pages 211 - 240*)
Report by the Chief Finance Officer
7. Treasury Management - Stewardship Report 2021/22 (*Pages 241 - 268*)
Report by the Chief Finance Officer
8. Internal Audit Progress Report - Quarter 2 2022/23 (01.07.22 - 30.09.22) (*Pages 269 - 288*)
Report by the Chief Operating Officer
9. Annual update on Property Investment Strategy (*Pages 289 - 294*)
Report by the Chief Operating Officer
10. Work programme (*Pages 295 - 300*)
11. Any other items previously notified under agenda item 4

PHILIP BAKER
Assistant Chief Executive
County Hall, St Anne's Crescent
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10 November 2022

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AUDIT COMMITTEE

MINUTES of a meeting of the Audit Committee held at Committee Room, County Hall, Lewes on 23 September 2022.

PRESENT Councillors Colin Swansborough (Chair), Gerard Fox (Vice Chair), Matthew Beaver, Stephen Holt, Matthew Milligan, Councillor Redstone and Georgia Taylor

13. MINUTES OF THE PREVIOUS MEETING

13.1 The Committee RESOLVED to agree the minutes as a correct record of the meeting held on 8 July 2022.

14. APOLOGIES FOR ABSENCE

14.1 Apologies for absence were received from Councillor Geary.

14.2 It was noted that Councillor Redstone was in attendance as a substitute for Councillor Geary.

15. DISCLOSURES OF INTERESTS

15.1 There were none.

16. URGENT ITEMS

16.1 There were none.

17. REPORTS

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

18. INTERNAL AUDIT PROGRESS REPORT - QUARTER 1 2022/23 (01.04.22 - 30.06.22)

18.1 The Committee considered a report by the Chief Operating Officer which set out the Internal Audit team's work during Quarter 1.

18.2 The Committee RESOLVED to note the report.

19. CIPFA FINANCIAL MANAGEMENT CODE

19.1 The Committee considered a report by the Chief Finance Officer which provided the annual overview of Financial Management Code compliance.

19.2 The Committee discussed the self-assessment scores noting the work completed with neighbouring local authorities to achieve consistency in the south east.

19.3 The Committee RESOLVED to:

1) request that the 2023 CIPFA Financial Management Code report includes a short narrative regarding the reasons for the self-assessment scores and an index of criteria within the report; and

2) note the annual overview of Financial Management Code compliance.

20. STRATEGIC RISK REGISTER - QUARTER 1 2022/23 (01.04.22 - 30.06.22)

20.1 The Committee considered a report by the Chief Operating Officer which presented the Strategic Risk Register.

20.2 The Committee noted that Risk 7 (Schools) had been removed from the Risk Register and (Schools and ISEND) had been added.

20.3 The Committee discussed the benefits of conducting a 'deep dive' into a specific risk on the risk register to review the framework, processes and governance around Strategic Risk Management.

20.4 The Committee RESOLVED to:

1) note the current strategic risks and the risk controls / responses being proposed and implemented by Chief Officers; and

2) request a session for the Audit Committee to conduct a 'deep dive' into the Strategic Risk Management framework to explore the processes and governance using Risk 12 Cyber Attack as an example risk.

21. MANAGING BACK OFFICE SYSTEMS (MBOS) UPDATE

21.1 The Committee considered a report by the Chief Operating Officer setting out a summary of the discussion at the second meeting of the Committee's MBOS Sub-Group.

21.2 The Committee discussed the MBOS project entering into User Acceptance Testing (UAT) and the impact of Payroll Parallel Run (PPR) as a critical stage of the project.

21.3 The Committee RESOLVED to note that the Committee's MBOS Sub-Group has regularly reviewed the Council's Modernising Back Office Systems (MBOS) programme.

22. WORK PROGRAMME

22.1 The Committee considered its current work programme of forthcoming items.

22.2 The Committee RESOLVED to note the Programme.

The meeting ended at 11.31 am.

Report to: **Audit Committee**

Date: **18 November 2022**

By: **Chief Finance Officer**

Title of report: **Review of the Grant Thornton (GT) report to those charged with governance and Statement of Accounts for 2021/22**

Purpose of report: **For the Committee to review the Independent Auditor's (GT) report to those charged with governance prior to its submission to the Governance Committee (at a date to be confirmed).**

RECOMMENDATIONS: The Committee is recommended to:

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

1. Background

1.1 This report summarises the key findings arising from GT's audit work in relation to the Council's 2021/22 financial statements. There have been challenges this year in progressing the production of the accounts and delivery of the audit, particularly with regard to the valuation of Property, Plant and Equipment (PPE). Bruton Knowles, as the authority's valuer, has struggled to resource the 2021/22 valuation, such that agreed deadlines have been missed and the provision of responses to audit questions has not been delivered within the timescale of the audit plan. This work continues. The audit report included at Appendix A references, on Page 5, work that has still to be completed before the accounts can be presented to the Governance Committee.

2. Supporting Information

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

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

2.3 The interim GT report to those charged with governance is attached at Appendix A, with the Council's Statement of Accounts for 2021/22 at Appendix B.

2.4 I am pleased to be able to report that GT are anticipating being able to issue an unqualified audit opinion for the 2021/22 Statement of Accounts.

2.5 The report (Appendix A) on pages 27 to 30 sets out the Audit Adjustments identified. 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. There were also items for which the decision was made not to adjust, as either not material or an extrapolated misstatement for which adjustment was not appropriate. Any decision to adjust the accounts takes

account of whether the adjustment improves the reader's understanding of the accounts. At this stage, no specific management actions arising from the 2021/22 audit have been notified.

2.6 The Statement of Accounts will not be able to be presented to the Governance Committee until the audit, especially PPE, is largely completed. GT has confirmed that they will also not be able to issue the final audit opinion until the national issue around the valuation and accounting for infrastructure assets, which is subject to a national consultation seeking a statutory override to the issued, is resolved. This issue is set out on page 14 (Appendix A) of the audit report.

3. Conclusion and reasons for recommendations

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

- The findings made by the external auditors as a result of final audit of the 2021/22 accounts;
- Whether there is any issue arising that the Committee might wish to bring to the attention of the Governance Committee when it meets to approve the Statement of Accounts for 2021/22 at a date to be confirmed.

IAN GUTSELL Chief Finance Officer

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Local Member(s): All

The Audit Findings for East Sussex County Council

Year ended 31 March 2022

East Sussex County Council
18 November 2022



Contents



Your key Grant Thornton team members are:

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Section

1. Headlines
2. Financial statements
3. Value for money arrangements
4. Independence and ethics

Appendices

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- B. Fees
- C. Audit Opinion
- D. Audit letter in respect of delayed VFM work

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

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

Name : Darren Wells
For Grant Thornton UK LLP
Date : 18 November 2022

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of East Sussex County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Page 9

Financial Statements

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

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

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

Our audit work was undertaken predominantly remotely with our team spending one day a week on site at the Council offices to pick up testing and queries with officers face to face where possible. Largely though our testing work has been completed remotely via Teams as most of the Council's officers are predominantly working from home, and therefore some of the difficulties of auditing remotely still continues to be present for the 2021/22 audit as it takes longer to complete audit testing and clear queries remotely than working with direct access to Council officers. The audit work has largely been undertaken during August to November. The start of the audit was initially planned to be from the beginning of July, but the start date and our planned staff time had to be moved back to the first week of August due to:

- The land and buildings valuation not being ready for the audit start date;
- Draft 2021-22 Financial statements not being available until the end of July;
- Working papers for the Pension Fund financial statements not being complete and ready for the July start date (see the Pension Fund Audit Findings Report for further details), meaning that where our audit team was planned to work across both audits simultaneously it was not efficient/productive to start the audit until August.

The move in the start date has had significant knock-on effect on our staffing arrangements for the audit where dates had to be moved around, and some planned team members were not available for the full period of the audit. This has caused increased handover, complexity and delay in completing the work.

The Council's professional valuer for land and buildings did not provide a final valuation report until October 2022 and has not been responsive to audit queries and our requests for further information. This has continued to be the case in November as we produce this draft Audit Findings Report. This means that a major significant risk area for the audit, valuation of land and buildings, remains a very early work in progress, with significant work still outstanding in order to be able to complete this area and the audit.

There have been challenges for both the Authority team and the Audit team in completing the audit including:

- some minor delays in responses to audit queries in other areas of the audit
- some delays in samples being sent out by the audit team where they have been new to working with the populations/reports and have needed additional support;
- the above-mentioned challenge of working mostly remotely and how this impacts on fully closing out issues;

These have also had some impact on the delivery time-line; however, the audit team and council team have worked together closely and collaboratively, and continue to do so, to minimise delays and complete other areas of the audit as quickly as possible. The timeline for completion of the work around valuation of land and buildings still needs to be agreed as we will need to arrange additional audit team resource time alongside needing close cooperation from the Council's valuer in meeting with us and responding quickly and comprehensively to all audit queries.

The findings in this report are therefore reported at a stage where the audit is substantially complete in most areas outside of the valuation of land and buildings. There are currently no matters of which we are aware that would require modification of our audit opinion (Appendix C) or material changes to the financial statements, subject to the completion of the outstanding work set out below and noting that one of the most significant audit risk areas still needs to be completed and this could result in additional findings/adjustments to the statements. Note that due to the national issue around infrastructure assets affecting all local government audits where infrastructure assets are material, we will not be able to sign our audit opinion until this matter is resolved by the CIPFA implementation of a statutory override – see page 14 for more detail on this matter.

(continued below)

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of East Sussex County Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Page 11

Financial Statements

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

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

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

Our findings are summarised on pages 7 to 21. We have not identified adjustments to the financial statements that would result in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix A.

The following matters are currently outstanding on the audit;

- Completion of the large majority of our work around the valuation of land and buildings significant risk for the audit. As noted above, we are agreeing a way forward for this with your finance team;
- Work to understand how the valuer and Council have taken into consideration the climate emergency and net zero commitments in their valuation of assets/consideration of impairments.
- Completion of a small number of debtor and grant income/received in advance sample testing and resolution of any auditor queries that may arise in completing review of the sample evidence/documentation;
- Closure of points around a review of the accounts by our financial reporting technical team and agreeing any changes to the statements;
- Receipt of 2 outstanding investment confirmations;
- Closing a small number of audit queries outstanding;
- Obtaining a response to our closing inquiries to the Council's legal counsel on litigation and claims issues;
- Senior Manager and Engagement Lead review of the completed audit sections which could potentially raise further queries for the Council to respond too;
- receipt of management representation letter; and
- review of the final set of amended financial statements after any agreed changes.

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

Our anticipated audit report opinion will be unmodified based on the work to date.

1. Headlines

Value for Money (VFM) arrangements

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

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

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

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix D to this report. We expect to issue our Auditor's Annual Report by 30 November. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our work to date has concluded that there are no risks of significant weakness in the Council's arrangements.

Statutory duties

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

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

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

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion – noting that as the Council has a very material infrastructure asset balance that we will not be able to issue our opinion until the national issue around infrastructure assets is resolved by CIPFA's implementation of a statutory override which is expected to be in place by the end of December. All outstanding work on page 4 will also need to be completed.

Significant Matters

As detailed on page 3 and 4, there has been significant difficulties in obtaining sufficient and appropriate audit evidence to support the valuation of land and buildings. This has included the Council's data held on the gross internal area floorspaces being insufficiently detailed to complete work in testing those areas as an input into the valuation. We are therefore reliant fully on the professional valuer replying promptly and so far have had insufficient engagement.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

Our audit approach was based on a thorough understanding of the 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; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 29 March 2022, to reflect the emerging risk/issue around infrastructure assets, see page 14.

Conclusion

As detailed on page 4 there is still some substantial work to complete on this audit. Based on the work to date no material errors or issues have arisen which would require modification of our audit opinion. We will not be able to issue our audit opinion until all outstanding work on page 4 is completed and reviewed, and the national issue around infrastructure is resolved.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

As highlighted on page 3 and 4 your finance team and our audit team faced audit challenges this year that have included:

- initial delays in June in providing full sets of working papers on the Pension Fund audit, and a delay in receiving the draft financial statements;
- Delay in provision of the valuation by the professional valuer;
- Delay in response by the professional valuer to our audit queries preventing this significant risk area from progressing;
- Continued remote working on the audit meaning testing/queries take longer to resolve.

The first two issues meant that we delayed the start of the fieldwork audit from the beginning of July to the first week of August, and mean that at the date of presenting this report there is work ongoing to complete the audit. We will need to propose a fee variance for the audit related to these issues.

2. Financial Statements



Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan on 29 March 2022.

We detail in the table adjacent our determination of materiality for the Council.

Council Amount (£) Qualitative factors considered

Materiality for the financial statements	£14.950m	We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year.
Performance materiality	£11.212m	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	£0.748m	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.



2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan

Commentary

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

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;
- identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.

Our audit work has not identified any further issues in respect of management override of controls, though note this work is still subject to Manager and Director review.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

ISA240 fraudulent revenue recognition

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

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

For other revenue streams, we determined from our experience as your auditor from the previous 3 years, and through our documentation and walkthrough of your business processes around revenue recognition that the risk of fraud arising from revenue recognition could be rebutted, because:

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

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

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

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

Fraudulent expenditure recognition

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

We were satisfied that this did not present a significant risk of material misstatement in the 2021/22 accounts as:

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

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

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

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

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of the pension fund net liability - assumptions applied by the professional actuary in their calculation

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£375m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in either of these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.

For the significant risk, 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 new management expert (the actuary Barnett Waddingham) 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;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

We have also:

- 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.

There are a small number of audit queries outstanding from this work, and we still need to obtain assurances from the auditor of East Sussex Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The work to provide these assurances is nearing completion.

In carrying out our work to test the consistency of the movements in the underlying assets and liabilities with our auditor expectations by applying analytical procedures, it became apparent that the actuary had carried out their valuation using early estimates of the closing asset valuations for the Pension Fund as opposed to using the final asset valuations as we would expect. The Council as administering body for the pension fund had provided the actuary with the final asset valuations for use in the production of IAS19 reports. This caused an understatement in the actuary's estimate of the County Council's share of the Pension Fund assets which are part of the net pension liability on the Balance Sheet of the Council, and hence an overstatement of the net pension liability. The understatement of assets for the Council was £4.7m and therefore the net liability was overstated by this amount. This is below our performance materiality, and therefore we are satisfied the net liability is not materially misstated – we have shown this error in unadjusted misstatements, see Appendix A.

Our audit work to date has not identified any further issues in respect of valuation of the pension fund net liability.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of land and buildings (including investment properties)

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

For assets not revalued in the year management will need to ensure the carrying value in the Authority's financial statements is not materially different from the current value or the fair value (for investment properties and surplus assets) at the financial statements date.

As detailed on pages 3 and 4, this area of the audit has not been able to proceed as planned due the professional valuer not responding to our queries and requests for information about the method and assumptions around the valuation, and for information relating to our sample of revalued assets.

We will need to report any significant findings in this risk area to the Audit Committee when the work has been completed at a date to be agreed between the audit team and finance team.

2. Financial Statements – new issues and other risks

This section provides commentary on new issues and other risks:

Issue	Commentary	Auditor view
Accuracy and accounting for Private Finance Initiative (PFI) liability	<p>You have assets financed through PFI schemes (Peacehaven Schools and waste management services).</p> <p>PFI schemes are complex and involve a degree of subjectivity in the measurement of financial information.</p> <p>We therefore identified the accuracy and presentation of your PFI schemes as a risk for the audit.</p>	<p>We have:</p> <ul style="list-style-type: none"> 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. <p>Subject to satisfactory resolution of matters identified on page 4, our audit work has not identified any issues in respect of this risk.</p>
Recognition and Presentation of Grant Income	<p>The Council (similar to all other Local Authorities) has been the recipient of significant increased grant revenues during the 2021/22 year relating to Covid-19. In common with all grant revenues, the Council will need to consider for each type of grant whether it is acting as agent or principal, and depending on the decision how the grant income and amounts paid out should be accounted for.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated your accounting policy for recognition of grant income for appropriateness and compliance with LG Code of Practice; reviewed and sample tested grant income to supporting evidence corroborating the arrangements and conditions for the grants and whether the Council is acting as agent or principal. <p>Subject to satisfactory resolution of matters identified on page 4, our audit work has not identified any issues in respect of this risk.</p>

2. Financial Statements – new issues and risks (continued)

Issue	Commentary	Auditor view
<p>Valuation of Infrastructure Assets</p> <ul style="list-style-type: none"> The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. The Council has material infrastructure assets, at a gross and net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance. 	<p>We have carried out audit inquiries to understand the control environment around the recognition and derecognition of infrastructure assets. In common with most other authorities there is not a clear mechanism by which existing infrastructure assets which still have a net book value on the balance sheet being depreciated are derecognised when the asset is replaced. There is therefore a risk that the infrastructure assets (both the gross assets and accumulated depreciation) could be materially misstated – the Council’s system for derecognising these assets does not sufficiently mitigate this risk.</p> <p>As there is not a system by which the Council could accurately identify which infrastructure asset has been replaced (the Council instead relying on the useful economic lives being an accurate lifetime for the assets so they would be depreciated in full at approximately their replacement cycle) it is not possible to quantify what the misstatement could be.</p> <p>We note the Council has derecognised £13m of infrastructure assets on the balance sheet which were fully depreciated and at Nil net book value.</p>	<p>This is a national issue effecting all local government audits. CIPFA are in the process of implementing a statutory override in this area of the accounts. This is expected to be introduced by the end of December 2022, and once this is in place we will be able to sign the audit opinion. In the meantime due to it not being possible to quantify what the potential misstatement could be, we are not able to sign the audit opinion without the statutory override.</p>

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £369m	<p>Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council has engaged Bruton Knowles to complete the valuation of properties as at 31 March 2022 on a five yearly cyclical basis. 49% of total assets were revalued during 2021/22. We will need to assess whether those assets not revalued at the 31 March 2022 are held at a carrying value which is materially correct.</p> <p>Management carry out some assessment of their assets for any impairments; no material impairments were noted.</p>	As detailed above, we have not yet been able to complete our work around this accounting estimate.	TBC

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																						
Net pension liability – £375m	<p>The Authority recognises and discloses the retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.</p>	<ul style="list-style-type: none"> We assessed management's actuarial expert and concluded they are clearly competent, capable and objective in producing the estimate; We carried out analytical procedures to conclude on whether the Council's share of LGPS pension assets and liabilities was reasonable. We concluded the Council's share of assets and liabilities was analytically in line with our expectations; We engaged an auditor's actuary expert to challenge the reasonableness of the estimation method used and the approach taken by the actuary to 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; 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: 	<p>Currently no issues highlighted, but subject to completion of the outstanding audit procedures detailed on page 3.</p>																						
	<p>The Council's net pension liability at 31 March 2022 is £375.3m (2020-21 £559.4m) comprising the Council's share of the East Sussex Pension Fund assets and liabilities. The Council has engaged an actuary valuation expert Barnett Waddingham for the 2021/22 year to provide actuarial valuations estimate of the Council's asset and liabilities derived from this scheme. A full valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £233.9m net actuarial loss during 2020/21 (2019/20: £189.2m loss).</p>	<table> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> <tr> <td>Discount rate</td><td>2.6%</td><td>2.5-2.6%</td><td></td></tr> <tr> <td>Pension increase rate</td><td>3.2%</td><td>3.05-3.45%</td><td></td></tr> <tr> <td>Salary growth</td><td>3.2%</td><td>4.2%</td><td>Challenged – concluded reasonable and would not lead to material misstatement</td></tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td><td>21.2 years retiring today 22 retiring in 20 years</td><td>20.5 -23.1 years retiring today 21.9- 24.4 retiring in 20 years</td><td></td></tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td><td>23.8 years retiring today 25.1 retiring in 20 years</td><td>23.4-25 years retiring today 24.9-26.4 retiring in 20 years</td><td></td></tr> </table> <ul style="list-style-type: none"> We have reviewed the particular local judgements by the actuary/management around salary growth and life expectancy. We are challenging this with the actuary and Council to obtain corroboratory evidence/explanation as to the reasonableness of the assumption adopted. We have contacted the auditor of the pension fund accounts to obtain assurances over the completeness and accuracy of information which has been provided to the actuary for determining the estimate. We have also carried out testing back to support held by the Council. In our review and testing of the methods and assumptions underlying the estimate we have particularly focussed on any changes year on year to assess and challenge whether this is reasonable. We assessed the reasonableness of the Council's share of LPS pension assets. We assessed the reasonableness of increase/decrease in estimate. We reviewed the adequacy of disclosure of estimate in the financial statements. 		Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.6%	2.5-2.6%		Pension increase rate	3.2%	3.05-3.45%		Salary growth	3.2%	4.2%	Challenged – concluded reasonable and would not lead to material misstatement	Life expectancy – Males currently aged 45 / 65	21.2 years retiring today 22 retiring in 20 years	20.5 -23.1 years retiring today 21.9- 24.4 retiring in 20 years		Life expectancy – Females currently aged 45 / 65	23.8 years retiring today 25.1 retiring in 20 years
Assumption	Actuary Value	PwC range	Assessment																						
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Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £7m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance.</p> <p>The year end MRP charge was £11.5m, a net increase of £4.5m from 2019/20.</p>	<p>We have carried out work to conclude:</p> <ul style="list-style-type: none"> • whether the MRP has been calculated in line with the statutory guidance; • whether the Council's policy on MRP complies with statutory guidance; • Assess whether any changes to the authority's policy on MRP has been discussed and agreed with those charged with governance and has been approved by full council; • The reasonableness of the increase/decrease in MRP charge. <p>Our work is in progress and will be subject to technical review by the Manager and Director which is being completed during November as recorded on page 3-4. Government have consulted on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. Government will issue a full response to the consultation in due course.</p>	Currently no issues highlighted, but subject to management technical review.

Assessment

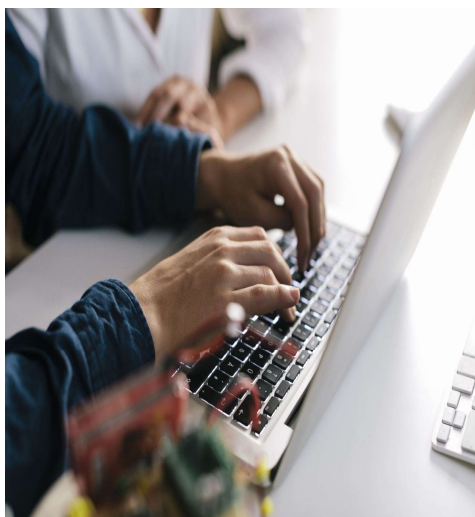
- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we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

2. Financial Statements - other communication requirements

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

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

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests in respect of your bank, investments and loans balances. This permission was granted for all institutions and the requests were sent. 2 of these requests remain outstanding at the date of issuing this report. We have chased these responses several times and continue to do so.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Subject to completion of the audit procedures detailed on page 3-4, our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements



Our responsibility

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

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

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix C</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <ul style="list-style-type: none"> • Note that work is not required as the Council does not exceed the threshold;
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2021/22 audit of East Sussex County Council in the audit report, as detailed in Appendix C, due to incomplete VFM work. However, as we are unable to issue our audit opinion until CIPFA have put in place a statutory override around infrastructure assets, the VFM work will be completed by that date (which is anticipated to be the end of December 2022) and therefore we will be able to certify closure of the audit at the same time as we issue the audit opinion.</p>



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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

Potential types of recommendations

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



Statutory recommendation

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



Key recommendation

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



Improvement recommendation

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



3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix D to this report. We expect to issue our Auditor's Annual Report by 30 November 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

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

4. 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 B.

Transparency

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

4. Independence and ethics

Audit and non-audit services

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

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Return	£7,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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 £124,850 and in particular relative to Grant Thornton UK LLP’s turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. 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.

Appendices

A. Audit Adjustments

Page 33

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

Impact of adjusted misstatements

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

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Various minor casting/disclosure amendments	We identified a small number of minor casting and disclosure issues. Management response Agreed and these were amended in the accounts.	✓
Cash flows from investing activities The purchase and disposal of investments was shown net in the draft statements, where the CIPFA Code states this should be shown gross.	The purchase and disposal of investments was shown net in the draft statements, where the CIPFA Code states this should be shown gross. Management response Agreed and updated in the statements.	✓

A. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 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
Net pension liability overstatement We identified that the net pension liability in the accounts was overstated due to the actuary using earlier investment assets as part of the estimate process. This error was below our performance materiality. See page 11 for further details on the nature of the error.	CR Remeasurement net defined pension liability (£4,712k) Note: The remeasurement impact would be in other comprehensive income so does not impact the deficit on provision of services. The impact would be in the pensions reserve.	DR Net pension liability £4,712k	CR (£4,712k)	The difference is not material
PPE Additions In our sample testing we identified 2 samples where capital additions were understated. 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 is reported 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.	Nil	DR Property, plant and equipment £1,037k CR Capital accruals £1,037k	Nil	This is an immaterial extrapolation.
Payables accruals In our sample testing of accruals we identified errors which were all trivial in isolation. We were able to isolate and extrapolate these errors to estimate the overall potential impact of the error and demonstrate this would not be material, and this is reported 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.	CR Operating Expenditure (£1,005k)	DR Accruals £1,005k	CR (£1,005k)	This is an immaterial extrapolation.
Overall impact	(£5,717k)	£5,717k	(£5,717k)	

A. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Operating expenditure	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 is reported 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.				
Other Debtors	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.				
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.				
Continued below				

A. Audit Adjustments

Impact of prior year unadjusted misstatements (continued)

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Net pension liability overstatement As described above we identified that the net pension liability in the accounts was overstated due to the actuary using earlier draft assets as part of the estimate process. This error was below our performance	Cr Remeasurement net defined pension liability (£9,412k) Note: The remeasurement impact would be in other comprehensive income so does not impact the deficit on provision of services. The impact would be in the pensions reserve.	Dr Net pension liability £9,412k	(£9,412k)	The difference is not material
Investment property overstatement As described above we identified that an investment property was overstated in the valuation calculation.	Dr Valuation gains/losses £867k	Cr Investment Properties (£867k)	£867k	The difference is not material
Overall impact	(£4,522k)	£4,522k	(£4,522k)	

B. Fees

We confirm below our final fees charged for the audit and provision of non-audit services. Note that the final fee is to be confirmed – we will propose a fee variance for the issues around delays to the audit which have been highlighted in this report.

Audit fees	Proposed fee	Final fee
Council Audit	124,350	TBC
Total audit fees (excluding VAT)	£124,350	£TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services	7,000	TBC
Certification of Teachers Pension Return		
Total non-audit fees (excluding VAT)	£7,000	£TBC

The fees reconcile to the financial statements.

Audit fees –detailed analysis

Scale fee published by PSAA		£70,350
<i>Ongoing increases to scale fee first identified in 2019/20</i>		
Raising the bar/regulatory factors		£3,000
Enhanced audit procedures for Property, Plant and Equipment (including £5,000 for engagement with an auditor's expert valuer)		£10,000
Enhanced audit procedures for Pensions		£3,000
Increase in respect of additional work on Value for Money under new NAO Code		£19,000
Impact of new auditing standards		£11,500
<i>New issues for 2021/22</i>		
Additional file review/hot review of accounts – in response to increase regulation and issues in FRC public audit reviews		£1,500
Remote working – the audit has still needed to be completed mainly remotely which increases the resources needed to complete the audit.		£6,000
Fee variance for:		TBC
<ul style="list-style-type: none"> - Delay in the start date of the audit with significant impact on our resource planning. This led to us starting the audit, then pausing it and restarting a month later with reallocation of audit staff - Delay in provision of information/response - Minor delays in query/sample responses 		
Total audit fees (excluding VAT)		£124,850

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

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of East Sussex County Council (the 'Authority') for the year ended 31 March 2022, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2022/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 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 2022/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

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

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2022/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

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

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

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

Other information

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

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

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

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

Matters on which we are required to report by exception

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

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

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

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

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2022/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2022/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, Local Government Act 1972 and the Local Government Act 2003.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

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

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

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

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

Responsibilities of the Authority

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

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

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

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2022. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

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

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

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

We cannot formally conclude the audit and issue an audit certificate for East Sussex County Council for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, completed specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack and issued our Auditor's Annual Report.

Use of our report

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

Signature:

Name Darren Wells, Key Audit Partner

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

London

Date:

Commercial in confidence



Our ref: ESCC 2021/22 VFM

The Audit Committee
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18 November 2022

Dear Chair of the Audit Committee as TCWG

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 30 January 2023.

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

Yours faithfully

Darren Wells
Director



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East Sussex County Council

Statement of Accounts

2021/22

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

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

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Narrative Report

About East Sussex County Council

East Sussex County Council (ESCC) is one of 26 county councils in England, covering an area of around 172,000 hectares, with a population of about 558,900 people in mid-2020. The Council forms the upper tier of local government within East Sussex (excluding Brighton & Hove).

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

The county is divided into 50 electoral divisions, each represented by one Councillor. Local elections are held every four years, with the last taking place on 6 May 2021; the outcome of which saw the return of the Conservative administration:

- Conservative – 27 seats
- Liberal Democrats – 11 seats
- Labour – 5 seats
- Green – 4 seats
- Independent Democrats – 2 seats
- Independents – 1 seat

Councillors make sure that the services that ESCC provides meet the needs of residents and those who work in the county, by setting the overall policies and strategies for the Council and by monitoring the way in which these are carried out.

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



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

Council Officers are the people who work for the Council and who are paid to deliver the services agreed by Councillors. Overall, the workforce comprises 9,347 people and 7,341 'full time equivalent' employees as at 31 March 2022.

The five ESCC departments and their main responsibilities are:

- Adult Social Care and Health: Provide social care services for residents over 16, including residential care and sensory care services. It also has the public health remit.
- Children's Services: Provide social care for people under 16, state education and other childcare services.
- Communities, Economy and Transport: Responsible for community services such as libraries and registrars, customer access/services, roads, transport planning, economy and the East Sussex environment.
- Business Services: Responsible for managing our finances, IT, human resources, procurement and property.
- Governance Services: Provides advice on governance of the Council, including legal and constitutional arrangements.

Financial Report

For East Sussex, the impact of the COVID-19 pandemic continued to be felt into 2021/22 and, in line with CIPFA Bulletin 09, issued in April 2021, the statement of accounts has been prepared with appropriate reference to COVID-19.

The net outturn at year end was £409.95m against a revised net budget of £409.86m, a net overspend of £0.09m. This is after transfers to reserves and before Corporate Funding and therefore differs in presentation from the Quarter 4 Monitoring Report presented to Cabinet on 27 June 2022.

The 2021/22 Approved Budget

The Council's 2021/22 original net budget of £416.7m comprises three main elements: Council Tax, business rates and Government grant.

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

Narrative Report

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

The Council's RPPR process matches available resources with delivery plans for priority outcomes. It has enabled us to give relative protection to priority services. The RPPR process has been applied across all services in the development of the Council Plan supported by the Medium Term Financial Plan (MTFP) and Capital Programme. Savings of over £138m have been made between 2010/11 and 2021/22.

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 2021/22 was presented to Council on 9 February 2021. Attached below is a link to the report on the Council's website:

[Agenda for Full Council on Tuesday, 9th February, 2021, 10.00 am | East Sussex County Council](#)

COVID-19 in 2021/22 and beyond

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

Key Financial Implications

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

COVID-19 related revenue pressures in each department totalled £59.3m in 2021/22. The main headlines were:

Dept	£m	Description
ASC	36.1	Including £19.9m distributed to care providers to support with testing, infection control and workforce recruitment and retention, £8.5m to secure timely hospital discharges and £6.4m Contain Outbreak Management Fund (COMF) funded activity.
CSD	18.8	Key pressures included £6.6m placements costs, £6.3m activity relating to the Winter Grant Scheme, £1.9m income loss at Lansdowne residential children's home, £1.4m COMF activity and £1.1m Home to Schools Transport.
CET	1.5	Loss of income in Registration Services £0.3m, additional costs in the Waste Service of £0.3m, £0.2m loss of car parking income, £0.2m loss of income & additional cleaning costs in Libraries and £0.1m mortuary capacity,
BSD	0.6	Additional expenditure was incurred, for example additional cleaning and staff, as well as the loss of income streams with HR&OD and Property due to closure of various premises.
PH	2.3	Activity relating to Test, Trace & Contain (TT&C) grant funding and community mass testing.
	59.3	

Narrative Report

Within Corporate Funding further COVID-19 related pressures relating to reduced income from Business Rates and Council Tax were funded from specific grant.

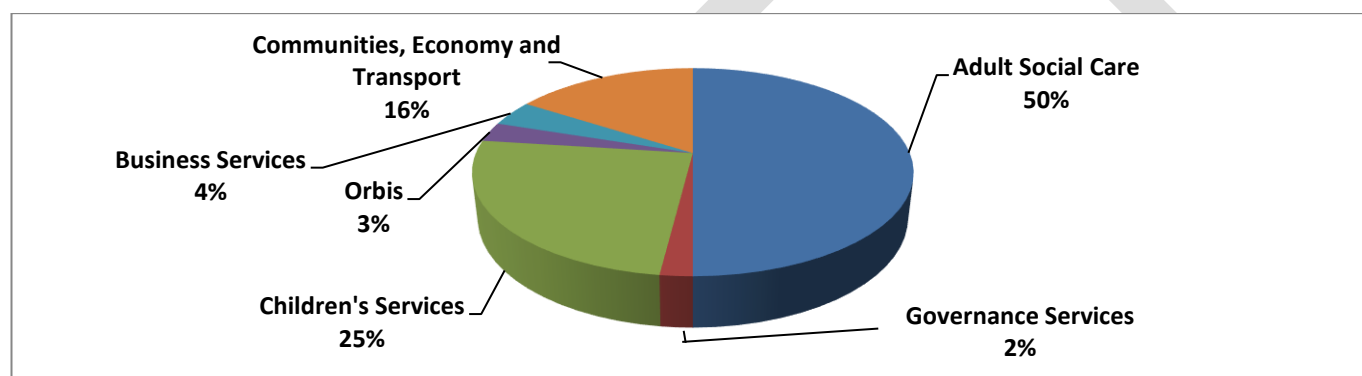
The COVID-19 related pressures in the 2021/22 capital programme totalled £0.4m, and were funded from specific and general grant. Ongoing pressures on the programme will continue to be reviewed as part of the Council's performance monitoring process and funding options will be considered if specific mitigations are not forthcoming.

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

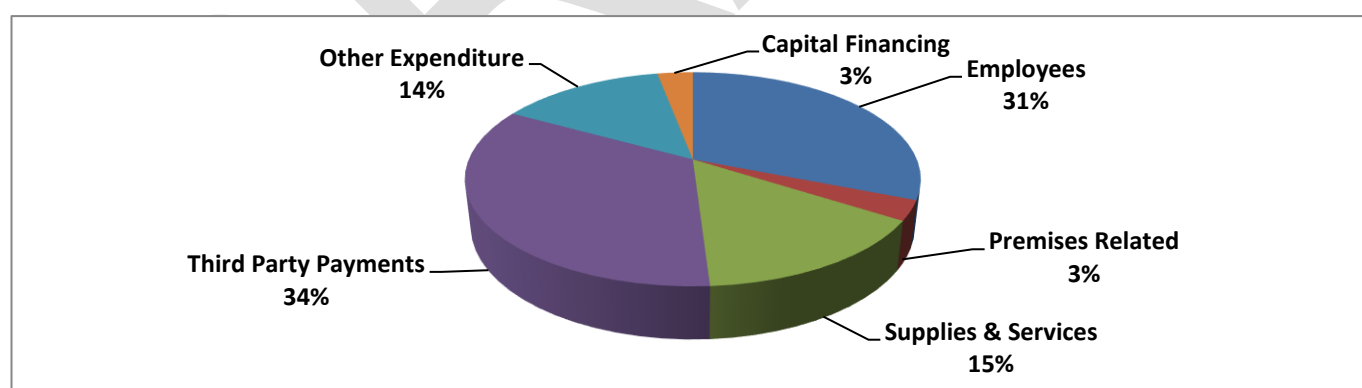
Specific COVID-19 grant has been carried forward to 2022/23 which is ringfenced funding aligned to specific outcomes being delivered by departments, along with £14.1m of general funding which is not ringfenced and allows more flexibility. £5.2m of general funding has been specifically set aside in future years for legacy covid-related pressures for Looked After Children and Parking, the remainder will be held for other legacy costs, reflecting that the costs of COVID-19 will continue into 2022/23 and beyond.

How much was spent on the revenue account

The Expenditure and Funding Analysis (EFA) on page 70 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

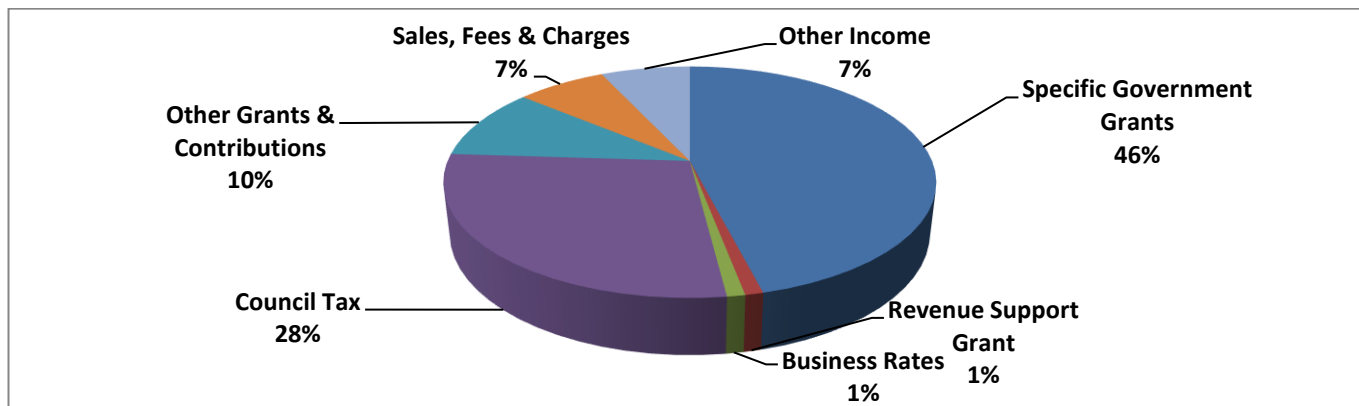


County Council services are staff intensive and employee costs account for 31% of the expenditure. Non-employee expenditure includes costs of premises at 3%, supplies and services at 15% and third party payments at 34%, with other expenditure at 14%. Capital financing (the cost of borrowing, interest and repayments) and accounting for on-going Private Finance Initiative (PFI) within the ESCC Balance Sheet accounts for the remaining 3%.

Narrative Report

Where the money came from

The chart shows that 46% of our income came from Specific Government grants, 28% came from residents through Council Tax, 10% from other grants & contributions, 7% from other income including use of reserves and bank interest. Business Rates consisted of 1%, and 7% of our income came from users of our services, with Revenue Support Grant representing 1% of the Council's Funding.



Analysis of the Revenue Budget

The Council's careful monitoring of budgets during the year has ensured that service pressure areas have been identified early and action was taken by directorates to manage potential variations within their cash limited budgets. The table below shows actual net spending of £409.95m during 2021/22, based on the total cost of providing services including charges for support services, treasury management and use of assets.

2021/22 budget monitoring was split into 'Business as Usual' and 'COVID-19 related' to ensure transparency, as per prior year.

The total revenue underspend for 2021/22 is £4.3m, arising primarily from an overspend of £2.0m in Services offset by an underspend of £6.3m in Corporate Budgets, where £2.2m of the General Contingency budget was not required to be applied and Treasury Management underspent by £2.1m due to no additional borrowing during the year. Public Health expenditure continues to be funded by the ring-fenced Public Health grant and therefore shows a nil outturn position.

The Council's general fund balance of £10.0m at the year end plus general contingency of £4.0m is in line with the target minimum level of 2.5% (actual 3.42%) 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 70. The table below sets out the revenue budget for 2021/22 using the standard management reporting format and how these compare with outturn:

Departments	Current Estimate £m	Actual Outturn £m	Variation £m
Adult Social Care	186.51	186.72	0.21
Public Health	-	-	-
Governance Services	7.20	7.16	(0.04)
Children's Services	91.69	94.50	2.81
Orbis	9.59	9.44	(0.15)
Business Services	14.95	14.23	(0.72)
Communities, Economy and Transport	59.56	59.49	(0.07)
Service Spend (incl. DSG Related)	369.50	371.54	2.04
Corporate Budgets	12.86	8.87	(3.99)
Transfers to Reserves	9.59	13.72	4.13
Treasury Management	17.91	15.82	(2.09)
Net Expenditure	409.86	409.95	0.09

Financed from:

Revenue Support Grant	(3.57)	(3.57)	-
Social Care Grant	(17.08)	(17.08)	-
Business Rate Retention	(12.51)	(12.51)	-
Business Rate Top-up	(62.77)	(62.77)	-
Business Rates Compensation Grants	(5.70)	(5.70)	-
Business Rate Pool	(1.60)	(1.69)	(0.09)
Business Rates adjustments for previous years	5.39	5.39	-
Council Tax	(310.36)	(310.36)	-
Council Tax adjustments for previous years	(1.15)	(1.15)	-
New Home Bonus Grant	(0.51)	(0.51)	-
	(409.86)	(409.95)	(0.09)

Balances:

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

Earmarked Reserves and Provisions

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

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

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

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

Details of the Council's earmarked reserves can be found on page 76, Note 10 to the Accounting Statements. Current earmarked reserves held at 31 March 2022 totalled £206.4m. Of this, £17.0m relates to reserves to meet the estimated future costs of managing the Private Finance Initiative (PFI) waste facility, £18.9m relates to future funding for the capital programme and £84.8m 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 2022/23 is £4.3m 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 £84.8m balance on the Revenue Grants and Contributions Reserve, £14.1m relates to general COVID-19 funding. The remaining balances are committed for specific purposes. Within the Financial Management & Transformation Reserves, £15.0m is considered to be available for any unfunded COVID-19 pressures, noting that its use would impact on the Authority's MTFP: firstly the reserve would need to be built up again, thereby adding an additional budget pressure; secondly, if the reserve is not available to support the development and investment in services then this would place additional burdens on the future financial viability of the authority. The Council does not hold large balances for capital receipts or unapplied capital grants, and any balances have a planned use.

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 2021 for 2021/22 was £92.1m. This was further adjusted to reflect the variation at outturn (March 2022), re-profiling of budgets and approved variations in line with financial regulations and governance (detail of which is shown below).

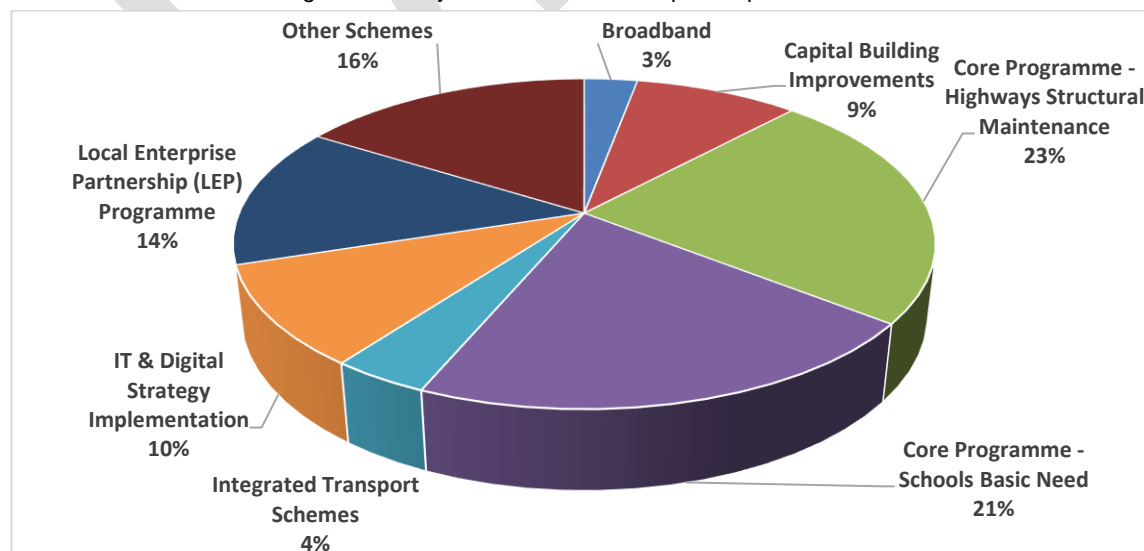
Capital Programme gross movements during 2021/22:

	£m
Budget as per February 2021	92.1
Project re-profiling following reviews	(15.0)
Approved Variations	11.1
Budget as per February 2022	88.2
Post budget approved variations	(2.3)
Revised Budget as per March 2022	85.9

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 2022 was £85.9m.

In 2021/22 the County Council spent £75.9m gross of which £16.2m was supported by scheme specific resources, giving a net expenditure of £59.7m. The larger schemes that took place during the year included the structural maintenance of roads throughout the county, delivering school places, IT & digital strategy implementation, capital building improvements, and many other improvements to schools, buildings, roads. Of the £10.0m variation to the revised gross budget, £4.4m relates to Local Enterprise Partnership (LEP) funded projects being delivered by, or in partnership with others, where the timing of expenditure and delivery is largely outside of the Council's control. There has been slippage on a number of other projects, including IT & digital strategy implementation largely due to resourcing variations, delivery of schools places where retention is being held on projects nearing completion and various integrated transport schemes for reasons including requirements for additional investigatory works, lack of contractor availability and land ownership issues. These were able to be offset in part by spend in advance on other areas such as the rollout of superfast broadband where additional premises have been brought into the contract.

The chart below shows a high level analysis of the 2021/22 capital expenditure.



Narrative Report

As per the approved budget at February 2022, the County Council plans to invest £101.9m in capital projects in 2022/23, funded by:

	£m
Borrowing	40.3
Scheme Specific grants and contributions	7.9
Non-specific grants	26.2
Capital reserves and revenue contributions	18.9
Capital Receipts	8.6
Total resources	101.9

Financial Challenges in 2021/22

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 9 February 2021:

[Agenda for Full Council on Tuesday, 9th February, 2021, 10.00 am | East Sussex County Council](#)

Financial Challenges for 2022/23 and beyond

Looking ahead, an unprecedented level of financial uncertainty dominates the context within which we are working. The challenging national economic environment and recent increases in the cost of living directly affect us locally, both in terms of the impact on our residents, particularly the most vulnerable, and in terms of cost and resource pressures on the Council itself. These new economic challenges come as local businesses and households recover from Covid impacts, creating new risks alongside the new opportunities we have sought to maximise in the county.

The financial outlook for the Council remains unclear with a further one-year financial settlement anticipated for 2023/24; at the LGA Conference on 28 June 2022 Michael Gove announced that he would be introducing a two-year settlement, but that was before the PM resigned. Additionally key national reforms to local government funding are likely to be delayed. Many of our major, demand-led, services are, or are likely to be, subject to significant national reforms, with accompanying service and financial risks to manage, and there is a continuing pressing need to work towards addressing the impacts of climate change.

Although we have now moved to a position of living with Covid, the impact of the pandemic is ongoing and will continue to have consequences for people, businesses and services in the short and longer term. We are also playing an increased role in supporting people displaced by global conflicts and seeking refuge in East Sussex.

All these factors, alongside the underlying demographic and economic factors of the county, combine to create the volatile and highly challenging backdrop against which we must plan for the future.

East Sussex has a much older age profile compared to England and the South East. 26% of the county's population is aged 65 or over, compared to 19% in England and 20% regionally. The median age of the county is 48.4, compared to the national average of 40.2.

In East Sussex there are 329 LSOAs, 22 are in the most deprived 10% nationally, 16 of these are in Hastings, 4 Eastbourne, and 2 Rother. 21 Lower Super Output Areas (LSOAs) are in the least deprived 10%, 13 are in Wealden, 6 Lewes, and 2 Eastbourne. People that are more deprived may produce higher demand for Council and other public services. Deprived LSOAs are characterised by poorer health and disability, lower skills, educational disadvantage, higher crime and drug misuse.

77.5% of the East Sussex working age population (age 16-64) were in employment between January – December 2021 (up from 76.9% in 2020). This was higher than the national average of 75.1% and in line with the average across the South East of 77.6%.

There remains a significant gap between the income we currently expect to receive and the costs of providing core services, with significant additional risk arising from Adult Social Care (although on 7 July 2022 the government announced a delay to the introduction of some of its social care reforms) and other reforms. Fundamentally, without further Government support or sustainable reform of local government finances we will not have the funding we need for the future.

Non-Financial Performance

The non-financial performance of the Council is reported quarterly and the year end position for 2021/22 was reported to Cabinet on 27 June 2022. Attached below is a link to the report on the Council's website:

[Agenda for Cabinet on Monday, 27th June, 2022, 10.00 am | East Sussex County Council](#)

Narrative Report

Climate Change

In October 2019 the County Council declared a climate change emergency and in February 2020 it approved a climate emergency action plan covering 2020-22. The action plan commits to reducing the County Council's own corporate carbon emissions by 13% per year and set out a two year delivery plan for 2020-22.

In 2020 and 2011 the County Council secured external funding to support delivery of the action plan. In November 2021 Cabinet agreed funding of £3.8m, and in February 2022 agreed a further £3.0m per year for 2023-25, to support delivery of the carbon reduction target. The table below sets out the total that has been spent and allocated between 2021-22 and 2024-25.

Budget source	Budget (£m)	Spend & Forecast as at 01.07.22 (£m)				Unallocated (£m)
	2021-25	2021-22	2022-23	2023-24	2024-25	
Cabinet	9.867	0.620	2.246	0.000	0.000	7.001
External funding	0.878	0.670	0.208	0.000	0.000	0.000
TOTAL	10.745	1.290	2.454	0.000	0.000	7.001

The carbon reduction projects that are being delivered in 2022-23 include energy efficient lighting, solar PV panels on roofs and decarbonisation of heating in schools.

Modelling work to assess the most cost effective means to reduce carbon emissions is due to be completed in June 2022 and will be used to inform the most effective allocation of the remaining budget set out above. Key challenges in delivery will be with the availability and costs of materials and labour, which are causing extensive delays.

The accounts have been prepared based on current accounting standards. The risks associated with climate change, whilst it may be argued are being felt now, are longer term and are not reflected in these accounts.

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 £184.1m from £559.4m at the start of the year to £375.3m at 31 March 2022. Note 42 to the accounting statement provides detailed information. The resultant impact on the CIES is a net charge of £49.9m to reflect the present value of the defined benefit obligation and a net Actuarial gain on pension assets and liabilities of £234.0m.

The explanations for this significant change are as follows:

- In assessing liabilities for retirement benefits at 31 March 2021, the actuary assumed a discount rate of 2.0% 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 2022, the actuary has advised that a rate of 2.6% 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 £88.7m.
- Asset returns on the Fund in the year to 31 March 2022 were higher than expected for the Council, resulting in a total increase of around £145.3m.

Based on the current benefit structure of the Local Government Pension Scheme (LGPS), and using the roll forward model, the actuarial estimate of the present value of funded liabilities is approximately £1,959.3m in respect of employee members, deferred pensioners and pensioners as at 31 March 2022. There is also a liability of approximately £82.7m in respect of LGPS and Teachers' unfunded pensions. It is assumed that all unfunded pensions are payable for the remainder of the member's life.

Treasury Management Borrowing Facilities and Investments

The strategy for 2021/22, agreed in February 2021, was set against a background of market uncertainty and a prudent approach was taken with all investments. The emphasis continues to be on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed). The strategy and limits are consistent with the capital programme and revenue budget. As will be clear from the current global events, it is impossible in practical terms to eliminate all credit and market risk. This Council seeks to be as prudent as possible.

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

The average level of funds available for investment purposes during 2021/22 was £305m. 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 2022 was £1.2m at an average rate of 0.38%.

Narrative Report

At 31 March 2022, the majority of the Council's external debt was held as long-term loans (£227m), and no additional longer-term borrowing was undertaken during 2021/22.

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 Department for Levelling Up, Housing and Communities (DLUHC) 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 30 September 2023. This is reviewed daily from an estimate to actual and updated for all known material items of income and expenditure.

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

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

The Balance Sheet

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

At 31 March 2021 £m		At 31 March 2022 £m
977,221	Long Term Assets (including Property, Plant & Equipment)	977,205
346,459	Current Assets (including debtors and short term investments)	365,198
(147,884)	Current Liabilities (including creditors and bank overdraft)	(163,941)
(884,687)	Long Term Liabilities	(689,877)
291,109	Net Assets	488,585
<u>Represented by:</u>		
234,847	Usable Reserves	261,814
56,262	Unusable Reserves	226,771
291,109	Total Reserves	488,585

The main changes to the balance sheet in 2021/22 are a decrease in long term liabilities and corresponding increase in unusable reserves due to the decrease in the pension liability of £184m.

Academy Schools – three schools are expected to convert to Academy status in 2022/23. 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 included within the balance sheet at 31 March 2022 is £17.491m.

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

- 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 2021/22;
- 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 UK 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 2021/22. However, any significant events or developments that occur between 31 March 2022 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 2021/22, together with assets and liabilities as at 31 March 2022; 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 2021 and applies for accounting periods commencing on or after 1 April 2021. The key accounting changes principally introduced by the Code in 2021/22 are:

- Confirmation of the arrangements for the endorsement of standards arising because of the United Kingdom's withdrawal from the European Union.
- Confirmation of the accounting arrangements for the Dedicated Schools Grant as a consequence of the issue of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020.
- Amendments to Section 3.3 (Accounting Policies, Changes in Accounting Estimates and Errors) to confirm (but not introduce) the adaptation in Section 3.3 and Appendix C of the Code for standards issued but not yet adopted.
- Augmentations to Section 3.4 (Presentation of Financial Statements) for the reporting of estimation uncertainty.
- Amendments to Section 7.1 (Introduction etc) to confirm the replacement of IPSAS 29 Financial Instruments: Recognition and Measurement with IPSAS 41 Financial Instruments.
- Confirmation in Sections 7.2 (Subsequent Measurement of Financial Assets and Financial Liabilities) and 7.3 (Financial Instruments – Disclosure and Presentation Requirements) of the reporting requirements of interest rate benchmark reform.

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 2022/23 are:

- IFRS 1 (First-time Adoption) – amendment relating to foreign operations of acquired subsidiaries;
- IFRS 16 (Leases) – removal of a misleading example;
- IAS 37 (Onerous Contracts) – a clarification of the accounting standard's intention;
- IAS 41 (Agriculture) – only expected to apply to local authorities in limited circumstances.

Narrative Report

The Council's Stewardship, Responsibilities and Financial Management Policies

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

There are five key areas covered by the Financial Regulations. These are:

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

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

The Annual Governance Statement, which accompanies this Statement of Accounts, covers more than just financial matters and is set out in full on pages 20 – 44.

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 2021/22 Audit Opinion and Certificate is available on pages 16 – 19.

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 2022.

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 2022.

Ian Gutsell

Chief Finance Officer (Section 151 Officer)

xx November 2022

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Annual Governance Statement for year ended 31 March 2022

East Sussex County Council Annual Governance Statement 2021/22

Executive Summary

The Annual Governance Statement (AGS) explains the processes and systems which give assurance for the effectiveness of the County Council's discharge of its responsibilities. It covers the period 1 April 2021 to 31 March 2022.

The year was dominated by the continuing national public health emergency and the impact of this event on the Council's governance is also addressed.

A summary of assurance is given for each of the seven principles on which the Statement is based.

The Purpose of the Governance Assurance Framework

1. East Sussex County Council (the '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 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.
2. In discharging this overall responsibility, County Councillors ('Members') and senior officers are responsible for putting in place proper arrangements for the governance of the 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, the Council has approved and adopted a Local Code of Corporate Governance (the 'Local Code'), which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/ Society of Local Authority Chief Executives and Senior Managers (SOLACE) Framework Delivering Good Governance in Local Government. A copy of the Local Code is on our website and is set out in Annex C. This Statement also sets out how the 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.
3. 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.
4. The Local Code can provide only reasonable and not absolute assurance that the Council achieves its aim of good governance. Equally, the 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.
5. The Local Code and the system of internal control have been in place at the Council for the year ended 31 March 2022 and up to the date of the approval of the statement of accounts.
6. The East Sussex County Council Framework for the Annual Governance Statement is set out at Annex D.

Review of effectiveness

7. The Council reviews the effectiveness of its governance arrangements, including its system of internal control, on an ongoing basis. This review of effectiveness is informed by:
 - the work of Members through the Cabinet, Committees (including Governance Committee, Standards Committee, Audit Committee, Scrutiny Committees) generally and the full Council;
 - the work of Chief Officers and managers within the Council, who have primary responsibility for the development and maintenance of the internal control environment;
 - the work of the Chief Executive, Monitoring Officer, Chief Finance Officer and the Statutory Officers Group (SOG);
 - 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, ongoing 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 and Social Care Ombudsman, the Care Quality Commission and the Office for Standards in Education.

Key elements of the governance and internal control environments

8. 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 CIPFA'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 and Contract 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 whistleblowing, 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.

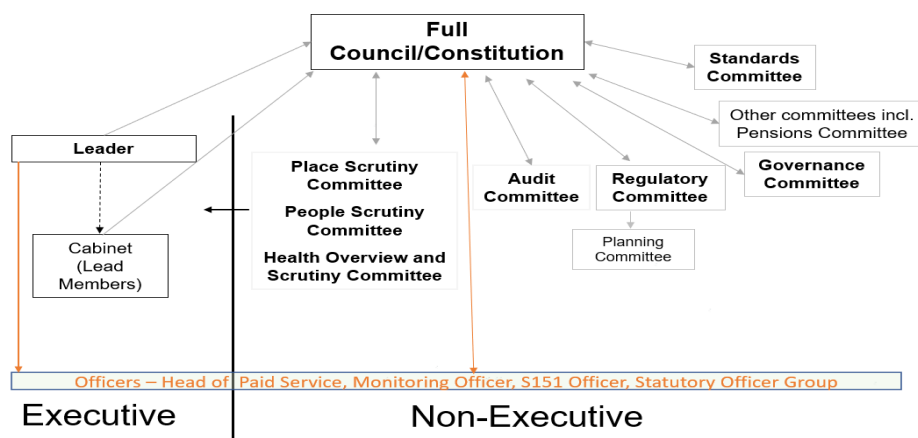
The Governance Assurance Framework Principles

9. There are seven principles and sub-principles of Corporate Governance adopted by the Council, as set out below. Assurance for how they are met is provided in the text below each principle in this Statement. Whilst descriptions of how the principles are met are included in each section, this Statement should be viewed in its entirety as there is overlap between the principles and how they are met. Further work to be done is highlighted and set out at Annex E.

Principle	Description of Principle
A	Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
B	Ensuring openness and comprehensive stakeholder engagement.
C	Defining outcomes in terms of sustainable economic, social and environmental benefits.
D	Determining the interventions necessary to optimize the achievement of the intended outcomes.
E	Developing the entity's capacity including the capability of its leadership and the individuals within it.
F	Managing risks and performance through robust internal control and strong public financial management.
G	Implementing good practices in transparency, reporting and audit to deliver effective accountability.

The County Council's Governance Framework

10. The governance framework covers the allocation of functions, the rules for how they are carried out and the mechanisms for tracking that this happens correctly. The relationship of responsibilities is shown here:



The Council's governance response to the Covid-19 Pandemic

11. In March 2020, a national public health emergency was declared by the Government in response to the global coronavirus (Covid-19) pandemic. This continued through the period covered by this Statement. Legal restrictions relating to Covid-19 in England were eased throughout 2021 and ceased in February/March 2022, although case numbers in the County continue to be high.
12. The Council was prepared to deal with the challenges of the pandemic through its Resilience and Emergencies planning. Services were quickly refocused to prioritise preserving life and essential services and the implementation of additional services and interventions in response to the national priorities. This response was led through a resilience command chain, with the Corporate Management Team and external partners providing strong strategic oversight. During 2021/22 the Council has continued to prioritise its response to the pandemic whilst also working on recovery and plans for service continuity. This disruption to normal corporate business and the service, resource, staffing and financial consequences will be assessed as part of corporate planning.
13. The Council has taken part in a multi-agency Covid debrief. Actions arising from this will, where appropriate, be incorporated into the Council's business continuity processes and planning.
14. The Council held remote meetings up to the expiry 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 (the 'Temporary Flexibility Regulations') on 7 May 2021. A large number of remote meetings were held under the Temporary Flexibility Regulations during the pandemic. In general, the holding of remote meetings was a success; Member attendance at such meetings was good and decision-making largely continued as normal. There were also a number of benefits including a reduction in carbon emissions and cost, greater flexibility in organising meetings and reduced time spent travelling, enabling Members to have more time for their other duties.
15. Although the expiry of the Temporary Flexibility Regulations largely necessitated a return to pre-pandemic meeting arrangements, the Council has considered elements of remote working that could be adopted permanently under existing legislation in order to retain as many of the benefits identified above as possible. Full details of the changes are covered under principle B below.
16. All Members were invited to a Whole Council Forum in July 2021 at which officers provided an update in relation to Covid-19 and the implications for the Council. The Quarterly Monitoring Reports submitted to the Cabinet and County Council have also referred to the impact of Covid-19. Members have the opportunity to raise questions and issues in relation to the pandemic at these meetings and at the Forum.

Section A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Assured

The Council has high standards for sound governance as set out in law and government guidance. It promotes a culture of compliance.

The Council's codes of conduct set out expectations and requirements for behaving with integrity for both Members and officers. Action was taken to promote these and provide assurance that they continue to be implemented fully and correctly.

17. The Governance Committee oversees the democratic arrangements of the Council and reviews and advises Full Council on the Constitution. The Responsibility for Functions (including the Scheme of Delegation) and Standing Orders require Members and officers to ensure that all decisions are compliant with internal policies and procedures, as well as with the law. These help ensure transparent decision-making, giving authority and certainty to the allocation of responsibilities as set out in the Constitution.
18. Part 5 of the Constitution contains the Code of Conduct for Members. A parallel Code of Conduct for officers sits in the suite of employee policies. The Council has also adopted policies relating to responsibilities for ethical behaviour including equality and sustainability, such as the Equality of Opportunity and Diversity Policy Statement. Decision-making is supported by advice from officers and internal guidance that should ensure compliance with these policies.
19. The statutory roles of the Chief Financial Officer (s.151 officer) and the Monitoring Officer are set out in the Constitution and in the scheme of delegation. They provide oversight of propriety and lawfulness. They have a direct reporting line to the Chief Executive and are involved in all major decision-making as part of the Corporate Management Team, as well as being signatories to all key and other significant decisions.
20. The codes of conduct define the standards of behaviour for Members and officers. All Members undertake training from the Monitoring Officer on the Member Code of Conduct. Member conduct is monitored by the Standards Committee, which has a remit to deal with complaints of breaches of the Member Code of Conduct. All Members complete the register of interests and receive quarterly reminders on the subject of personal interest declarations, and it is a standing item on all formal meeting agendas for both officers and Members. In relation to the appointment of Members to outside bodies, the Council will avoid structural conflict of interests where possible.
21. The Council has a whistleblowing policy to offer a route for challenges to processes or actions within the Council where complainants need confidentiality. The use and effectiveness of the policy is overseen by the SOG made up of the Chief Executive, Monitoring Officer, Chief Finance Officer, Chief Internal Auditor, Assistant Director for HR, and the Chief Operating Officer.
22. A system for recording officer interests, including gifts and hospitality, is in place and kept under review. A review of the system was undertaken in 2020 and actions were identified to improve the current system. The system was purchased from an external company who developed the operating software which no longer supports the software. In October 2021, the Council approved the award of a contract to provide flexible support to the Modernising Back Office Systems (MBOS) programme. In light of the MBOS implementation, the issues identified with the current system have been considered and actions have been agreed to address these. This is a temporary solution until the MBOS implementation. The SOG receives regular reports on the system and the progress on implementing the actions identified.
23. The Council's Procurement and Contract Standing Orders and the Financial Regulations and Procedures provide rules for lawful and sound processes for contract and spending decisions. These are managed by the Chief Operating Officer, Monitoring Officer, and Chief Financial Officer in consultation with the Governance Committee. These Standing Orders help ensure transparency and a Governance framework in relation to how decisions are made.
24. The Officer Scheme of Delegation is held under regular review by the Chief Executive and the Monitoring Officer, with any new delegations needing the agreement of the Leader of the Council (for executive functions) or the Governance Committee (for non-executive functions).

Decision-making and Scrutiny

Section B: Ensuring openness and comprehensive stakeholder engagement

Assured

The Council exists to serve its residents and is dependent on a wide range of stakeholders for working effectively in partnership.

Consultation and engagement mechanisms are in place and are used effectively.

The Council has clear decision-making processes and rules and procedures to enforce them which emphasise openness and transparency. This has been tested and shown to be resilient during the pandemic and its impact on ways of working.

25. The Council is the principal decision-making body and forum for political debate. All Council meetings take place in public and are webcast. The Council sets the strategic aims that form the Policy Framework and determines the Council's budget following a well-developed process of Member engagement and scrutiny.
26. The Executive (Cabinet) takes decisions on most matters of Council policy and service delivery. The non-executive responsibilities of the Council are discharged through its non-executive committees as described in the Constitution. The Council appoints Members to Scrutiny Committees, by which Cabinet is held to account through Member overview and scrutiny. Scrutiny Committees are politically proportionate. Chairs and Vice-Chairs are appointed by Full Council. Influential scrutiny is achieved by ensuring the Scrutiny Committee's involvement in the Reconciling Policy, Performance and Resources (RPPR) process and having significant decisions or proposals previewed. Proposals may also be called in for scrutiny after a decision has been proposed in final form. The Council has determined that all Scrutiny Committee meetings take place in public and be webcast.
27. The Forward Plan describes all significant (key) decisions planned to be taken in the following four months and is published and updated at least monthly. The Forward Plan is used by Scrutiny Committees to help plan business. As decisions become more significant in terms of service changes and savings proposals there is a greater need to ensure early awareness by, and engagement with, all Members.
28. Decision-making operates with a presumption of openness. Cabinet, Lead Member and committee meetings are held in public. Members of the public can subscribe to email updates on Council committee meetings in which they have expressed an interest. Agendas and reports for Cabinet and committee meetings, unless considered exempt from publication, are published at least five clear working days in advance – exceptions are explained in public documents.
29. Decisions and agendas are held on the website. The content management system, Modern.Gov, is the principal method of publishing the Forward Plan, decisions, agendas, and minutes. Members and staff now have portable devices which can easily access Modern.gov information. The Constitution also prescribes the rules and constraints around urgent decisions (including those not notified in the Forward Plan) and the form and content of decision reports. Key decisions taken under special urgency provisions (as set out in the Constitution) are reported to the Council. The report to the Council includes a summary of the decisions taken under these provisions.
30. As set out above, following expiry of the Temporary Flexibility Regulations, the Council was required to hold physical Council and committee meetings. This provided a number of challenges particularly prior to the lifting of social distancing and other Covid restrictions in July 2021. Arrangements were put in place to hold meetings in line with national Covid guidance on the use of public buildings and local Public Health advice and risk assessment which enabled Council meetings to continue. Risk assessments were undertaken for each meeting and updated during the year to ensure appropriate measures were in place and that the public continued to have access to meetings.
31. To retain the benefits identified through remote meetings, the Council has agreed the following measures, which are permitted under existing legislation:

Full Council – All Council Members must attend in person.

Cabinet – all Members of the Cabinet must attend in person. Officers and other Members (including opposition spokespersons and local Members), as well as petitioners are permitted (with the agreement of the Chair) to attend and speak remotely.

Planning Committee – All Members of the Committee must attend in person. Officers and members of the public or local Members making representations are permitted to attend remotely.

At the Council's **Panels and Committees** (including Governance Committee, Pension Committee, Scrutiny Committees, Audit Committee and Health and Wellbeing Board) – Committee and Panel Members must be present in person (unless legally permitted to attend remotely). Other participants, including officers and advisors, may attend remotely.

Pension Board – may be wholly remote or a hybrid meeting with some Members present physically and others remotely at the Chair's discretion.

Lead Member decisions are not subject to the same legislation that applies to the majority of Council and committee meetings (i.e., that requires the Members of those committees to meet in person). The Council agreed that Lead Member decisions can continue to be made remotely on an ongoing basis, subject to the discretion of the Lead Member to hold a physical meeting if preferred. Other Members, with the agreement of the Lead Member, are able to attend and speak virtually at Lead Member meetings, whether the meeting itself is a remote or a physical meeting. All Lead Member meetings held remotely are webcast to facilitate public access and provision is made at County Hall for those members of the public who may not have access to the webcast to be able to watch it.

32. These changes have, where appropriate, been reflected through updates to the Constitution approved by the Governance Committee. Currently no long-term changes have been included in Regulations from the government.
33. Communication to the public is via the Council's website, in public meetings, and through social media. The Council's corporate website has been updated with new page templates to ensure it is modern, easy to use, and meets new legal requirements to ensure content is accessible to as many people as possible. A transition to the new, accessible corporate pages was completed in May 2022. Work is also continuing to make all associated websites, microsites and applications meet accessibility requirements.

Stakeholders and Partnership

34. The Council works with a range of stakeholders. This includes a range of public bodies, local authorities, the NHS, and Sussex Police. Other tiers of local government are important partners in many areas of service delivery, strategic planning, and community development. There are both formal and informal forums in place for regular liaison with elected Members and senior officers in the district and borough councils, including regular meetings of all the leaders of the councils (East Sussex Joint Leaders Meetings), to discuss issues of common interest, and regular meetings of all chief executives, including the Chief Fire Officer, Chief Superintendent and the Chief Executive of East Sussex College Group (East Sussex Chief Executives Group). The Leader and Chief Executive of the Council are members of the East Sussex Strategic Partnership, which brings together public services, local businesses, community groups, and Voluntary, Community and Social Enterprise (VCSE) sector organisations to work together in a co-ordinated way to plan local services, tackle issues that matter to residents, and improve quality of life in East Sussex.
35. Regular meetings with other partners, most notably the NHS Clinical Commissioning Group and local NHS Providers, are held at various levels between officers to oversee operational, commissioning and service planning. For several years the Council has operated a joint service commissioning and pooled budget agreement with the NHS to cover a range of social care and NHS services, principally through the Better Care Fund.
36. Due to changes in NHS configuration, including the creation of a pan-Sussex Integrated Care System (ICS) to replace Clinical Commissioning Groups and the formation of an Integrated Care Partnership (ICP), revised member representation on these groups has been confirmed prior to commencing in July 2022. The Leader of the Council will be on the Sussex Health and Care Assembly (the ICP) in his role as Chair of the East Sussex Health and Wellbeing Board, the principal forum for health and social care liaison and partnership. It has also been agreed that the three upper tier Councils in Sussex (namely East Sussex County Council, West Sussex County Council and Brighton and Hove City Council) will be represented on the NHS Sussex Integrated Care Board (the ICB) by a Director of Adult Services, a Director of Children's Services and a Director of Public Health drawn from across the councils, to be agreed by the Chief Executives of each Council. The parties have agreed to establish shadow arrangements ahead of transitioning to the new governance and accountability structures formally on 1 July 2022.
37. The systems and arrangements for joint commissioning on an East Sussex and pan-Sussex basis will be reviewed during 2022/23. The terms of reference and membership of the Health and Wellbeing Board were revised in March 2019. The Board now monitors the progress of the integrated working between the local NHS, East Sussex County Council and wider partners in the district and borough councils and the VCSE sector. In addition, the East Sussex Health and Care Plan was produced, reflecting shared priorities, and a Strategic Development Framework for improving health and addressing health inequalities was developed and agreed. The Joint Health and Wellbeing Strategy will be refreshed based on this to set out the Board's vision and will be promoted and disseminated within the Council and through various corporate and partnership initiatives.
38. The Council has set out its commitment to working in partnership with residents, businesses, communities, the VCSE sector, and local authority partners through a number of initiatives. It has a set of partnership principles with the VCSE sector for the commitment to more effective ways of working together, building stronger alliances, and empowering joint action.

Consultation and engagement in East Sussex

39. The Council is committed to working with residents, businesses, communities, service users, and partners to help prioritise what it does, to give them a say over the approach and to have the chance to get involved in delivery and change. This requires sound arrangements for engagement and consultation.

40. The Council uses a variety of ways to engage residents and other stakeholders – publications (printed and digital), press releases and social media to keep people informed of plans or decisions, and engagement via questionnaires, public events, workshops, focus groups, satisfaction surveys and feedback forms.
41. Consultation and Engagement Quality Assurance is managed within departments. Services must develop projects which are robust and produce reliable valid data upon which decisions can be made.

Formal consultation

42. Formal consultation will generally only be undertaken where there is a statutory duty or legitimate expectation and where there is a service or policy need to do so. Consultations are carried out in accordance with current national Consultation Principles guidance and the Council's 'Statement of Community Involvement'. Individual services are required to maintain open channels of communication with relevant stakeholder groups and representative bodies where relevant to service planning.
43. All formal public consultations and engagement projects are made accessible online using the 'Citizen Space' consultation hub software. Other formats are available on request. They are also published on the Council's News and Press Release webpages. The Council ensures compliance with the public sector equality duty when processing and securing formal key decisions, although consistency and appropriateness of use requires further attention to ensure consistent compliance.
44. The information gathered is analysed and considered as part of the decision-making process, the protocol for which can be found in the Constitution. Analysis reports and decisions are made available on the 'Citizen Space' engagement hub webpages as a means of ensuring clarity and increasing public trust in decision-making processes.
45. Action was taken to increase the effectiveness of public engagement and communication including raising awareness of the need to comply with new online accessibility legislation. Work on reviewing our understanding of, and compliance with, the public sector equality duty has been completed. Members received an introduction to the public sector equality duty and its implications for their role as part of their induction.
46. All elected Members were also offered Equality, Diversity, and Inclusion in Leadership training to enable them to recognise the considerations that underpin fair decision-making in the Council and to ensure they can fulfil their legal obligations under the Equality Act 2010.
47. The Council has a Petitions Scheme describing how petitions from residents are dealt with by the Council. These enable a petitioner to speak with a Cabinet Member or at a committee, or to the Council if prescribed thresholds for signatures are reached. A response is made to each petition, explaining what the Council will or will not do in response.

SECTION C: Defining outcomes in terms of sustainable economic, social, and environmental benefits

Assured

The Council has established arrangements to define outcomes and monitor performance against agreed measures. These cover the strategic aims for supporting the economy, complement the social value policy of the Council and are built against a theme to address sustainability to support the Council's climate change commitments.

In setting policies and strategies, the Council takes a long-term view of outcomes, taking into account sustainable economic, social, and environmental aims and has effective, comprehensive performance monitoring in place.

The corporate document 'the Council Plan' was adopted by the Council at a meeting in February 2022. The Plan covers the period 2022-25 and performance will be monitored in a structured, timely and transparent way by the leadership team, by Cabinet Members and through Scrutiny Committees.

48. The Council Plan 2022-2023 outlines the priorities for the Council over the next three years and how they are to be assessed in terms of delivery and measures to monitor performance. It was agreed by Full Council in February 2022 and will be subject to quarterly performance monitoring by Cabinet and Full Council. The Council Plan was developed by the Cabinet and Corporate Management Team with the engagement of elected Members, Scrutiny Committees, and officers at all levels. Measures and targets were developed and approved as part of the agreed plan and are published online as well as being reported and scrutinised in public.
49. Active monitoring of performance is undertaken through regular reviews of business plans and with all staff through individual staff performance conversations. These arrangements link to performance and regular reviews of business plans. The Cabinet reviews the Quarterly Monitoring Report on a quarterly basis and this is reported to Full Council.

50. The Council is committed to championing the economy of the area. One of its priorities is to ensure East Sussex is a prosperous place and for the County to continue to thrive through supporting businesses. The East Sussex Growth Strategy, agreed in December 2014, sets out the Council's priorities in driving economic growth to support a prosperous place. The Plan covers the period 2014 to 2020 but, in determining which activities and investments to prioritise over the period, a longer-term view of opportunities and challenges is taken. This has become an area of particular focus in relation to the re-setting of priorities in light of the public health emergency and a new Economy Recovery Plan has been approved in response to the impact assessment of the emergency. Plans to develop a new Growth Strategy are currently being considered.
51. Partners and stakeholders contributed to the development of the 2014-20 Growth Strategy, including the district and borough councils, the South East Local Enterprise Partnership, the South Downs National Park Authority, further and higher education institutions and business representative organisations. Working with these partners is crucial in the Council's determination to support the business community and ensure growth for the East Sussex economy.
52. Following the Council's Notice of Motion on climate change, agreed in September 2019, a Climate Emergency Plan was formulated with the aim for the organisation to be carbon neutral by 2050, if not sooner. This was approved during 2020 after Member engagement and scrutiny.
53. The internal Officer Climate Emergency Board was set up to own and oversee delivery on climate change ambition. The Board reports on progress against the Climate Emergency Action Plan to the Lead Member for Resources and Climate Change and to the Place Scrutiny Committee. In November 2021, Cabinet approved £3.8m of additional investment in measures to accelerate the organisation's progress towards its Net Zero commitment, and this is being tracked through the same delivery and monitoring process.
54. The creation of the Council Plan 2022/23 is underpinned by the ambitions of the Council in responding to the challenges of climate change. All Directorates have been tasked to reflect this ambition in their 2022-23 Portfolio Plans to embed the ownership of climate change activity across the organisation. Quarterly reporting to Cabinet and monthly management reporting (internal) will highlight progress on key climate change indicators.
55. The Council is in the process of adopting a new Social Value Policy which seeks to infuse Social Value into the Council's culture through Good Commissioning, Good Procurement and Good Contract Management. To help bring the policy to life and promote best practice, a Social Value Review Group has been established which consists of a group of subject matter experts that are able to identify the needs of the local communities and establish strategies to help us meet those needs. This enables the Council to deliver real, meaningful value to local communities and residents.

SECTION D: Determining the interventions necessary to optimise the achievement of the intended outcomes

Assured

The Council takes decisions on interventions based on the priorities agreed in the Council Plan. In areas identified for improvement systems for governance, oversight, and scrutiny of interventions will continue to be given particular focus.

56. All Directorates are expected to prepare and monitor Portfolio Plans which set out the actions required to meet the outcomes set in the Council Plan and the measures, targets and milestones used to monitor their delivery. These are in place and progress is reviewed regularly by Departmental Management Teams (DMTs) alongside financial performance and the directorate's risk register. The Portfolio Plans are refreshed each year as part of the annual update of the Council Plan.
57. The Quarterly Monitoring Report provides details of our performance against our objectives in the Council Plan. The Cabinet and Full Council review performance through quarterly monitoring and the work of the Scrutiny Committees and Audit Committee.
58. The Quarterly Monitoring Report provides an overview of performance against the agreed priorities within the Council Plan and tracks financial performance and our strategic risks to ensure intended outcomes are kept in focus and expenditure controlled. The Quarterly Monitoring Report focuses on the delivery of:
- Council Plan and Performance Measures;
 - Medium Financial Term Strategy and in-year budget;
 - Strategic Risk Management.
59. Executive decision reports provide a public record of all significant decisions to implement service plans and spend. They are required to show the intended outcomes, the rationale for the proposal, implications for Council resources, other options considered, advice received, consultation undertaken and how risks are managed.
60. A number of officer boards chaired by senior officers ensure oversight of strategic areas of Council business on behalf of the Corporate Management Team. These boards co-ordinate subject matter expertise as well as overseeing arrangements for the delivery of priorities at an officer level, prior to Member consideration. They include the Corporate Equality Group, the

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Corporate Climate Emergency Board, the Communications Management Board, the Corporate Digital Board, the Customer Experience Board, the Capital Board and the HR Management Board.

SECTION E: Developing the entity's capacity, including the capability of its leadership and the individuals within it

Assured

Officers and Members are expected to have a clear sense of their purpose, roles, and responsibilities in line with the Council's vision and the suite of policies and processes which support it.

The Chief Executive and the Corporate Management Team manage the Council's workforce, skills and resource planning. All officers are expected to have their performance monitored and their development needs identified and addressed. Specific attention is paid to programmes for leadership development. Work continues to enable the Council's leaders to promote a positive and supportive culture and to provide the means of enhancing or reinforcing good leadership skills. The Council runs a leadership programme to encourage junior/mid-level managers to develop the skills required for senior leadership positions. In addition, all senior leaders are offered a series of masterclasses designed to support the development of Heads of Service and Assistant Directors. These masterclasses provide insight into key topic areas that are relevant for strategic leadership in the public sector.

A system is in place to ensure that all elected Members have an understanding of their roles and responsibilities when appointed or elected to particular positions within the Council. Members are expected to be able to fulfil the expectations and demands of their roles as local Members and those positions to which they may be appointed. Areas of focus for review are identified. Members have received training and support to help them to focus on the strategic nature of their roles. This has been a particular focus following the Council election in May 2021 and the induction of Members.

61. Arrangements for the Council's Member appointments to specific roles are open and set out in the Constitution. The Council elects the Leader who decides the composition and responsibilities of the Cabinet. The Council makes appointments to all committees. Changes can be made at each Full Council meeting. All terms of reference are published. There is a system for reviewing and refreshing all constitutional terms of reference for committees and boards which transact Council business.
62. Member roles – Executive and non-executive roles are defined and published within the Constitution on the Council's website and as part of the Members' Area of the intranet. The Member induction and training programmes cover these roles. All Member development sessions have attendance and feedback recorded.
63. The knowledge and development needs of Members are identified and addressed through a cross-party Member Reference Group (MRG). The MRG oversees the delivery of a planned programme of development to meet Member training needs, taking into account Members' views on priorities through surveys and feedback. It reviews the impact of Member development work and identifies areas for improvement.
64. A full induction programme was designed and implemented with a view to covering Members' strategic and local community roles, scrutiny skills, as well as specific training on the Member Code of Conduct, safeguarding and corporate parenting. Members in specialist roles receive a more tailored induction, including new Members of the Cabinet and of the Planning Committee, Pensions Committee and the Appeals Panels.
65. Specialist training is given to Members according to the roles they carry out. This includes training for Cabinet Members, Members appointed to the Scrutiny Committees and Members of the Regulatory Committee, Audit Committee, Planning Committee, Pensions Committee and Appeals Panels. Disclosure and Barring Checks (DBS) remain part of the induction of new Members following the May 2021 election. Enhanced DBS checks are carried out for Members in Adult and Children's Services related roles. Training on adults and children's safeguarding is being provided for all Members, with an online training module also available. Training was also provided to ensure awareness of Information Governance and data protection responsibilities as they apply to elected Members. Members also received guidance on cyber security.
66. The MRG led on the development of a comprehensive induction programme for Members, which was predominately delivered on virtual platforms due to the public health pandemic. This induction programme sought to ensure a first-class, Member-led programme which takes a phased and balanced approach to ensure all Members have the training, information and support they need.

Officers

67. Statutory roles include the designation of the Chief Executive as Head of Paid Service, the Assistant Chief Executive as the Monitoring Officer and the Chief Finance Officer as s.151 officer. Other critical statutory and leadership roles and their responsibilities are described in the Council's Constitution. These include the Director of Children's Services, the Director of Adult Social Care (ASC) and the Director of Public Health. All Directors are formally required each year to give assurance as to their compliance and that of their Service with a range of requirements and expectations of them as senior leaders within the Council.

68. All levels of management within the Council have a designated role profile and these profiles are accessible via the Council's intranet. Officers are given copies of their roles on appointment and are supported through induction training, their personal development review and supervision in understanding and developing their roles. Internally published HR procedures cover all aspects of performance and procedure to support managers.
69. Personal development priorities are agreed through a personal development review process. There is an established programme of induction training for new staff. Training is available increasingly through an online learning system. Leadership skills and development for senior officers is led by the Assistant Director of Human Resources and Organisational Development.
70. Issues of capacity and service resilience to ensure service effectiveness are covered through workforce planning as part of directorate business planning. Being an employer of choice is key to ensuring the Council can attract and retain the high calibre staff it needs. There are a number of initiatives underway that support this, including:
- the implementation of hybrid working arrangements as part of the Workstyles review;
 - the implementation of recruitment initiatives such as the 'Refer a Friend Scheme' and 'Apprenticeships Incentives Policy';
 - targeted actions such as the use of market supplements etc. for specifically identified job roles where a particular focus is needed;
 - the development of a corporate Equality, Diversity and Inclusion Action Plan which includes a number of workforce specific actions to support having a diverse workforce.

SECTION F: Managing risks and performance through robust internal control and strong public financial management

Assured

Risk management is robust overall and risks are being considered during business planning and decision-making processes, corporately and across all services.

Service and corporate performance management has been addressed in earlier sections of the report.

The Council has robust internal financial controls in place, displays strong public financial management and operates systems to manage risks and performance in the most effective manner.

71. The Constitution sets out the rules to ensure robust internal control over the Council's finances. The system and arrangements for financial performance management and budget monitoring demonstrate sound internal monitoring and control and have formal and well published arrangements for Member and officer oversight and transparency.
72. The system of internal financial control is based upon a framework of comprehensive financial regulations and procedures which comply with the CIPFA 'Good Practice Guide for Financial Regulations in a modern English Council'. Control is maintained through regular management information, supervision and a structure of delegation and accountability. External audit of the Council's accounts in 2020/21 concluded that arrangements remained robust. The external audit for 2021/22 is in the process of being concluded so the opinion has not yet been given. The Council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer in Local Government 2010'. A continuous review is maintained. The Financial Regulations and Procedures are kept under review by the Chief Finance Officer.
73. In completing and signing the Directorate Assurance Statement, each Chief Officer reviews the effectiveness of governance arrangements, risk management processes and the system of internal control and considers:
- The adequacy and effectiveness of management review processes;
 - The work of the department's management team and other managers and staff;
 - The regular review of the department's performance against both financial and non-financial targets;
 - Outcomes from the strategic and operational risk management processes;
 - The level of compliance with the Council's key policies and procedures;
 - Relevant internal audit reports and results of follow-ups regarding implementation of agreed actions in relation to audit findings; and
 - Outcomes from reviews of services by other bodies including our external auditors, inspectorates and other statutory and regulatory review bodies.
74. Evidence of assurance given is supplemented in the Annual Assurance Statement for each directorate. These include actions for improvement.

75. The officer scheme of delegation is critical for the effectiveness of controls of spending and performance. Directors are required to ensure and confirm the effectiveness of the scheme of officer authorisation and have worked with the Assistant Chief Executive to ensure that there is shared understanding of the operation of delegations and the need to continually review them.
76. The County Council annually reviews the effectiveness of its governance framework including the system of internal control. The review is informed by the Chief Internal Auditor's annual report and opinion 2021/22, by the external auditor and other agencies and inspectorates. These findings are brought together within this Statement and are reported annually to the Audit Committee. The Audit Committee undertakes the functions of an audit committee. This includes review of the work and findings of Internal Audit. The audit arrangements which support and reinforce financial controls and assurance are fully addressed under Principle G below.
77. The appropriate management of risk is a fundamental element of the Council's ability to provide cost effective, quality services and to deliver its four priority outcomes. To achieve this, sound risk management policy and practice are firmly embedded within the culture of the Council, providing a proportionate and effective mechanism for the identification, assessment and, where appropriate, management of risk. In developing its Risk Management Framework, the Council recognises that risks cannot be fully managed and that, in being more innovative, efficient and effective in the delivery of its services, it may choose to take and/or accept more risk. Where this is the case, robust risk management practice will help ensure that the Council takes appropriately informed decisions, having properly evaluated the potential risks and the associated opportunities. The Council's risk profile is dynamic and continually changing due to the influence of external factors and/or internal influences. The level of risk can alter and consequently, identified risks and associated mitigations are regularly re-assessed to address and combat the impact of these changes. In addition, new risks will periodically emerge which must be identified and analysed to reduce the Council's exposure to adverse risk.
78. Risk information is recorded within registers maintained at a corporate (strategic) level and individual department/divisional level. As a minimum, all risk registers should be formally reviewed and updated on a quarterly basis as part of the Council monitoring process. This process includes a review of departmental risk registers by each DMT, including any strategic risks for which the Chief Officer concerned has responsibility, prior to subsequent review by the Corporate Management Team. The Strategic Risk Register is also reviewed and updated by the Corporate Management Team prior to being reported to Cabinet and the Audit Committee.
79. As part of the above process, consideration is given as to the escalation and de-escalation of risks between the Departmental and Strategic Risk Registers.
80. There is a separate requirement for material risks connected with proposals, policies and spending decisions to be formally identified with actions taken to manage such risks in all recorded and published decision reports.
81. Risk management is delivered through robust directorate controls including the business planning process, supported by the Risk Management Framework. The Chief Operating Officer carries the operational officer responsibility for risk management. The Chief Executive is accountable to the Council for the effectiveness of the risk strategy.

SECTION G: Implementing good practices in transparency, reporting and audit, to deliver effective accountability

Assured

The Council has transparent processes in place through publication of the Forward Plan of key decisions, of agendas and reports of its meetings and those of its committees. This includes key decision reports on the website and the prominence given to reporting and enforcing of agreed audit actions through the Audit Committee, which meets in public.

The Council has effective, open data reporting arrangements to ensure the accessibility of significant spend, contractual and other data relevant to financial performance. This has also been addressed through the development of the performance management reporting arrangements linked to the implementation of the Council Plan.

82. All meetings of the Full Council and of the committees which discharge executive, non-executive or scrutiny functions take place in public and have their reports and minutes published on the Council's website. Cabinet, Lead Member and Committee decisions, agendas and reports are published on the website and are available to the press and public. This is driven by the publication of the Forward Plan of key decisions. A limited number of reports are considered in private session only when the subject meets the prescribed criteria.

Assurance and Significant Governance Issues

83. The Audit Committee undertakes the functions of an audit committee. This includes review of the findings of Internal Audit. The Committee meets regularly and in public and holds officers to account for the timely implementation of agreed audit actions.

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84. No assurance can ever be absolute; however, this Statement seeks to provide a reasonable assurance that there are no significant weaknesses in the Council's governance arrangements. On the basis of the review of the sources of assurance set out in this Statement (in Annex A), we are satisfied that the Council has in place satisfactory governance arrangements, including a satisfactory system of internal control, both of which are operating effectively.
85. The Annual Internal Audit Annual Report and Opinion provides an opinion on the adequacy of the Council's control environment as a contribution to the proper, economic, efficient and effective use of resources. The Council must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. Annually, the Chief Internal Auditor is required to provide an overall opinion on the Council's internal control environment, risk management arrangements and governance framework to support the Annual Governance Statement and this is provided in the Internal Audit Annual Report and Opinion. Based on the internal audit work completed, the Orbis Chief Internal Auditor has provided substantial assurance that the Council had in place an adequate and effective framework of governance, risk management and internal control for the period 1 April 2021 to 31 March 2022.
86. As part of our review, we have not identified any gaps in assurance over key risks or significant governance issues.
87. 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.
88. Both governance and internal control arrangements must be kept under review to ensure that they continue to operate effectively, meet changing legislative needs and reflect best practice and our intention to achieve excellence in all our activities. The Council, through the Directorate Assurance Statements and the Chief Finance Officer's Assurance Statement, has identified a number of areas where it wishes to enhance its governance arrangements. These are set out on the attached Annex A together with the department responsible for them. Each Director has included in their Directorate Assurance Statement confirmation that the actions identified for 2020/21 have been completed or provided an update and explanation regarding progress.
89. A review of the AGS was undertaken by Internal Audit during 2020/21 and an opinion of Substantial Assurance was given. This opinion means that controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. The minor actions agreed for further improvement have been implemented. Further work will be undertaken as part of this year's Audit Plan.
90. 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 Annex A will be monitored through departmental business plans.
91. 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. Action plans are in place to address these issues and their implementation will be monitored and reviewed during the year.
92. Details of bodies where the Council is a Member or appoints a Director are set out in Annex B.

Keith Glazier Leader of the Council September 2022

Becky Shaw Chief Executive September 2022

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Annex A – Sources of Assurance and Actions

Key:

ACE = Assistant Chief Executive

ASC = Adult Social Care

CET = Communities, Economy and Transport

CFO = Chief Finance Officer

COO = Chief Operating Officer

HR&OD = Human Resources & Organisational Development

MRG = Member Reference Group

Table of assurance for Principle A: Integrity and Compliance

Source of assurance	Where found	Who is responsible	Role	last review/ action planned*
Constitution	Website and intranet	Full Council, Governance Committee and ACE	A single source for rules and procedure for lawful sound business and meeting management	Constitution has been reviewed and updated several times during 2020/21. Will continue to be reviewed on a regular basis
Code of Conduct for Members	Website, webshop for schools, intranet, Constitution	Standards Committee & ACE	Defines standards of behaviour and how to enforce them	Approved by the Full Council in May 2019. Reviewed by Standards Committee April 2021.
Code of Conduct for employees	Website, webshop for schools, intranet, Constitution	Governance Committee HR&OD	Defines standards of behaviour and how to enforce them	Last review in March 2020 and reflects County Council policy, best practice and legislation. Improvements to declaration of interest process*
Whistleblowing Policy	Intranet	Governance Committee & All Chief Officers	Defines process to report breaches of rules or standards confidentially	Reviewed March 2020
Anti-fraud and corruption strategy	Intranet	COO	Statutory obligations recorded and enforced	Reviewed by Audit Committee in 2020. Action to increase awareness*
Anti-Money Laundering Policy	Intranet	COO	Statutory obligations recorded and enforced	Reviewed by Audit Committee 2020. Annual review of Policy and compliance as part of LEXCEL accreditation
Register of Member Interests	Website	ACE	Statutory list of interests	Entries updated on an ongoing basis. Quarterly reminders to Members to review.
Register of Officer Interests	Restricted access		Record of financial and conflicting business interests	Reviewed in 2020. Regular reports submitted to SOG regarding system issues and actions
Corporate Complaints Policy	Website, intranet	Chief Executive & Governance Committee	Describes mechanism for handling all complaints	Reviewed annually. Action to raise awareness*
Employment Policies	Intranet	Governance Committee and Assistant Director HR&OD	Defines rules of conduct and procedures to manage	Policies reviewed in line with changes in legislation and best practice
Information Security and Data Protection Policy	Intranet	COO	Defines rules and procedures to protect data.	Reviewed and updated November 2020. Action to continue training awareness programme
Freedom of Information policy	Website	Director of CET	Defines rules and procedures	Policy reviewed in 2020/21. No action proposed*

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Source of assurance	Where found	Who is responsible	Role	last review/ action planned*
Standing Orders on Procurement and Contracts	Website, Constitution	COO	To prescribe the rules for all contracts and procurement activity	Reviewed January 2020. To review in 2021/22

Table of Assurance for Principle B: Openness and Stakeholders

Source of assurance	Where found	Who is responsible	Role	last reviewed/ action planned*
Scheme of Delegation	Website, Constitution	Full Council, Governance Committee & All Chief Officers	To fully define who takes what decisions and how and how recorded	Scheme updated several times in 2020/21. Action to continue to monitor and update. Ensure that Internal Schemes of Authorisation are updated accordingly
Forward Plan	Website	ACE	Describes planned key decisions for next 4 months	Ongoing
Scrutiny Committee business planning	Scrutiny Committee reports	Statutory Scrutiny Officer	Records planned scrutiny work	Continuous with annual work programme published with each Scrutiny Committee agenda
Openness and access to meetings/ decisions.	Constitution and Website	ACE	Describes rules and process for ensuring transparency of business	Web casting of meetings extended to all formal meetings during 2020 during Covid restrictions. Meetings held remotely continue to be webcast
Equality Policy	Website And decision-making protocol	Chief Executive. Relevant Director (for decisions) COO (for staff)	Source of guidance for ensuring compliance with public sector equality duty	To be reviewed in 2022.
Health and Wellbeing Board arrangements	Constitution	Director of ASC	Forum for strategic joint business and service oversight	Board and terms of reference reviewed in 2018/19. Terms of reference to be reviewed again in June 2022 to reflect ICS changes

Table of Assurance for Principle C: Sustainability

Source of assurance	Where found	Who is responsible	Role	last reviewed/ action planned*
Our Council Plan	Website	Full Council, Cabinet & Chief Executive	Describes the measure and targets for key corporate & service aims	The County Council agreed current Plan in February 2021. Quarterly reports to Cabinet and Full Council
Climate Change Strategy	Website	Director of CET	Sets Council's commitment to becoming carbon neutral and climate resilient by 2050 at the latest	The Climate Emergency Plan was in 2020. Annual report on progress submitted to the Cabinet and Full Council

Sources of Assurance for Principle D: Optimising Interventions

Source of assurance	Where found	Who is responsible	Role	last reviewed/ action planned*
Policy, Performance and Resources Reports	Website	Chief Executive & Cabinet and	Reviews policy and financial and operational performance	Regular reports to Full Council, Cabinet and Scrutiny Committees
Executive Decisions process	Website	ACE	To record rationale, legality and financial compliance of decisions	Format revised 2018. New publication system by Modern.gov 2018
Business Plans	Share Point	All Directors	Record of actions and objectives for delivery of Our Council Plan	Annual. Action taken to ensure better coordination of plans between Directorates implemented as part of Our Council Plan

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Source of assurance	Where found	Who is responsible	Role	last reviewed/ action planned*
Financial Regulations (FR) and compliance with Financial Management Code (FMC)	Website, Constitution	CFO	Provide sound systems for financial management	FR – Revision February 2019. Further review in May 2022, to be considered by SOG in June 2022. FMC – annual compliance report to Audit Committee

Sources of Assurance for Principle E: Leadership Capability

Source of assurance	Where found	Who is responsible	Role	last reviewed/action planned
Scheme of delegation	Website, Constitution	Full Council, Governance Committee, All Chief Officers	Formal allocation of key roles and functions, including Statutory and senior officers	Scheme updated several times in 2020/21. Action to continue to monitor and update. Ensure that Internal Schemes of Authorisation are updated accordingly
Budget, including medium term financial plan (MTFP)	Reports to Cabinet and Full Council	County Council Chief Executive, CFO	To agree a sound budget and financial strategy	Budget set in February 2021. The MTFP is subject to review as part of the RPPR process
Member Training and Development	Councillors' area of intranet	Governance Committee, MRG, ACE	Plan and record all Member training	Plan reviewed as part of the induction arrangements for May 2021 onwards. Survey undertaken with councillors to identify training needs. Rolling plan that is updated during the year
Employment Policies	Intranet	Governance Committee, HR&OD	Describe all officer duties, rules and requirements	Policies reviewed in line with changes in legislation and best practice
Workforce Planning arrangements	HR policies and Directorate plans	Relevant Director	Provides rationale and scheme for ensuring resilience and capacity	Particular focus on service improvement plans
Staff role profiles	Intranet	Heads of Service	Describe all officer roles	Updated as roles change
Member Induction Programme	Intranet	MRG, ACE	To determine the content of the programme	Plans completed in early 2021, for induction programme for post May 2021
Officer Performance management	Intranet	HR&OD & all Directors for delivery	To manage performance and development	Annual performance review process for all staff

Sources of Assurance for Principle F: Risk and Performance

Source of assurance	Where found	Who is responsible	Role	last reviewed/action planned
Governance Statement	Website	Governance and Audit Committees, ACE	Captures all sources of governance assurance	Annual (this document)
Guidance to Members on Outside Bodies	Website, Constitution	ACE	To provide guidance to Members in relation to roles and responsibilities when appointed to outside bodies	Reviewed March 2020. Two training sessions to Councillors as part of the induction programme in 2021
Local Code of Corporate Governance	Governance agenda	Governance Committee ACE	To confirm the corporate governance principles in place	Reviewed on an annual basis
Risk Management Framework	Intranet	COO	Strategic aims and objectives for corporate risk management	Last updated May 2021 and subject to regular review

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Source of assurance	Where found	Who is responsible	Role	last reviewed/action planned
Health and Safety Policies	Intranet and Webshop for schools	Assistant Director HR&OD	Provides rules, procedures and systems for assurance in relation to health and safety at work and in relation to property risk	All policies regularly reviewed. Action to continue training programme*
Audit Function	Website, Constitution	Audit Committee Chief Internal Auditor COO	To manage and ensure the effectiveness of Audit	External Quality Assessment of Internal Audit in accordance with the Public Sector Internal Audit Standards. Annual internal audit report and opinion review. Quarterly internal audit report to the Audit Committee. Annual External Audit Plan. Annual Audit Letter
Treasury Management Strategy	Website	COO	For sound strategy to limit risks to borrowings and investments	Reviewed and updated by Council February 2021
Financial Regulations (FR) and compliance with Financial Management Code (FMC)	Website, Constitution		To prescribe the rules for all financial transactions in line with Financial Management Code.	FR – Revision February 2019. Further review in May 22* FMC – Annual compliance report to Audit Committee.
Business Continuity	SharePoint	Director of CET	To provide safe systems and procedures to manage local and civil emergencies	Regularly reviewed. Post-Covid review exercise schedules for October 2022

Sources of Assurance for Principle G: Audit and Transparency

Source of assurance	Where found	Who is responsible	Role	last reviewed/action planned*
Audit Function	Website, Constitution	Audit Committee Chief Internal Auditor COO	To manage and ensure the effectiveness of Audit	External Quality Assessment of Internal Audit in accordance with the Public Sector Internal Audit Standards. Annual internal audit report and opinion review Annual internal audit report and opinion review. Quarterly internal audit report to the Audit Committee. Annual External Audit Plan. Annual Audit Letter
External Audit of Accounts	Website	COO, CFO	To give external assurance to the quality of the Council's accounts and accounting practice	Auditor issued an unqualified opinion in relation to the 2020/21 accounts The 2021/22 audit is underway, with the published report expected in September 2022

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Annex B – Separate bodies where the County Council is a member or appoints a Director

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	East Sussex County Council is a shareholder in TRICS Consortium Ltd. The Council has a 16.7% share – equal share with the five other County Council shareholders
What is the structure and form of the body (e.g., private limited company etc.)	TRICS is a local authority trading company, and is a company limited by shares. 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 East Sussex County Council 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 East Sussex County Council. The East Sussex County Council Director shares the annual report with the relevant Head of Service.
What the relationship is between the body and individual councillors and whether councillors' 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

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Woodland Enterprise Limited. - 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	East Sussex County Council is a member of this company. This is a company without shares but in terms of "influence" East Sussex County Council has a 19% voting right.
What is the structure and form of the body (e.g., private limited company etc.)	The Company is limited by guarantee.
How the Council oversee its activities and provided assurance on its governance including financial governance	East Sussex County Council receives copies of Woodland Enterprise Limited's annual accounts. East Sussex County Council 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 East Sussex County Council Statement of Accounts.
What the relationship is between the body and individual councillors and whether councillors' involvement is likely to constitute a conflict of interest	Councillor Kirby-Green has been appointed to serve as a Director on the Board of Woodland Enterprise Limited. There might be possible conflicts of interest (e.g. grant funding from East Sussex County Council, 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	East Sussex County 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

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

<p>What the relationship is between the body and the local authority</p>	<p>East Sussex County Council (with others including Rother District Council and Hastings Borough Council) is a member of Sea Change Sussex. The Council is entitled to appoint a Director to the Board of Directors - Councillor Bennett is appointed to this role. As Sea Change Sussex is a company limited by guarantee without share capital its members do not hold shares, but have a percentage voting right in in decision-making by members of the company. The County Council alongside Rother District Council and Hastings Borough Council have a combined maximum voting right of 19.9%.</p> <p>Sea Change Sussex develops and manages key economic development and infrastructure schemes in East Sussex. The company 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 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 grant or loan agreements (as applicable) in place for each scheme awarded.</p>
<p>What is the structure and form of the body (e.g., private limited company etc.)</p>	<p>Private company limited by guarantee without share capital.</p> <p>The company has four classes of membership: A Members – East Sussex County Council together with Hastings Borough Council and Rother District Council; B Members - Hastings, Bexhill and East Sussex Business Association Limited; C Members – representative(s) of the education sector; D Members – representative(s) of the voluntary and community sector.</p> <p>Under the company's articles of association, so long as there are at least three A Members, one B Member and one D member, votes cast by the B member constitute 50% of the voting rights. The aggregated voting rights of C members constitute no more than 19.9%.</p>
<p>How the Council oversee its activities and provided assurance on its governance including financial governance</p>	<p>Councillor Bennett is the East Sussex County Council appointed Director of the Sea Change Sussex Board of Directors and 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 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 on a project by project basis. Sea Change Sussex are bound by the terms of individual Grant and Loan agreements stipulating the guidelines which Sea Change Sussex must adhere to.</p>

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	<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> <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 Sea Change Sussex. 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 East Sussex County Council (Local Growth Fund grants, Growing Places Fund loans, and more recently Getting Building Fund grant) including that invested in the delivery of the capital infrastructure delivered by Sea Change Sussex) and the forecast spend for the coming financial year, all of which are compiled with finance colleagues and signed off by S151 officer.</p> <p>Schemes can be subject to review by Internal Audit.</p>
What the relationship is between the body and individual councillors and whether councillors' involvement is likely to constitute a conflict of interest	<p>Councillor Bennett is a director of the company on the Sea Change Sussex Board of Directors and attends the quarterly Board meetings.</p> <p>If reports relating to Sea Change Sussex were to be considered by Full Council, Cabinet or any Committees that Councillor Bennett attends, he would declare an interest as a Director of Sea Change Sussex.</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>The Council has appointed Councillor Bennett as a director to the Sea Change Sussex Board of Directors. Councillor Bennett attends Board Meetings at which progress reports on projects are considered.</p> <p>Councillor Keith Glazier sits on both the SELEP Strategic Board and SELEP Accountability Board and regularly attends meetings. The Accountability Board receives updates on project progress, which include projects delivered by Sea Change Sussex and therefore provides a level of assurance or a forum for raising concerns.</p> <p>There are scrutiny arrangements in place for all funding decisions taken by the Accountability Board. Under the SELEP Assurance framework, the Places Scrutiny Committee has the power to call in and scrutinise the decisions before they are implemented. Under the SELEP Accountability Board Joint Committee Agreement, each of the six Partner Authorities has the ability to challenge a decision made by the SELEP Accountability Board.</p> <p>Accountability Board decisions may be called-in by Members of any Partner Authority in the same way they call-in decisions of their own executive arrangements, call-in may only be made if the decision affects that partner area. The 6 upper tier Authority Areas that form the SELEP are East Sussex, Essex, Kent, Medway, Southend and Thurrock.</p> <p>Furthermore, to facilitate Local Authority scrutiny of SELEP work and decisions, requests to attend Local Authority partner Scrutiny Committees are welcomed, and attendance prioritised.</p>
Designated Officer contact	Richard Dawson, Communities, Economy and Transport

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

What the relationship is between the body and the local authority	The County Council is a partner authority of SELEP Ltd – one of six county/unitary authorities, as listed above and has one seat on the Board. The Leader of the Council (Councillor Glazier) is the East Sussex County Council appointed Company Director of SELEP Limited occupying this seat. As SELEP Limited is a company limited by guarantee without share capital there are no shares/shareholders in the company. The Council has one seat on the Board of Directors of SELEP Ltd, occupied by the Leader of the Council.
What is the structure and form of the body (e.g., private limited company etc.)	SELEP Ltd became a 'company limited by guarantee' in Feb 2020. SELEP Ltd has a Board of 20 Directors (plus an additional 5 co-opted Directors). East Sussex, Essex, Kent, Medway, Southend and Thurrock are Members of the company. SELEP Ltd operates a federated model of governance, with four 'federated boards' covering its geography, allowing for decision-making and project prioritisation at a local level. The federated board for East Sussex is 'Team East Sussex' (TES).
How the Council oversee its activities and provided assurance on its governance including financial governance	<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"> • Accountability Board – a 'joint committee' made up of SELEP's six county/unitary authority Members, to oversee the financial governance of SELEP Ltd, responsible for the sign-off of all funding decisions. The Leader of the County Council is our representative on the SELEP Accountability Board. • Investment Panel – a sub-committee of the Strategic Board to act as an advisory committee on matters pertaining to project prioritisation, recommendations on provisional funding allocations and future priorities. The Leader of the County Council is our representative on the SELEP Investment Panel. • Senior Officer Group – an advisory group made up of a senior officer from each of SELEP's six county/unitary authorities. East Sussex County Council's Head of Economic Development, Skills, Culture and Infrastructure is our representative on the SELEP Senior Officer Group. <p>For projects within our local federated area, the 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 Council and Essex CC as the accountable body to SELEP Ltd, and the Council's S151 Officer is required to sign-off on all grant and loan agreements between the 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. Senior officers of the Council, 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>

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What the relationship is between the body and individual councillors and whether councillors' involvement is likely to constitute a conflict of interest	The Leader of the 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 attends as substitute and 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 East Sussex County Council Leader on SELEP Ltd is <u>not</u> likely to constitute a conflict of interest.
How can councillors scrutinise the activities of the body, in particular if it will fall within the remit of the Audit or Scrutiny Committee, and if not, how else scrutiny will happen	The activities of SELEP Ltd do not fall within the remit of the County Council's Audit or Scrutiny Committee, but SELEP Ltd does have its own scrutiny arrangements for all funding decisions taken by the SELEP Accountability Board, whereby each of the six county/unitary authority Members of SELEP Ltd has the ability to challenge a decision made by the Accountability Board, and the Scrutiny Committees of the six county/unitary authorities have the power to call-in the funding decisions before they are implemented.
Designated Officer contact	Richard Dawson, Communities, Economy and Transport

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Hastings and Bexhill Renaissance Ltd (HBRL) – This is a company limited by guarantee without share capital offering business support services for economic development and to improve local education

What the relationship is between the body and the local authority	<p>Alongside Rother District Council, Hastings Borough Council, East Sussex County Council is a Member of Hastings and Bexhill Renaissance Ltd (HBRL) which trades as 'Seaspace'. HBRL was established as part of the transition arrangements agreed between Government and the South East England Development Agency (SEEDA) and associated organisations. The responsibility for the management of the land and assets SEEDA had acquired was entrusted to HBRL. HBRL no longer holds any land or assets of significance.</p> <p>The Articles of Association for HBRL identifies that the Members are divided into three classes of membership:</p> <ul style="list-style-type: none"> A. Each of the Councils B. Hastings, Bexhill and East Sussex Business Association Limited C. Up to seven other Members <p>Councillor Bennett sits as a Director on the Board of Directors alongside the above representatives.</p> <p>The company Members do not hold shares but have a percentage voting right in the decision-making by the members of the company. The local authorities between them have a maximum aggregated voting right of 19.9%.</p>
What is the structure and form of the body (e.g., private limited company etc.)	Private company limited by guarantee without share capital.
How the Council oversee its activities and provided assurance on its governance including financial governance	<p>Annual General Meetings (AGM) attended by the Directors (Councillor Bennett is the Council appointed Director on HBRL) are held where the following agenda items are considered:</p> <ul style="list-style-type: none"> - the Annual Accounts - Key Issues Memorandum - Letter of Representation <p>The Council appointed Director's attendance at the AGM is supported by a senior officer.</p>
What the relationship is between the body and individual councillors and whether councillors' involvement is likely to constitute a conflict of interest	<p>Councillor Bennett, as a Director of the company, attends the AGM as the Council appointed Director to HBRL.</p> <p>If reports relating to HBRL were to be considered by Full Council, Cabinet or any Committees that Councillor Bennett attends, he would declare an interest as Director of HBRL.</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	The Council's role in HBRL falls under the remit of the Place Scrutiny Committee.
Designated Officer contact	Richard Dawson, Communities, Economy and Transport

Annual Governance Statement for year ended 31 March 2022

Combe Valley Countryside Park (CVCP) Community Interest Company (CIC)

What the relationship is between the body and the local authority	East Sussex County Council is a member of the company. East Sussex County Council has one vote on the Board (equal to all other board members). Cllr Beaver has been appointed by the Council to sit on the Board of Directors.
What is the structure and form of the body (e.g., private limited company etc.)	<p>The Company is a private company limited by guarantee and a Community Interest Company. The company is a not-for-profit organisation.</p> <p>The other Members of the company are:</p> <ul style="list-style-type: none"> - Hastings Borough Council; - Rother District Council; - Crowhurst Parish Council; - Friends of Combe Valley; - Bourne Leisure Limited; - Kitchenham and Worsham Farms. <p>In February 2022 the Board approved a new company structure with 12 Directors as follows:</p> <ul style="list-style-type: none"> • 8 Co-opted Directors: 6 from Company Members and 2 independents appointed by the Board; • 4 nominated by Local Authority company Members. <p>This proposal is due to be put to Members for approval in June 2022. Currently there are 15 Directors. 8 Co-opted (as above) and 7 nominated by Local Authority Members.</p> <p>The Boards role is to provide leadership and oversight of all the CIC activities and is primarily concerned with strategy, planning, fundraising & development and governance. The CIC has appointed Groundwork South as their managing agent (via an agreed SLA) who report progress back to the Board.</p>
How the Council oversee its activities and provided assurance on its governance including financial governance	<p>The Council appointed two Members of the Council to sit as Directors on the Board of Directors. On 14 March 2022, the Lead Member for Transport and Environment considered a report regarding the Council's representation on the CIC and agreed to support a proposal to reduce the number of Council appointed Directors from two to one. The Council still has one vote on the Board.</p> <p>The East Sussex Councillor Representative attends CIC board meetings.</p> <p>The Board meets 4 times per year, standing papers and minutes are circulated to all Directors. Annual accounts are approved at the February Board meeting and are submitted to Companies House, so are publicly available.</p> <p>Local Authority officers attend the Board meetings which enables them to contribute to discussions of the Board as appropriate. Officers are not Directors so as such do not have voting rights. The CIC has established a Local Authority Officers Group which</p>

Annual Governance Statement for year ended 31 March 2022

	<p>includes the representatives to the Board meeting and other officers. This group meets 2/3 times per year to take forward project ideas and support the process of project approval and delivery.</p> <p>The directors have equal votes at CVCP CIC meetings, except for decisions related to the appointment or removal of a majority of Directors, where Local Authority voting rights are restricted to 49%.</p>
What the relationship is between the body and individual councillors and whether councillors' involvement is likely to constitute a conflict of interest	The East Sussex Councillor Representative attends CIC board meetings and has voting rights. There could be potential conflict of interest if the CIC Board need to make decisions with regard to matters being promoted by the County Council. This is kept under review.
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	By being present at the CIC meetings and making comments/voting on proposals being put forward by the CIC. Progress reports and management accounts are provided to the Board quarterly and annual accounts are presented to the Board for approval annually.
Designated Officer contact	Virginia Pullan, Communities, Economy and Transport

Comprehensive Income and Expenditure Statement

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

2020/21 Restated				2021/22		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000		£000	£000	£000
332,695	(161,355)	171,340	Adult Social Care	333,490	(146,741)	186,749
27,838	(31,020)	(3,182)	Public Health	32,221	(31,844)	377
8,348	(654)	7,694	Governance Services	9,135	(611)	8,524
451,954	(298,247)	153,707	Children's Services	445,534	(312,041)	133,493
47,769	(16,469)	31,300	Business Services	48,397	(17,070)	31,327
146,909	(44,561)	102,348	Communities, Economy & Transport	141,335	(47,869)	93,466
15,529	(1,598)	13,931	Corporate Expenditure	15,328	(1,114)	14,214
1,031,042	(553,904)	477,138	Cost of Services	1,025,440	(557,290)	468,150
44,436	-	44,436	Other operating expenditure - Note 11	25,728	-	25,728
28,544	(2,006)	26,538	Financing and investment (income) and expenditure - Note 12	28,571	(1,419)	27,152
-	(469,379)	(469,379)*	Taxation and non-specific grant income - Note 13	-	(458,097)	(458,097)
		78,733*	Deficit on Provision of Services			62,933
		(72,301)	Surplus on revaluation of non-current assets – Note 25			(27,573)
		89,195	Remeasurement of the net defined pension liability – Note 25			(233,958)
		16,894	Other Comprehensive (Income) and Expenditure			(261,531)
		95,627*	Total Comprehensive (Income) and Expenditure			(198,598)

*Restated to correct the accounting treatment of the SALIX loan received in 2020/21 (see Note 48)

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.

2020/21	General Fund Balance (Restated) £000	Schools Balance £000	Earmarked Reserves (Restated) £000	Total General Fund (Restated) £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves (Restated) £000	Unusable Reserves £000	Total Council Reserves (Restated) £000
Balance at 31 March 2020 - Notes 24 and 25	9,999	15,041	124,697	149,737	3,044	14,132	166,913	218,701	385,614
Movement in Reserves during 2020/21									
Total Comprehensive Income and Expenditure	(78,733)*	-	-	(78,733)*	-	-	(78,733)*	(16,894)	(95,627)*
Adjustments between accounting basis & funding basis under regulations - Note 7	139,558	-	-	139,558	2,796	3,191	145,545	(145,545)	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	60,825*	-	-	60,825*	2,796	3,191	66,812*	(162,439)	(95,627)*
Transfers to / (from) Earmarked Reserves - Note 10	(60,825)*	5,471	55,354*	-	-	-	-	-	-
Increase / (Decrease) in Year	-	5,471	55,354*	60,825*	2,796	3,191	66,812*	(162,439)	(95,627)*
Balance at 31 March 2021 - Notes 24 and 25	9,999	20,512	180,051*	210,562*	5,840	17,323	233,725*	56,262	289,987*

*Restated to correct the accounting treatment of the SALIX loan received in 2020/21 (see Note 48)

Movement in Reserves Statement

2021/22	General Fund Balance	Schools Balance	Earmarked Reserves	Total General Fund	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2021 - Notes 24 and 25	9,999	20,512	180,051	210,562	5,840	17,323	233,725	56,262	289,987
Movement in Reserves during 2021/22									
Total Comprehensive Income and Expenditure	(62,933)	-	-	(62,933)	-	-	(62,933)	261,531	198,598
Adjustments between accounting basis & funding basis under regulations - Note 7	90,131	-	-	90,131	4,091	(3,200)	91,022	(91,022)	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	27,198	-	-	27,198	4,091	(3,200)	28,089	170,509	198,598
Transfers to / (from) Earmarked Reserves - Note 10	(27,198)	816	26,382	-	-	-	-	-	-
Increase / (Decrease) in Year	-	816	26,382	27,198	4,091	(3,200)	28,089	170,509	198,598
Balance at 31 March 2022 - Notes 24 and 25	9,999	21,328	206,433	237,760	9,931	14,123	261,814	226,771	488,585

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 2021 Restated £000		Note	31 March 2022 £000
937,556	Property, Plant & Equipment	14	934,669
654	Heritage Assets	17	654
11,151	Investment Property	15	10,770
3,505	Intangible Assets	16	5,491
19,462	Long Term Investments	18	20,245
4,893	Long Term Debtors	20	5,376
977,221	Long Term Assets		977,205
223,058	Short Term Investments	18	252,689
12,121	Assets Held for Sale	19	4,753
9,040	Payments in Advance	20	8,689
22	Inventories		15
56,310	Short Term Debtors	20	53,035
45,908	Cash and Cash Equivalents	21	46,017
346,459	Current Assets		365,198
(25,161)	Income in Advance	22	(29,918)
(4,839)	Short Term Borrowing	18	(7,011)
(6,252)	Bank overdraft and Accrued balance for third parties	21	(10,073)
(4,565)	Provisions	23	(5,127)
(107,291)	Short Term Creditors	22	(111,812)
(148,108)	Current Liabilities		(163,941)
(559,382)	Liabilities related to defined benefit pension schemes	42	(375,348)
(10,344)	Provisions	23	(10,189)
(233,878)*	Long Term Borrowing	18	(229,072)
(15,412)	Capital Grants & Contributions Receipts in Advance	35	(14,102)
(66,569)	Other Long Term Liabilities	40	(61,166)
(885,585)*	Long Term Liabilities		(689,877)
289,987*	Net Assets		488,585
233,725*	Usable Reserves	24	261,814
56,262	Unusable Reserves	25	226,771
289,987*	Total Reserves		488,585

*Restated to correct the accounting treatment of the SALIX loan received in 2020/21 (see note 48)

I certify that this Statement of Accounts provides a true and fair view of the financial position of the Council as at 31 March 2022 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 November 2022**

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.

2020/21 Restated		2021/22
£000		£000
78,733*	Net deficit on the provision of services	62,933
(207,881)	Adjustments to net deficit on the provision of services for non-cash movements	(142,069)
70,803*	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	45,589
(58,345)	Net cash inflow from Operating Activities - Note 26	(33,547)
26,395*	Investing Activities - Note 27	29,435
2,141*	Financing Activities - Note 28	7,824
(29,809)	Net (increase) / decrease in net cash and cash equivalents - Note 21	3,712
(9,847)	Net cash and cash equivalents at the beginning of the reporting period - Note 21	(39,656)
(39,656)	Net cash and cash equivalents at the end of the reporting period - Note 21	(35,944)

*Restated to correct the accounting treatment of the SALIX loan received in 2020/21 (see Note 48)

Notes to the Accounting Statements

1. Authorisation of the Statement of Accounts

Authorisation of the Statement of Accounts - These accounts were authorised for issue by Ian Gutsell, Chief Finance Officer (Section 151 Officer), and the Statement of Accounts (approved on xx November 2022) is published with an audit opinion.

2. Accounting Policies

i. General

The Statement of Accounts summarises the Council's transactions for the 2021/22 financial year and its position at the year end 31 March 2022. 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 2021/22, supported by International Financial Reporting Standards (IFRS).

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

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

ii. Accruals of Income and Expenditure

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

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

iii. Revenue Recognition

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

iv. Debtors and Creditors

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

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

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

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

Notes to the Accounting Statements

v. Cash and Cash Equivalents

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

The Code of Practice defines cash equivalents as highly liquid investments that are readily convertible to known amounts of cash and any investment that could be recalled the same day without penalty, which includes call accounts, money market funds and instant deposits. However, the Council uses these products for both short term cash flow requirements and investment gain purposes. The Council therefore defines only its accounts that are held for cash flow requirements as a cash equivalent used for short term cash flow requirements. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management. Short Term Investments are those investments that are not classified as a cash equivalent as they are held for investment gain purposes. The Council's annual Treasury Management Strategy sets out the type of investments that meet its security, liquidity and yield criteria.

vi. Exceptional Items

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

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

viii. Charges to Revenue and Non-Current Assets

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

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

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

ix. Employee Benefits

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

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, recognition for additional responsibility and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the

Notes to the Accounting Statements

Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Post Employment Benefits

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

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

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

Teachers' Pensions

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

Local Government Pensions Scheme

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

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

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

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

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

Notes to the Accounting Statements

- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- gains or losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve;
- contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In assessing liabilities for retirement benefits at 31 March 2022, the actuary has advised a discount rate of 2.6%, derived so that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows. In assessing liabilities for retirement benefits at 31 March 2021, the actuary advised that a rate of 2.0% is appropriate.

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

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

x. Events After the Balance Sheet Date

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

- Those that provide evidence of conditions that existed at the end of the reporting period for which the Council shall adjust the amounts recognised in its financial statements or recognise items that were not previously recognised (adjusting events);
- Those that are indicative of conditions that arose after the end of the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

xi. Financial Instruments

Financial Liabilities

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

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

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

- **Modification** - Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Notes to the Accounting Statements

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

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

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

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

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

Financial Assets Measured at Fair Value through Profit or Loss

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

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

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

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

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

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

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

Expected Credit Losses

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

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

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

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

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

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

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

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

xii. Foreign Currency Transaction

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

xiii. Government Grants and Contributions

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

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

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

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

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

Community Infrastructure Levy (CIL)

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

xiv. Intangible Assets

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

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

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

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

xv. Interests in Companies and Other Entities

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

xvi. Inventories

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

xvii. Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value, highest and best use, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing

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and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

xviii. Joint Operations

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

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

xix. Leases

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

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

The Council as Lessee

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

Lease payments are apportioned between:

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

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

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

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

The Council as Lessor

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

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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.

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

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

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

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

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

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

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

Impairment

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

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

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

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

Componentisation Policy

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

- Each part of an item of Property Plant and Equipment (PP&E) with a cost that is significant in relation to the total cost of the items is depreciated separately. Where there is more than one significant part of the same asset, which has the same useful life and depreciation method, such parts are grouped in determining the depreciation charge;
- Where a component is replaced or restored, the carrying amount of the old component is derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the recognition principles of capitalising expenditure with a de minimus level of £20,000;
- All components that have a different useful economic life from the main asset are identified separately – provided the amount is above the £20,000 de minimus level, and then only if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been

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

- De-recognition of a component of PP&E takes place when no future economic benefits are expected from its use (i.e. its service potential is used up) and it is removed from the Balance Sheet. For example, if a new roof is significant in relation to the total value of the asset, part of the existing carrying value of the building would be derecognised and then the new roof recognised;
- For revalued assets (as part of the rolling programme), the individual valuation sheets produced by the external valuers would be compared to the beacon analysis. If a particular asset conforms to the components identified in the beacon, and it is significant in relation to the total value, those percentages will be applied to the carrying value. If it does not conform to the beacon, revised percentages will be obtained;
- On componentisation, any Revaluation Reserve balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate.

Depreciation

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

The life expectancies of the assets and the depreciation are calculated on the following bases:

Operational land	Not depreciated as an infinite life expectancy
Operational buildings, buildings structure, roof and external works	Individually assessed by valuers, usually up to 60 years
Heating and lighting components	Individually assessed by valuers, usually up to 25 years
Lifts	Individually assessed by valuers, usually up to 15 years
Vehicles	Individually assessed on acquisition, usually up to 10 years
Information Technology	Individually assessed on acquisition, usually up to 10 years
Other plant, furniture and equipment	Individually assessed on acquisition, usually up to 20 years
Infrastructure	New roads 40 years; Highways component assets between 10 & 40 years
Infrastructure land	Not depreciated as an infinite life expectancy
Community land	Not depreciated as an infinite life expectancy
Assets under construction	Not depreciated until the asset becomes operational
Surplus buildings	Individually assessed by valuers
Surplus land	Not depreciated as an infinite life expectancy

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

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

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Held for sale assets are measured at highest and best use. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in

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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.

Infrastructure assets - derecognition

Where a part of the infrastructure network is restored or replaced the carrying amount of the derecognised part will be assumed to be zero because parts of infrastructure assets are rarely replaced before the part has been fully consumed. This treatment follows a statutory override which is currently being proposed by Government.

Accounting for Schools

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

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

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

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

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

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

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

xxii. Private Finance Initiative and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the Property, Plant and Equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Any payments towards the operator's capital investment before the assets become operational (and recognised as Property, Plant and Equipment and finance leases) are included in debtors as a prepayment. When the asset is made available (i.e., operational), the prepayment is written out against the set aside PFI reserve.

Non-current assets recognised on the Balance Sheet are re-valued and depreciated in the same way as Property, Plant and Equipment owned by the Council.

Notes to the Accounting Statements

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

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.

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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, is treated as Refcus. In addition, the Government may direct the Council to treat as capital expenditure items, which would normally be considered as revenue expenditure. These would not result in an asset or an increase to the value of existing assets and are therefore also treated as Refcus.

xxvi. Value Added Tax (VAT)

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

xxvii. Redemption of Debt

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

xxviii. Carbon Reduction Commitment (CRC)

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

xxix. Council Tax and Business Rates

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

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by legislation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling

Notes to the Accounting Statements

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 the Council are on deposit.

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

Art Collection

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

Equipment and other Artefacts

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

Archaeology

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

Heritage Assets – General

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

xxxi. Fair Value Measurement

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

Notes to the Accounting Statements

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

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

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

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code) will introduce several changes in accounting policies which will be required from 1 April 2022. The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

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

- IFRS 1 (First-time Adoption) – amendment relating to foreign operations of acquired subsidiaries;
- IFRS 16 (Leases) – removal of a misleading example;
- IAS 37 (Onerous Contracts) – a clarification of the accounting standard's intention;
- IAS 41 (Agriculture) – only expected to apply to local authorities in limited circumstances.

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 2022 and there is therefore no impact on the 2021/22 Statement of Accounts.

The implementation of IFRS 16 - Leases was due in 2021/22 (effective date 1 January 2022) but has been deferred until the 2024/25 financial year. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases, unless the lease term is less than one year or the underlying asset has a low value. Transition work is underway but currently the impact of IFRS 16 cannot be reasonably estimated.

4. Critical Judgements in applying Accounting Policies

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

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

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

There are currently 6 types of schools within the County:

- Community schools
- Special schools
- Voluntary Controlled (VC) schools
- Voluntary Aided (VA) schools
- Foundation (Trust) schools
- Academy schools

Community schools' staffs are appointed by the Council and the Council sets the admission criteria. These schools are, therefore, recognised on the Council's Balance Sheet. Legal ownership of twenty seven VC school land and buildings rests with a charity, normally a religious body.

Foundation Trust, Voluntary Aided, and Academy schools' staffs are appointed by the schools' governing body, who also set the admission criteria. Therefore, the Council does not receive the economic benefit or service potential of these schools and does not recognise them on the Council's balance sheet.

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

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

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

The table below illustrates the number and type of schools within the County at March 2022:

Type of School	Primary	Secondary	Special	All Through	Total
Community	40	7	1	-	48
Voluntary Controlled	42	-	-	-	42
Voluntary Aided	21	1	-	-	22
Foundation / Trust	2	1	-	-	3
Academy	43	14	11	3	71
Total	148	23	12	3	186

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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 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property Plant and Equipment	<p>The Council estimates the useful lives of Property, Plant and Equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of Property, Plant, and Equipment are reviewed annually and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. In addition, the estimation of the useful lives of Property, Plant, and Equipment is based on external technical evaluation and experience with similar assets.</p> <p>It is possible, however, that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the Property, Plant and Equipment would increase recorded expenses and decrease non-current assets.</p> <p>The Council operates a policy of revaluing its Property, Plant, and Equipment on a rolling three year basis, with the aim of revaluing all of its assets within this period. Indexation may be applied to those assets not valued in the year if the carrying value is calculated as materially different to the fair value at the Balance Sheet date.</p>	<p>The total depreciation and amortisation charged in 2021/22 is £48.9m and the net book value of property, plant and equipment at 31 March 2022 is £934.7m.</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 £6.4m for every one year that useful lives had to be reduced.</p>
	<p>Impairment / reversal of impairment - The Council has significant investments in Property, Plant and Equipment and intangible assets. Changes in the circumstances or expectations of future performance of an individual asset may be an indicator that the asset is impaired, thus requiring the book value to be written down to its recoverable amount. Impairments are reversed if conditions for impairment are no longer present. Evaluating whether an asset is impaired or if impairment should be reversed requires a high degree of judgement and may depend to a large extent on the selection of key assumptions about the future use. Assets / properties are assessed for impairment when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount, and at least annually.</p>	<p>The Council carries out an annual impairment review of its asset base, which takes into account such factors as the current economic climate. There were no adjustments due to asset impairment made in 2021/22 however the level of revaluation decreases charged in 2021/22 to the Surplus on Provision of Services is £2.65m and £2.19m to the Revaluation Reserve.</p>

Notes to the Accounting Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Fair Value estimations	<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"> For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date; For level 3 inputs, valuations based on most recent valuations adjusted to current valuation by the use of indexation and impairment review. <p>Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgment is required in establishing fair values. These judgments typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the Council's assets and liabilities.</p> <p>Where Level 1 inputs are not available, the authority employs RICS qualified valuers (Bruton Knowles) to identify the most appropriate valuation techniques to determine fair value. All valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with property services, and the accounts team on a regular basis regarding all valuation matters.</p>	<p>The Council uses External valuer valuations models to measure the fair value of its Investment Properties, Surplus Assets and Assets Held for Sale under IFRS13 depending on which technique it considers most appropriate.</p> <p>The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, occupancy levels, floor area repairs backlogs, beacon classifications and others.</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for these assets</p> <p>Information about the valuation techniques and inputs used in determining the fair value of these assets is set out in Notes 2, 14 and 15.</p> <p>Investment Properties are valued using comparable house prices, land values, rent/yield basis or deferred market value. A 1% reduction in market rents or house prices and land values would reduce the Investment Property valuations by £0.1m or a 1% yield increase would reduce the valuations by £0.3m. A 10% reduction in house prices and land values would reduce them by £1.0m.</p> <p>Surplus Properties are valued using comparable land values, residual site values and rent/yield basis. A 1% reduction in land values would reduce the surplus property valuations by £0.1m. A 10% reduction would reduce them by £1.0m.</p>
Pension Liability	<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 2021/22, the Council's actuary advised that the net pension's liability has decreased from £559.4m at the start of the year to £373.3m at 31 March 2022. Note 42 to the Accounting Statements provide detailed information.</p> <p>Details of the sensitivity analysis of the actuarial assumptions can be found in Note 42 on pages 116-117.</p> <p>The Council included the estimated impact of the McCloud judgement in the 2020/21 accounts as an IAS 19 liability and have done the same for 2021/22. However until the new legislation is agreed, the impact is only estimated and therefore there could be a significant risk of material adjustment to the carrying amount of the liability.</p>

6. Expenditure and Funding Analysis

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

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

2021/22	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	186,719	(10,153)	176,566	10,183	186,749
Public Health	-	(47)	(47)	424	377
Governance Services	7,163	660	7,823	701	8,524
Children's Services	94,499	(4,364)	90,135	43,358	133,493
Business Services	23,663	(1,695)	21,968	9,359	31,327
Communities, Economy & Transport	59,489	(11,785)	47,704	45,762	93,466
Total	371,533	(27,384)	344,149	109,787	453,936
Corporate Expenditure	39,660	(29,840)	9,820	4,394	14,214
Net Cost of Services	411,193	(57,224)	353,969	114,181	468,150
Other Income and Expenditure from the Expenditure and Funding Analysis					
Other Corporate Expenditure	4,327	30,026	34,353	18,527	52,880
Financing	(415,520)	-	(415,520)	(42,577)	(458,097)
Total	(411,193)	30,026	(381,167)	(24,050)	(405,217)
Deficit for the Year	-	(27,198)	(27,198)	90,131	62,933
General Fund Balance at 1 April 2021			(9,999)		
Add: Surplus for the Year			(27,198)		
Less: Transfer to Reserves			27,198		
General Fund Balance at 31 March 2022			(9,999)		

(a) Adjustments between Funding and Accounting Basis

Adjustments from General Fund to arrive at the CIES amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
2021/22				
Adult Social Care	2,307	7,813	63	10,183
Public Health	-	424	-	424
Governance Services	-	698	3	701
Children's Services	24,482	18,536	340	43,358
Business Services	6,068	3,259	32	9,359
Communities, Economy & Transport	43,130	2,608	24	45,762
Total	75,987	33,338	462	109,787
Corporate Expenditure	-	4,394	-	4,394
Net Cost of Services	75,987	37,732	462	114,181
Other income and expenditure from the Expenditure and Funding Analysis	(27,529)	12,193	(8,714)	(24,050)
Difference between General Fund deficit and CIES deficit in provision of services	48,458	49,925	(8,252)	90,131

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

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:

	2020/21 Restated £000	2021/22 £000
Adult Social Care	38,164	36,959
Public Health	5	42
Governance Services	308	286
Children's Services	5,372	8,071
Business Services	9,620	10,247
Communities, Economy & Transport	13,639	18,347
Corporate Expenditure	531	818
Total Income analysed on a segmental basis	67,639	74,770

The balances for 2020/21 have been restated to show fees, charges and other service income on a segmental basis (previously the table was showing all income as per the Comprehensive Income and Expenditure Statement)

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

	2020/21 £000	2021/22 £000
Expenditure		
Employee benefits expenses	371,733	386,953
Other service expenses	568,377	603,825
Depreciation, amortisation, impairment	102,498	46,816
Interest payments	17,246	16,704
Precepts and levies	583	595
Loss on the disposal of assets	43,852	25,133
Total Expenditure	1,104,289	1,080,026
Income		
Fees, charges and other service income	(67,639)	(74,770)
Interest and investment income	(1,714)	(1,091)
Income from council tax & non domestic rates	(372,631)	(391,656)
Government grants and contributions	(584,694)	(549,576)
Total Income	(1,026,678)	(1,017,093)
Deficit on the Provision of Services	77,611	62,933

IFRS 15 (Revenue from Contracts with Customers)

Of the £74.8m total of income received from fees, charges and other service income listed above for 2021/22, £68.4m of this balance would be accounted for under IFRS 15 and £6.4m would have been outside the scope of the 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.

2021/22	Usable Reserves		
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
Pensions Costs transferred to / (from) the Pensions Reserve	49,924	-	-
Financial Instruments transferred to the Financial Instruments Adjustment Account	(191)	-	-
Financial Instruments transferred to the Pooled Investment Funds Adjustment Account	(783)	-	-
Council tax and NNDR (transfers to or from Collection Fund Adjustment Account)	(7,759)	-	-
Holiday pay (transferred to the Accumulated Absences Reserve)	463	-	-
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):	77,532	-	(3,200)
Total Adjustments to Revenue Resources	119,186	-	(3,200)
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(9,931)	9,931	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(11,590)	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(6,694)	-	-
Total Adjustments between Revenue and Capital Resources	(28,215)	9,931	-
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	(5,840)	-
Recognition of deferred capital receipt	(840)	-	-
Total Adjustments to Capital Resources	(840)	(5,840)	-
Total Adjustments	90,131	4,091	(3,200)

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

8. Material items of income and expenses

The Council has disposed of the following property, plant and equipment from its Balance Sheet as the schools obtained academy status during 2021/22. This is included within the total net losses on disposals of non-current assets of £25.133m (see Note 11). The assets were transferred for no consideration and the amount is recognised as losses on disposal.

School	Type of School	£000
Stafford Junior	Primary	2,714
Roseland Infants	Primary	1,952
Hurst Green	Primary	1,946
Peacehaven Heights	Primary	4,948
Telscombe Cliffs	Primary	9,525
Total		21,085

9. Events after the Balance Sheet date

The financial statements have not been adjusted for the following events that took place after 31 March 2022 as they provide information that is relevant to an understanding of the Council's financial position, but do not relate to existing conditions at that date.

Academy Schools

Three schools are expected to convert to Academy status in 2022/23. 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 2022 are shown in the table below.

School	Type of School	Date of Conversion	NBV £000
Ditchling St Margaret's	Primary	May 2022	Off balance sheet (Voluntary Controlled School)
Uplands	Secondary	September 2022	13,781
Chyngton	Primary	TBC	3,710

Authorised for Issue

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 29 July 2022. 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 2022, the figures in the accounting statements have been adjusted in all material respects to reflect the impact of this information.

10. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the general fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet general fund expenditure in 2021/22.

	Balance at 1 April 2020	Transfers In 2020/21	Transfers Out 2020/21 (Restated)	Balance at 31 March 2021 (Restated)	Transfers In 2021/22	Transfers Out 2021/22	Balance at 31 March 2022
	£000	£000	£000	£000	£000	£000	£000
Strategic Reserves							
Priority Outcomes & Transformation	7,173	852	-	8,025	9,259	-	17,284
Financial Management	35,001	15,114	-	50,115	-	(2,811)	47,304
Service Reserves							
Capital Programme	9,334	3,083	(1,122)*	11,295*	7,647	-	18,942
Waste	14,613	1,500	-	16,113	900	-	17,013
Insurance	6,463	937	-	7,400	-	(147)	7,253
Other Reserves							
Public Health	4,026	1,708	-	5,734	1,123	-	6,857
Held on behalf of others	5,929	114	-	6,043	955	(57)	6,941
Total	82,539	23,308	(1,122)*	104,725*	19,884	(3,015)	121,594
Revenue Grants and Contributions Reserve							
Services	19,680	20,988	-	40,668	12,924	-	53,592
Dedicated Schools Grant	6,181	5,954	-	12,135	2,289	(1,125)	13,299
Business Rates/Council Tax		7,385	-	7,385	2,311	(5,823)	3,873
COVID-19	16,297	-	(1,159)	15,138	-	(1,063)	14,075
Total	42,158	34,327	(1,159)	75,326	17,524	(8,011)	84,839
Total	124,697	57,635	(2,281)*	180,051*	37,408	(11,026)	206,433

*The 2020/21 Capital reserve figures were restated to adjust for the SALIX loan correction

Types of Reserve

Priority Outcomes and Transformation	<p>Priority outcomes and transformation reserve: to fund the specified initiatives to change, protect and improve Council services, with particular emphasis on:</p> <ul style="list-style-type: none"> • Invest-to-save • Seed funding for innovation (notably digital) and developments contributing to the County Council's priorities • Investment in the redesign of the way services are delivered.
Financial Management	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 2020	Transfers In 2020/21	Transfers Out 2020/21	Balance at 31 March 2021	Transfers In 2021/22	Transfers Out 2021/22	Balance at 31 March 2022
	£000	£000	£000	£000	£000	£000	£000
Balances held by schools	15,041	5,471	-	20,512	816	-	21,328

11. Other Operating Expenditure

	2020/21 £000	2021/22 £000
Levies		
▪ Sussex Inshore Fisheries & Conservation Authority	423	431
▪ Environment Agency - Flood & Coastal Erosion	161	164
Loss on the disposal of non-current assets (net of receipts)	43,852	25,133
Total	44,436	25,728

Note - The 2021/22 loss on the disposal of non-current assets figure of £25.1m (shown net of £11.0m capital receipts) includes the removal of five schools from the Balance Sheet, that have attained Academy status at a value of £21.1m (details are included in Note 8). The comparative figures for 2020/21 are £43.9m loss (shown net of £2.8m receipts) and two schools with a value of £38.2m.

12. Financing and Investment Income and Expenditure

	2020/21 £000	2021/22 £000
Interest payable on debt and finance leases	17,137	16,646
Net interest on pension assets and liabilities	11,413	12,173
Impairment losses/(reversals)	(51)	98
Fair Value movement of Pooled Funds	32	(783)
Soft Loan interest	(3)	(3)
Interest receivable	(1,852)	(1,230)
Decrease in fair value of Investment Properties	17	440
Net income from Investment Properties	(138)	(185)
Surplus on Trading Undertakings	(17)	(4)
Total	26,538	27,152

	2020/21 Restated £000	2021/22 £000
Revenue Support Grant (RSG)	3,548	3,568
Council Tax Support Grant	-	4,734
Social Care Grant	14,631	17,083
Business Rates	82,266	72,396
Business Rates Relief Funding	6,698	5,698
Local Income Tax Guarantee Funding	687	36
Council Tax	300,874	310,355
Council Tax – prior years surplus	879	1,146
New Home Bonus Grant	761	504
Total	410,344	415,520
Share of Collection Fund Surplus / (Deficit)	(8,972)	7,759
Capital Grants and Contributions	68,007*	34,818
Total	469,379*	458,097

*Restated to remove the SALIX loan from the balance of capital grants and contributions received

14. Property, Plant, and Equipment

Movements in 2021/22:	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment*
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2021	366,623	129,849	666,548	2,761	13,815	2,142	1,181,738	55,475
Additions	7,923	3,948	27,733	-	150	3,350	43,104	32
Revaluation increases recognised in the Revaluation Reserve	15,794	8,487	-	-	561	-	24,842	2,428
Revaluation decreases recognised in the Revaluation Reserve	(2,310)	(479)	-	-	1	-	(2,788)	-
Revaluation increases (reversal of previous losses) recognised in the Provision of Services	4,872	23	-	-	-	-	4,895	-
Revaluation decreases recognised in the Provision of Services	(2,918)	-	-	-	(150)	-	(3,068)	-
Derecognition – disposals	(3,220)	(8,218)	(13,134)	(682)	(339)	-	(25,593)	-
Derecognition – disposals - schools	(17,195)	(4,687)	-	-	-	-	(21,882)	(8,523)
Assets reclassified within PPE	(86)	84	-	-	1	-	(1)	-
Assets reclassified (to)/from Held for Sale	203	-	-	-	(3,515)	-	(3,312)	-
Assets reclassified (to)/from Investment Property	-	-	-	-	(423)	-	(423)	-
Assets reclassified (to)/from Intangibles	-	-	-	-	-	(171)	(171)	-
At 31 March 2022	369,686	129,007	681,147	2,079	10,101	5,321	1,197,341	49,412
Accumulated Depreciation and Impairment								
At 1 April 2021	(3)	(26,520)	(217,655)	-	(4)	-	(244,182)	-
Depreciation charge	(7,231)	(11,751)	(28,327)	-	(2)	-	(47,311)	(2,551)
Depreciation written out to the Revaluation Reserve	2,360	3,158	-	-	2	-	5,520	1,208
Revaluation losses recognised in the deficit on the Provision of Services	420	-	-	-	-	-	420	-
Reversal of previous losses	712	90	-	-	-	-	802	-
Derecognition – disposals	65	8,082	13,134	-	1	-	21,282	-
Derecognition – disposals – schools	250	547	-	-	-	-	797	366
Assets reclassified within PPE	3	(3)	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	-	-	-	-	-	-	-	-
Assets reclassified (to)/from Investment Prop	-	-	-	-	-	-	-	-

At 31 March 2022	(3,424)	(26,397)	(232,848)	-	(3)	-	(262,672)	(977)
Movements in 2021/22:	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment*
Net Book Value								
At 31 March 2022	366,262	102,610	448,299	2,079	10,098	5,321	934,669	48,435
At 31 March 2021	366,620	103,329	448,893	2,761	13,811	2,142	937,556	55,475
Movements in 2020/21:	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment*
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2020	365,168	165,155	604,936	2,521	16,130	33,137	1,187,047	71,653
Additions	21,287	2,954	33,210	-	99	1,144	58,694	87
Revaluation increases recognised in the Revaluation Reserve	108,888	6,003	-	248	9,338	-	124,477	4,689
Revaluation decreases recognised in the Revaluation Reserve	(45,066)	(26,389)	-	(57)	(1,876)	-	(73,388)	(7,725)
Revaluation increases (reversal of previous losses) recognised in the Provision of Services	8,639	108	-	49	31	-	8,827	279
Revaluation decreases recognised in the Provision of Services	(55,425)	(7,618)	-	-	(2,807)	-	(65,850)	(13,508)
Derecognition – disposals	(6,590)	(260)	-	-	(430)	-	(7,280)	-
Derecognition – disposals - schools	(31,940)	(8,569)	-	-	-	-	(40,509)	-
Assets reclassified within PPE	2,358	(1,535)	28,402	-	2,914	(32,139)	-	-
Assets reclassified (to) / from Held for Sale	(85)	-	-	-	(10,094)	-	(10,179)	-
Assets reclassified (to) / from Investment Property	(611)	-	-	-	510	-	(101)	-
At 31 March 2021	366,623	129,849	666,548	2,761	13,815	2,142	1,181,738	55,475
Accumulated Depreciation and Impairment								
At 1 April 2020	(4,594)	(27,314)	(192,284)	-	-	-	(224,192)	(1,042)
Depreciation charge	(10,208)	(15,423)	(25,371)	-	(200)	-	(51,202)	(3,234)
Depreciation written out to the Revaluation Reserve	8,345	12,766	-	-	99	-	21,210	2,794
Revaluation losses recognised in the deficit on the Provision of Services	4,882	1,471	-	-	143	-	6,496	1,312
Reversal of previous losses	848	229	-	-	-	-	1,077	170

Derecognition – disposals	20	79	-	-	13	-	112	-
Movements in 2020/21:	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment*
Derecognition – disposals - schools	746	1,571	-	-	-	-	2,317	-
Assets reclassified within PPE	(42)	101	-	-	(59)	-	-	-
Assets reclassified (to) / from Held for Sale	-	-	-	-	-	-	-	-
Assets reclassified (to) / from Investment Property	-	-	-	-	-	-	-	-
At 31 March 2021	(3)	(26,520)	(217,655)	-	(4)	-	(244,182)	-
Net Book Value								
At 31 March 2021	366,620	103,329	448,893	2,761	13,811	2,142	937,556	55,475
At 31 March 2020	360,574	137,841	412,652	2,521	16,130	33,137	962,855	70,611

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 2021/22, £28.93m (£12.42m in 2020/21) of the Council's capital investment related to Refcus (Note 38), and all was written off in the year the expenditure was incurred.

Revaluation movements

Each year the Council revalues a proportion of its land and building assets including schools and undertakes an impairment review of the entire asset portfolio. Where land and property assets have increased in value, the revaluation gains are shown in the revaluation reserve (see Note 25) and totalled £29.8m for 2021/22 (£131.5m in 2020/21). Of the balance of £29.8m revaluation gains, the majority of the increase in value was due to the significant capital works that have taken place at Uckfield College.

Where assets previously had a revaluation loss taken to the Comprehensive Income and Expenditure Statement then any subsequent increase first goes to the Comprehensive Income and Expenditure Statement to reverse that previous loss before any remaining balance is taken to the revaluation reserve, the reversal of losses in 2021/22 totalled £5.7m (£10.0m 2020/21).

Some assets will also lose value on revaluation. In 2021/22, the Council has recognised revaluation losses of £4.8m (£118.5m in 2020/21). Of the £4.8m total, £2.6m (£59.3m 2020/21) has been charged to the Comprehensive Income and Expenditure Statement and £2.2m (£59.2m in 2020/21) to the Revaluation Reserve. The net charge to the Comprehensive Income and Expenditure Statement of losses less reversals was a gain of £3.1m (net loss of £49.3m 2020/21). Overall the total valuation movements for 2021/22 was a net gain of £30.6m (£23.0m in 2020/21).

The revaluation gains and losses movements shown above differ quite significantly for 2021/22 compared to the prior year comparator figures. This movement is primarily due to the impact of appointing a new valuer, Bruton Knowles, for the 2020/21 valuations and the changes in valuation methodology applied, combined with the impact of valuing the entire asset portfolio in that first year to ensure consistency across the asset values.

Capital Commitments

As at 31st March 2022, the Council had not entered into any material contracts for the construction or enhancement of Property, Plant and Equipment in 2022/23 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. Indexation was last applied in 2018/19.

Freehold and long leasehold buildings properties regarded by the Council as operational are valued on the basis of existing use value or, where there is insufficient market evidence of current value because the asset is specialised or rarely sold, the depreciated replacement cost. This is in line with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors. Buildings and plant are depreciated in line with the estimated life expectancies of the assets. Land is revalued but not depreciated.

Items of school and offices furniture, IT and other equipment are measured at historic cost as a proxy for current value. Their value is updated for capital expenditure and depreciated in line with the estimated lives of the assets. The total is £33.1m as shown in the table below.

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

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

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

	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Surplus Assets	Total
	£000	£000	£000	£000
Carried as at historical cost	-	33,090	-	33,090
Valued at fair value in:				
31 March 2022	181,952	52,489	10,101	244,542
31 March 2021	187,734	43,428	-	231,162
31 March 2020	-	-	-	-
Gross Valuation	369,686	129,007	10,101	508,794

Fair value hierarchy

As at 31 March 2022, there are twelve properties classed as surplus, a decrease of nine on the previous year. Eight properties were reclassified out of surplus, one was added and two were sold. The fair value hierarchy of surplus assets at 31 March are as follows:

Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1)	Other significant observable Inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	£000	£000	£000	£000
Surplus assets (NBV) 31 March 2022	-	106	9,992	10,098
Surplus assets (NBV) 31 March 2021	-	4,799	9,012	13,811

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

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

15. Investment Properties

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

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

	2020/21	2021/22
	£000	£000
Rental Income from Investment Property	(257)	(359)
Direct Operating Expenses arising from Investment Property	119	174
Net (gain)	(138)	(185)

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

	2020/21	2021/22
	£000	£000
Balance at start of the year	11,063	11,151
Additions	4	90
Net (Losses) from fair value adjustments	(17)	(440)
Transfers (to) / from Property, Plant & Equipment & Assets Held for Sale	101	423
Disposals		(454)
Balance at end of the year	11,151	10,770

Fair value measurement

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

value hierarchy as the measurement technique uses significant unobservable inputs to measure the fair value. The valuation techniques used are the market approach and income approach using estimated land values, sales value, rents and yield. In estimating the fair value of the investment property, the highest and best use is the current use.

Fair value hierarchy

The fair value hierarchy at 31 March is as follows:

Recurring fair value measurements using:	31 March 2022			
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	£000	£000	£000	£000
Offices	-	5,000	-	5,000
Farm Business Tenancy	-	1,002	-	1,002
Land	-	628	-	628
Residential Property	-	1,485	-	1,485
Other	-	2,050	605	2,655
Total	-	10,165	605	10,770

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

16. Intangible Assets

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

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The carrying amount of Intangible Assets is amortised on a straight-line basis. The amortisation of £1.58m charged to revenue in 2021/22 (£1.82m in 2020/21) was charged to Business Services.

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

	2020/21 £000	2021/22 £000
Balance at start of year:		
Gross carrying amounts	13,496	14,073
Accumulated amortisation	(8,751)	(10,568)
Net carrying amount at start of year	4,745	3,505
Purchases	577	3,392
Transfers from PPE	-	171
Amortisation for the period	(1,817)	(1,577)
Disposal (Gross carrying amount)	-	(7,786)
Disposal (Accumulated amortisation)	-	7,786
Net carrying amount at end of year	3,505	5,491
Comprising:		
Gross carrying amounts	14,073	9,850
Accumulated amortisation	(10,568)	(4,359)
Net carrying amount at end of year	3,505	5,491

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

Description	Carrying Amount		Remaining Amortisation (Years)
	31 March 2021 £000	31 March 2022 £000	
LiquidLogic – ASC & Children's clients	712	356	1
Virtual Infrastructure	1,506	1,188	2
SAP Software - ERP	207	104	1
Czone Platform – education providers	50	-	-
Compliance Management	14	-	-
HRMS Financials	32	-	-
Atrium – asset management	15	-	-
Mapping Outlet	178	119	2
Citrix	151	357	3
SharePoint	118	106	9
Link	-	2,603	14
PAMS	-	208	5
Other	522	450	1 – 7
Total	3,505	5,491	

17. Heritage Assets

The Council has identified the following heritage assets:

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

No individual item in the Record Office or SLAMS is valued at more than £20,000 which is the Council's de-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:

	Art Collection	Chattels at Bentley House	The Sugar Loaf Folly	Battle Abbey Estate Archives	Castle Precincts Wall	Total
Heritage Assets						
Cost or valuation	£000	£000	£000	£000	£000	£000
1 April 2020	13	484	39	116	-	652
Additions	-	-	-	-	-	-
Revaluation (Loss)	-	-	2	-	-	2
31 March 2021	13	484	41	116	-	654
Additions	-	-	-	-	-	-
Revaluation Gain	-	-	-	-	-	-
31 March 2022	13	484	41	116	-	654

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, Firle and Albert Memorial Well, Frant.

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

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

A. Categories of Financial Instruments

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

Financial Assets	31 March 2021 £000	31 March 2022 £000
Fair value through profit or loss		
Long Term Investments	4,461	5,244
Long Term Debtors	-	-
Short Term Investments & Cash Equivalents	73,602	75,900
Short Term Debtors	-	-
Total	78,063	81,144
Amortised Cost		
Long Term Investments	15,001	15,001
Long Term Debtors	4,893	5,376
Short Term Investments	195,364	222,806
Short Term Debtors	34,244	27,456
Total	249,502	270,639
Total Financial Assets	327,565	351,783
Non Financial Assets*	31,106	34,268
Total	358,671	386,051

*Balance of assets that are not classed as Financial Instruments

Financial Liabilities	31 March 2021 Restated £000	31 March 2022 £000
Fair value through profit or loss		
Short & Long Term Borrowings and Creditors	-	-
Amortised Cost		
Long Term Borrowings	(233,878)*	(229,072)
Long Term Creditors	(66,569)	(61,166)
Short Term Borrowings	(4,839)*	(7,011)
Short Term Creditors	(84,316)	(96,544)
Total Financial Liabilities	(389,602)*	(393,793)
Non Financial Liabilities**	(69,800)	(69,361)
Total	(459,402)*	(463,154)

*Balances restated to include the SALIX loan

**Non Financial Liabilities are those which are not classed as Financial Instruments

The balance on Soft Loans at 31 March 2022 was £0.145m (£0.142m at 31 March 2021).

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

The balance of financial assets at 31 March 2022 was £81.14m, an increase of £3.08m from the previous year. Financial assets include £75.9m low volatility money market funds (LVNAV) and £5.24m property fund (carrying amount £5.00m). Total holdings in the five money market funds have increased by £2.298m over the year. The value of the Property fund has increased by £0.783m during the year. The Property fund valuation is based on the bid market value which is the bid price per number of units held.

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

	2020/21		2021/22	
	Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure	Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure
	£000	£000	£000	£000
Net gains/losses on:				
Financial assets measured at fair value through profit or loss – fair value	32	-	(783)	-
Financial assets measured at fair value through profit or loss – dividend	(200)	-	(171)	-
Total net (gains) / losses	(168)	-	(954)	-
Interest revenue:				
Financial assets measured at amortised cost	(1,652)	-	(1,059)	-
Interest expense:				
Financial assets measured at amortised cost	17,134	-	16,643	-

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 31/3/21 £000	As at 31/3/22 £000
Fair Value through Profit or Loss				
Other financial instruments	Level 1	Unadjusted quoted prices in active markets for identical shares	78,063	81,144

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 2021 (Restated)		31 March 2022	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Borrowing held at amortised cost	(238,717)*	(324,890)*	(236,083)	(295,546)
Long Term Creditors	(222)	(222)	(70)	(70)
PFI and Finance Lease Liabilities	(71,242)*	(92,688)	(66,348)	(80,397)
Total Long Term	(310,181)*	(417,800)*	(302,501)	(376,013)
Short Term Creditors	(79,421)*	(79,421)	(91,292)	(91,292)
Total Long and Short Term	(389,602)*	(497,221)*	(393,793)	(467,305)

*Balances restated to include the SALIX loan and to consolidate the total borrowing and total PFI liabilities balances

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 2022, arising from a commitment to pay interest to lenders above current market rates.

Financial Assets

	31 March 2021		31 March 2022	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial assets held at amortised cost	15,001	15,192	15,001	14,847
Long Term Debtors	4,893	4,893	5,376	5,376
Total Long Term	19,894	20,085	20,377	20,223
Short Term Investments and Debtors	229,608	229,608	250,262	250,262
Total Long and Short Term	249,502	249,693	270,639	270,485

The fair value of the financial assets is lower than the carrying amount because the portfolio of investments includes a number of fixed rate loans where the interest rate receivable is lower than the rates available for similar loans at the Balance Sheet date. This shows a notional future loss, based on economic conditions at 31 March 2022, 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 2022			
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	£000	£000	£000	£000
Financial liabilities				
Borrowing held at amortised cost	-	(295,546)	-	(295,546)
Long Term Creditors	-	(70)	-	(70)
PFI and Finance Lease Liabilities	-	-	(80,397)	(80,397)
Total	-	(295,616)	(80,397)	(376,013)

Financial assets

Financial assets held at amortised cost	-	14,847	-	14,847
Long Term Debtors	-	5,376	-	5,376
Total	-	20,223	-	20,223

Recurring fair value measurements using:	31 March 2021 (Restated)			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	
Financial liabilities				
Borrowing held at amortised cost	-	(324,890)*	-	(324,890)*
Long Term Creditors	-	(222)	-	(222)
PFI and Finance Lease Liabilities	-	-	(92,688)	(92,688)
Total	-	(325,112)	(92,688)	(417,800)

Financial assets

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

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 2022 for loans receivable and for property fund, are based on new lending rates for equivalent loans at that date;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

Financial Liabilities

- no early repayment is recognised;
- estimated ranges of interest rates at 31 March 2022 of 2.6% to 7.8% for loans payable based on new lending rates for equivalent.

19. Assets Held for Sale

	2020/21	2021/22
	£000	£000
Balance outstanding at start of year	2,624	12,121
Assets newly classified as held for sale	10,179	3,515
Additions	-	29
Revaluations	(31)	(1,221)
Assets declassified as held for sale	-	(204)
Assets sold / disposed of	(651)	(9,487)
Balance outstanding at year end	12,121	4,753

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 2022 there are eight assets that were held for sale. During the year, five assets were transferred in, one asset was transferred back out and five assets were sold.

20. Current & Long Term Debtors and Payments in Advance

	31 March 2021	31 March 2022
	£000	£000
Current		
Debtor System Control	12,288	11,132
HMRC	2,363	2,768
Payments In Advance	9,040	8,689
Council Tax & NNDR	19,703	22,811
Other	21,956	16,324
Total	65,350	61,724
Long Term		
Higher Education Institution	792	741
South East Local Enterprise Partnership	1,483	1,483
Economic Development	2,387	2,190
Seven Sisters Country Park*	-	793
Other Entities and Individuals	231	169
Total	4,893	5,376

*During 2021/22 The Council recognised a new long term debtor in respect of the deferred capital receipt for the purchase of the Seven Sisters Country Park by the South Downs National Park Authority, which is to be paid over a period of 25 years.

Allowance for expected credit losses

The Council makes allowance for impairment of debts based on an assessment of the recoverability of its receivables. An increase in the total allowance for credit losses of £0.087m was made in 2021/22, bringing the total allowance for impairment from £1.669m up to £1.756m as at 31 March 2022. These amounts are netted off the figures shown above. Management specifically review all debts, and evaluate the adequacy of the allowance for impairment of receivables. However, most categories of the Council's debtors are not subject to substantial fluctuation and past experience is used within material limits to judge the percentages of each type of debt that will not eventually be recovered.

In addition, there are allowances for impairment in respect of Council Tax & Business Rates debtors which are assessed by the District Councils in their role as Council Tax collection authorities. At 31 March 2022 the Council's share of these allowances amounts to £16.210m (£14.942m at 31 March 2021) out of its share of Council Tax & Business Rates arrears totalling £36.221m (£33.932m at 31 March 2021).

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

	31 March 2021	31 March 2022	Movement
	£000	£000	£000
Cash in hand	107	105	(2)
Short-term deposits	45,800	45,912	112
Total Cash and Cash Equivalents	45,907	46,017	110
Imputed cash adjustment for pooled budget re the purchase of integrated community equipment	(349)	(374)	25
Bank overdraft	(10,320)	(16,243)	(5,923)
Accrued balance at bank and for third parties	4,417	6,544	2,127
Total bank overdraft and accrued balance for third parties	(6,252)	(10,073)	(3,821)
Net cash and cash equivalent balances/(overdrawn)	39,655	35,944	(3,711)

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 2021	31 March 2022
	£000	£000
Orbis	4,721	6,843
Trust Funds (see Note 46)	(304)	(299)
Accrued balance at bank and for third parties	4,417	6,544

The pooled bank balances at 31 March 2022 include £10.52m (£14.32m at 31 March 2021) relating to bank accounts operated by schools under local management arrangements.

22. Creditors and Income in Advance

	31 March 2021	31 March 2022
	£000	£000
Creditor System Control	5,240	6,429
Pension Schemes	5,173	5,745
HMRC	5,397	6,438
PFI Schemes	4,895	5,251
Council Tax & NNDR	18,772	13,304
East Sussex Fire Authority	20,469	18,405
Capital	5,278	7,819
Other	42,067	48,421
Total Creditors	107,291	111,812
Income in Advance	25,161	29,918
Total	132,452	141,730

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 2021	Additional provisions	Amounts used	31 March 2022
	£000	£000	£000	£000
Long Term Provisions				
Insurance claims	1,670	-	(12)	1,658
Closed Landfill Sites	8,674	-	(143)	8,531
Total Long Term	10,344	-	(155)	10,189
Short Term Provisions				
Municipal Mutual Insurance (MMI)	129	-	(52)	77
NNDR Appeals	1,366	-	(330)	1,036
Adult Social Care	2,516	335	-	2,851
Corporate	-	613	-	613
BSD	-	60	-	60
CET	64	-	(64)	-
Closed Landfill Sites	490	-	-	490
Redundancy	-	-	-	-
Total Short Term	4,565	1,008	(446)	5,127
Total Provisions	14,909	1,008	(601)	15,316

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

Closed Landfill Sites - The Council has 19 closed landfill sites that require restoration and aftercare. An accounting model has been developed to determine the required provision for these future costs taking into consideration the annual costs relating to

leachate removal, gas monitoring and water quality monitoring. The Council has a legal obligation to restore, monitor and maintain landfill sites.

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

The NNDR appeals provision represents amounts set aside to meet potential future liabilities for Business Rates Appeals. Local Authorities are liable for successful appeals against business rates charged to businesses in 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 2022.

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.

Corporate - is for the LMG pay award due for 2021/22

Business Services (BSD) - is for an Employment Tribunal decision

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

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

24. Usable Reserves

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

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

	31 March 2021 Restated £000	31 March 2022 £000
Usable Capital Receipts Reserve	5,840	9,931
Capital Grants & Contributions Unapplied	17,323	14,123
Earmarked Reserves	104,725*	121,594
Earmarked Reserves – Revenue Grants & Contributions	75,326	84,839
General Fund Balances	9,999	9,999
School Balances	20,512	21,328
Total Usable Reserves	233,725*	261,814

*Restated due to the SALIX loan adjustment

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.

	2020/21 £000	2021/22 £000
Balance at 1 April	3,044	5,840
Amounts receivable during the year	2,796	9,931
Amounts applied to finance new capital investment	=	(5,840)
Net Transfer to the Capital Receipts Reserve	2,796	4,091
Balance at 31 March	5,840	9,931

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.

	2020/21 £000	2021/22 £000
Balance at 1 April	14,132	17,323
Amounts receivable during the year	69,129	35,623
Amounts applied to finance new capital investment	<u>(65,938)</u>	<u>(38,823)</u>
Net Transfer to/(from) the Capital Unapplied Account	3,191	(3,200)
Balance at 31 March	17,323	14,123

25. Unusable Reserves

	31 March 2021 £000	31 March 2022 £000
Revaluation Reserve	266,767	264,609
Capital Adjustment Account	367,819	347,342
Financial Instruments Adjustment Account	(7,137)	(6,946)
Pooled Investment Funds Adjustment Account	(539)	244
Collection Fund Adjustment Account	(4,944)	2,815
Accumulated Absences Account	(6,322)	(6,785)
Pensions Reserve	(559,382)	(375,348)
Deferred capital receipts	-	840
Total Unusable Reserves	56,262	226,771

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.

	2020/21 £000	2021/22 £000	£000
Balance at 1 April	227,245		266,767
Upward revaluation of assets	131,465	29,764	
Downward revaluation of assets and impairment losses not charged to the Deficit on the Provision of Services	(59,164)	<u>(2,191)</u>	
Surplus on revaluation of non-current assets not posted to the Deficit on the Provision of Services	72,301		27,573
Difference between fair value depreciation and historical cost depreciation	(10,209)	(5,544)	
Accumulated gains on assets sold or scrapped	<u>(22,570)</u>	<u>(24,187)</u>	
Amount written off to the Capital Adjustment Account	(32,779)		<u>(29,731)</u>
Balance at 31 March	266,767		264,609

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 to finance the costs of capital 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.

	2020/21 £000	2021/22 £000 £000
Balance at 1 April	417,309	367,819
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	(51,202)	(47,311)
Revaluation losses on non-current assets	(59,497)	(2,649)
Revaluation losses on assets held for sale	(174)	(1,229)
Revaluation loss reversals on non-current assets	10,048	5,697
Revaluation loss reversals on assets held for sale	143	8
Amortisation of intangible assets	(1,817)	(1,577)
Financial Asset Impairment (Gains)/Losses	(36)	(19)
Revenue expenditure funded from capital under statute	(12,418)	(28,926)
Capital grants repaid in year	-	(805)
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	(46,648)	(35,904)
	(161,601)	(112,715)
Adjusting amounts written out of the Revaluation Reserve	32,779	29,731
Net written out amount of the cost of non-current assets consumed in the year	(128,822)	(82,984)
Capital financing applied in the year		
Use of the Capital Receipts Reserve to finance new capital expenditure	-	5,840
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	65,938	38,823
Statutory provision for the financing of capital investment charged against the General Fund balance	7,004	11,590
Capital expenditure charged against General Fund balances	6,407	6,694
	79,349	62,947
Movements in the market value of Investment Properties credited or debited to the Comprehensive Income and Expenditure Statement	(17)	(440)
Balance at 31 March	367,819	347,342

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 2022 will be charged to the General Fund over a specific period.

	2020/21 £000	2021/22 £000
Balance at 1 April	(7,327)	(7,137)
Premiums	187	188
Soft Loan Interest	3	3
Net movement in the Financial Instruments Adjustment Account	190	191
Balance at 31 March	(7,137)	(6,946)

Pooled Investment Funds Adjustment Account

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

	2020/21 £000	2021/22 £000
Balance at 1 April	(507)	(539)
Fair value of Property Fund	(32)	783
Balance at 31 March	(539)	244

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.

	2020/21 £000	2021/22 £000
Balance at 1 April	(416,868)	(559,382)
Remeasurement of the net defined liability	(89,195)	233,958
Benefits credited to the Provision of Services in the Comprehensive Income and Expenditure Statement	(91,421)	(87,210)
Employer's pension contributions charged to General Fund Balance	38,102	37,286
Balance at 31 March	(559,382)	(375,348)

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.

Balance at 1 April

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

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

Net movement in the Collection Fund Adjustment Account

Balance at 31 March

2020/21 £000	2021/22 £000
4,028	(4,944)
(1,754)	5,337
(7,218)	2,422
(8,972)	7,759
(4,944)	2,815

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.

Balance at 1 April

Settlement or cancellation of accrual made at the end of the preceding year

Amounts accrued at the end of the current year

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

Balance at 31 March

2020/21 £000	2021/22 £000
(5,179)	(6,322)
5,179	6,322
(6,322)	(6,785)
(1,143)	(463)
(6,322)	(6,785)

Deferred capital receipts reserve

The deferred capital receipts reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the capital receipts reserve.

Balance at 1 April

Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement

Transfer to the capital receipts reserve upon receipt of cash

Balance at 31 March

2020/21 £000	2021/22 £000
-	-
-	840
-	-
-	840

A transfer of £0.840m deferred sale proceeds was made in 2021/22 in respect of the sale of the South Downs Country Park to the South Downs National Park Authority. The balance is due to paid to the Council over a period of 25 years.

26. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2020/21 Restated £000	2021/22 £000
Net (surplus) / deficit on the provision of services	78,733*	62,933

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

Depreciation	(51,202)	(47,311)
Impairment and downward valuations	(49,480)	1,827
Amortisation	(1,817)	(1,577)
(Increase)/decrease in creditors	(10,576)	(5,220)
Increase in debtors	3,327	(3,820)
Increase/(decrease) in inventories	-	(7)
Movement in pension liability	(53,319)	(49,924)
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(46,648)	(35,904)
Other non-cash items charged to the net deficit on the provision of services	1,834	(133)
Total	(207,881)	(142,069)

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	2,178	10,771
Capital grants credited to deficit on provision of services	68,625*	34,818
Total	70,803*	45,589

Net cash flows from operating activities	(58,345)	(33,547)
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The cash flows for operating activities include the following items:

	2020/21 £000	2021/22 £000
Interest received	(1,864)	(1,421)
Interest paid	17,134	16,707
Dividends received	(200)	(171)

*Restated due to the SALIX loan correction

27. Cash Flow Statement – Investing Activities

	2020/21 Restated £000	2021/22 £000
Purchase of PPE, Investment Property and Intangibles	60,597	44,074
Other payments for investing activities	654	379
Proceeds from the sale of PPE, Investment Property and Intangibles	(2,178)	(9,176)
Purchase of short and long term investments	41,000	44,850
Proceeds from short and long term investments	(5,000)	(15,000)
Other receipts from investing activities	(68,678)*	(35,692)
Net cash flows from investing activities	26,395*	29,435

*Restated due to SALIX loan correction

28. Cash Flow Statement – Financing Activities

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

2020/21 Restated £000	2021/22 £000
(1,121)*	(1,275)
626	5,251
2,636	3,848
2,141*	7,824

*Restated due to SALIX loan correction

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

Long Term Borrowings
Short Term Borrowings
PFI Liabilities
Net cash flows from financing activities

1 April 2021 £000	Financing Cash Flows £000	Non Cash Changes £000	31 March 2022 £000
(233,878)	(1,275)	6,081	(229,072)
(3,848)	3,848	(6,081)	(6,081)
(66,347)	5,251	-	(61,096)
(304,073)	7,824	-	(296,249)

Long Term Borrowings
Short Term Borrowings
PFI Liabilities
Net cash flows from financing activities

1 April 2020 £000	Financing Cash Flows £000	Non Cash Changes £000	31 March 2021 £000
(237,923)	421*	3,624	(233,878)*
(1,318)	1,094*	(3,624)	(3,848)*
(66,973)	626	-	(66,347)
(306,214)	2,141*	-	(304,073)*

*Restated due to SALIX loan correction

30. Pooled Budget and Partnership Arrangements

In 2021/22 the Council participated in partnership schemes involving pooled budget arrangements under Section 75 of the National Health Service Act 2006:

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

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

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

Arrangement	2020/21			2021/22		
	Expenditure	Income	County Council Contribution	Expenditure	Income	County Council Contribution
	£000	£000	£000	£000	£000	£000
Integrated Community Equipment	4,938	(4,938)	(2,469)	5,423	(5,423)	(2,712)
Better Care Fund	69,998	(69,998)	(31,406)	72,375	(72,375)	(29,954)

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 2021/22 was £283,584 (£276,130 in 2020/21).

Orbis Joint Operating Budget

The expenditure and funding is detailed below:

	2020/21 £000	2021/22 £000
Funding provided to the joint budget:		
- Surrey County Council	(17,218)	(17,249)
- East Sussex County Council	(11,740)	(9,446)
- Brighton & Hove City Council	(10,953)	(8,491)
Total Funding	(39,911)	(35,186)
Expenditure met from the joint budget	39,911	35,186
Net (surplus)/deficit on the joint budget	-	-

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

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

	2020/21 £000	2021/22 £000
ASE Total Budget	5,118	5,340
Expenditure	4,865	5,160
Income	(5,118)	(5,593)
ASE carry forward into 2022/23	253	433
Brighton & Hove City Council Contribution (19%)	994	1,041
East Sussex County Council Contribution (19%)	955	1,027
Surrey County Council Contribution (26%)	1,333	1,424
West Sussex County Council Contribution (36%)	1,836	1,848
	5,118	5,340

31. Members' Allowances

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

	2020/21 £000	2021/22 £000
Salaries - basic allowances	648	658
Special responsibility allowances	231	212
Expenses	3	8
Total	882	878

The table below shows the actual amounts paid to individual members in the 2021/22 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.	Adeniji	Samuel	11,735	-	-	-
Cllr.	Azad	Abul	11,735	-	257	-
Cllr.	Barnes	Anthony	1,449	-	-	-
Cllr.	Beaver	Matthew	13,149	5,719	284	-
Cllr.	Belsey	Colin	13,149	6,711	248	21
Cllr.	Bennett	Nicholas	12,445	18,792	1413	-
Cllr.	Bentley	William	1,449	1,775	-	-
Cllr.	Bowdler	Robert	13,149	14,718	990	4
Cllr.	Charman	Tania	1,449	-	-	-
Cllr.	Clark	Charles	13,149	-	-	-
Cllr.	Clarke	Martin	1,449	-	-	-
Cllr.	Collier	Christopher	11,735	2,348	-	-
Cllr.	Daniel	Thomas	13,149	339	414	6
Cllr.	Daniel	Philip	1,449	-	-	-
Cllr.	Davies	Angharad	1,449	740	-	-
Cllr.	Denis	Johnny	11,735	-	-	-
Cllr.	Di Cara	Penelope	11,735	-	-	-
Cllr.	Dowling	Christopher	13,149	-	85	-
Cllr.	Dowling	Claire	13,149	16,107	285	3
Cllr.	Earl-Williams	Deidre	1,449	-	-	-
Cllr.	Elford	Simon	1,449	-	-	-
Cllr.	Elkin	David	1,979	2,020	77	-
Cllr.	Enever	Nigel	1,449	-	-	-
Cllr.	Ensor	Michael	1,449	-	-	-
Cllr.	Field	Kathryn	13,149	3,487	230	68
Cllr.	Fox	Gerard	13,149	6,711	-	-
Cllr.	Galley	Roy	13,149	4,579	-	-
Cllr.	Geary	Nuala	11,735	-	246	-
Cllr.	Glazier	Keith	13,998	36,817	842	66
Cllr.	Grover	Darren	1,449	-	-	-
Cllr.	Hay	Alan	11,735	-	-	-
Cllr.	Hilton	Julia	11,735	-	-	-
Cllr.	Hollidge	Ian	11,735	-	-	-
Cllr.	Holt	Stephen	11,735	-	-	-
Cllr.	Howell	Johanna	11,735	-	-	-
Cllr.	Kirby Green	Eleanor	11,735	-	464	-
Cllr.	Lambert	Carolyn	13,149	-	-	-
Cllr.	Liddiard	Thomas	13,149	5,719	-	-
Cllr.	Loe	Laurence	1,449	-	-	-
Cllr.	Lunn	Philip	11,735	-	-	-
Cllr.	MacCleary	James	11,735	-	-	-
Cllr.	Maples	Wendy	11,735	-	-	-
Cllr.	Marlow	Sorrell	11,735	-	-	-
Cllr.	Eastwood					
Cllr.	Maynard	Carl	13,149	16,107	-	-
Cllr.	Milligan	Matthew	11,735	-	-	-
Cllr.	Murphy	Steve	11,735	-	-	-
Cllr.	O'Keeffe	Christina	1,449	-	-	-

Member	Members Basic Allowance	Special Responsibility Allowance	Travel by Car	Fares and Subsistence
Cllr. Osborne Sarah	13,149	-	45	45
Cllr. Pragnell Peter	13,149	11,436	-	-
Cllr. Redstone Paul	11,735	-	872	112
Cllr. Robinson Christine	11,735	-	-	-
Cllr. Rodohan Patrick	13,149	-	-	-
Cllr. Scott Philip	13,149	-	-	-
Cllr. Sheppard Henry	1,979	809	-	-
Cllr. Shing Daniel	13,149	-	43	-
Cllr. Shing Stephen	13,149	-	276	-
Cllr. Shuttleworth Alan	13,149	-	41	-
Cllr. Simmons Rupert	13,149	16,107	216	-
Cllr. Smith Andy	1,449	-	-	-
Cllr. Standley Robert	13,149	16,107	124	-
Cllr. Stogdon Richard	1,449	740	-	-
Cllr. Swansborough Colin	13,149	6,711	152	-
Cllr. Taylor Barry	13,149	-	-	-
Cllr. Taylor Georgia	11,735	-	15	-
Cllr. Tidy Sylvia	1,449	1,775	-	-
Cllr. Tutt David	13,149	13,420	111	-
Cllr. Ungar John	13,149	-	16	-
Cllr. Wallis Steven	1,449	-	-	-
Cllr. Webb Trevor	13,149	2,687	-	-
Cllr. Whetstone Francis	1,449	-	-	-
Total	657,941	212,481	7,746	325

Notes:

Members basic allowance differs between individuals due to a change arising from the election on 6 May 2021.

32. Officers' Remuneration

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

Senior Employees Remuneration 2021/22

	Notes	Salary, Fees and Allowances	Additional duties and Acting up	Expenses Allowances (incl. Benefit in Kind)	Compensation for Loss of Office	Employer's Pension Contribution	Total
		£	£	£	£	£	£
Chief Executive - Becky Shaw	1	101,927	16,236	141	-	20,797	139,100
Executive Director of Adult Social Care – Keith Hinkley	2	36,000	-	5,152	-	6,336	47,488
Director of Adult Social Care		141,885	-	-	-	24,290	166,175
Director of Children's Services	3	60,614	-	-	-	8,919	69,533
Director of Children's Services	4	81,920	-	-	-	14,418	96,338
Director of Communities, Economy & Transport – Rupert Clubb	5	149,115	-	7,138	-	26,757	183,010
Assistant Chief Executive		144,301	-	-	-	25,397	169,698
Chief Operating Officer – Phil Hall	6	160,905	-	-	-		160,905
Director of Public Health		115,440	-	148	-	20,317	135,906
Chief Finance Officer		99,384	-	80	-	17,492	116,956

Notes:

1. The Chief Executive is formally employed by East Sussex County Council but the post is shared with West Sussex County Council under a partnering arrangement. West Sussex County Council make a 50% contribution to the total salary and remuneration costs. The "Additional duties and Acting up" amount is in respect of payment made to reflect the requirement to work across both East and West Sussex County Councils.
2. The Executive Director of Adult Social Care is formally employed by East Sussex County Council but the post is shared with West Sussex County Council under a partnering arrangement. West Sussex County Council make an 80% contribution to the total salary and remuneration costs.
3. Ceased employment on 31 July 2021.
4. Commenced employment on 1 September 2021.
5. Pension Contributions based on salary before childcare vouchers salary sacrifice (£2,916) of £152,031.
6. Engaged as a consultant. Figures above include £17,000 relating to March 2022 that was paid in April 2022.
7. A backdated pay increase of 1.75% for 2021/22 was paid to all Local Management Grade posts in May 2022. As this pay award was not approved until after 31 March 2022 it is not reflected in the figures above.

Senior Employees Remuneration 2020/21

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

Notes:

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

1.

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

Remuneration band	2020/21 Number of employees			2021/22 Number of employees		
	Non Schools	Schools	Total	Non Schools	Schools	Total
£50,000 - £54,999	97	86	183	135	76	211
£55,000 - £59,999	42	46	88	43	48	91
£60,000 - £64,999	19	26	45	27	31	58
£65,000 - £69,999	35	20	55	38	26	64
£70,000 - £74,999	11	17	28	11	16	27
£75,000 - £79,999	3	8	11	5	9	14
£80,000 - £84,999	5	4	9	4	3	7
£85,000 - £89,999	6	3	9	10	1	11
£90,000 - £94,999	2	2	4	-	3	3
£95,000 - £99,999	1	1	2	2	1	3
£100,000 - £104,999	1	1	2	1	1	2
£105,000 - £109,999	-	1	1	-	2	2
£110,000 - £114,999	-	-	-	1	1	2
£115,000 - £119,999	1	-	1	1	-	1
£120,000 - £124,999	-	-	-	-	-	-
£125,000 - £129,999	-	-	-	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 81 employees during 2021/22, incurring costs of £0.887m (100 terminations at a cost of £0.883m in 2020/21). An analysis of the numbers and amounts broken down by pay band and split between compulsory redundancies and other departures for both 2021/22 and 2020/21 are shown in the tables below.

Exit Packages 2021/22					
Exit package cost Band	Compulsory redundancies		Other departures agreed		Total number of exit packages
	Number of employees	£000	Number of employees	£000	
less than £20,000	14	81	51	298	65
£20,000 to £39,999	7	205	6	166	13
£40,000 to £59,999	2	92	1	45	3
£60,000 to £79,999	-	-	-	-	-
Total	23	378	58	509	81

The total cost of £0.887m in the table above is the amount that has been charged to the Comprehensive Income and Expenditure Statement in 2021/22.

Exit Packages 2020/21

Exit package cost Band	Compulsory redundancies		Other departures agreed		Total number of exit packages	
	Number of employees	£000	Number of employees	£000	Number of employees	£000
less than £20,000	36	206	52	257	88	463
£20,000 to £39,999	2	46	6	143	8	189
£40,000 to £59,999	1	41	1	48	2	89
£60,000 to £79,999	1	74	1	68	2	142
Total	40	367	60	516	100	883

34. External Audit Costs

The Council has incurred the following costs in relation to the audit of the accounting statements, certification of grant claims, statutory inspections and for non-audit services provided by the Council's external auditors for services rendered during the year. Grant Thornton have been the Council's external auditors since 2018/19 and all fees below relate to work carried out by them unless specified otherwise.

Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor for the year *

Additional fee relating to the previous year's audit work**

Fees payable in respect of other audit services provided by external auditors***

Total External auditor remuneration

Refund from Public Sector Audit Appointments (PSAA)

Department for Levelling Up, Housing and Communities - Redmond Review –

Local Audit Fees Grant ****

Total

2020/21 £000	2021/22 £000
111	121
12	8
12	8
135	137
-	(13)
-	(33)
135	91

Notes

*For 2021/22, in addition to the £70,350 scale fee, Grant Thornton are proposing additional audit fees of £51,000 bringing the total audit fee to £121,350 if approved by the PSAA.

**The PSAA has agreed £55,000 of fee variations relating to work carried out during the 2020/21 audit, which brings the total fees for 2020/21 to £119,350 (£8,500 more than the £110,850 included in last years accounts).

*** For 2021/22 £7,500 was payable to Grant Thornton for work carried out in respect of the Teachers' Pension Scheme.

****A national grant to support affected local bodies to meet the anticipated rise in fees, driven by new requirements on auditors, including new burdens relating to the implementation of the Redmond Recommendations and the National Audit Office's Code of Audit Practice 2020.

35. Grant Income

The Council credited the following grants, contributions, and donations to the Comprehensive Income and Expenditure Statement in 2021/22:

	2020/21 Restated		2021/22	
	£000	£000	£000	£000
Credited to Taxation and Non Specific Grant Income				
Council Tax		299,999		316,838
Business Rates		74,493		74,818
Social Care Grant		14,631		17,083
Revenue Support Grant:		3,548		3,568
General				
Covid Grant	555		-	
New Homes Bonus	761		504	
Business Rates Relief Funding	6,698		5,698	
Local Income Tax Guarantee Funding	687		36	
Local Council Tax Support	-		4,734	
		8,701		10,972
Capital grants and contributions recognised		68,007*		34,818
Total		469,379		458,097
Grants Credited to Services				
Dedicated Schools		234,305		246,888
Public Health		27,702		28,074
Better Care Fund		17,304		21,136
COVID Infection Control		20,704		14,955
COVID-19 Grant		19,712		11,979
COVID Control Outbreak Management Funding		13,149		-
COVID Test and Trace		2,535		-
COVID Workforce Capacity Grant		1,237		4,930
COVID Winter Funding		1,595		4,485
Pupil Premium		8,686		9,004
Disabled Facilities**		8,124		-
Private Finance Initiative		4,755		4,755
Adult Social Care Reform		6,277		-
Teachers' Pension		6,211		258
Universal Infant Free School Meals		3,626		3,197
16-19 Sixth Form		3,322		3,321
Opportunity Areas		1,250		1,285
PE & Sport		2,033		1,985
Teachers Pay		2,128		92
Unaccompanied Asylum Seeking Children		2,471		3,064
Other Grants		17,330		25,495
Total		404,456		384,903

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 2020/21 Capital grants and contributions recognised figure was restated to remove the SALIX loan balance

**The Disabled Facilities Grant was not treated as an ESCC grant in 2021/22 as it was 100% paid out via the Better Care Fund (whereas in 2020/21 it was both recognised and used by ESCC to commission services).

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 2021	31 March 2022
	£000	£000
Current Liabilities – Receipts in Advance		
Revenue Grants & Contributions	2,780	2,878
Long Term Liabilities – Receipts in Advance		
Capital Grants & Contributions	15,412	14,102

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 2021/22 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2021/22 before Academy and high needs recoupment			417,454
Academy and high needs figure recouped for 2021/22			(170,566)
Total DSG after Academy and high needs recoupment for 2021/22			246,888
Plus: Brought Forward from 2020/21			12,135
(Less): Carry forward to 2022/23 agreed in advance			(10,990)
Agreed initial budgeted distribution in 2021/22	85,024	163,009	248,033
In Year Adjustments	-	-	-
Final budget distribution for 2021/22	85,024	163,009	248,033
(Less): Actual central expenditure	(82,230)	-	(82,230)
(Less): Actual ISB deployed to schools	-	(163,009)	(163,009)
Plus: Local authority contribution for 2021/22	640	-	640
In-year carry forward to 2022/23	3,434	-	3,434
Plus: Carry-forward to 2022/23 agreed in advance			10,990
Total Carry-forward to 2022/23			14,424
DSG Unusable reserve at the end of 2020/21			-
Addition to DSG unusable reserve at the end of 2021/22			-
Total of DSG unusable reserve at the end of 2021/22			-
Net DSG position at the end of 2021/22			14,424

School Reserve

The total value of the Individual Schools Budget (the budget which is delegated to schools) for 2021/22 was £163.0m. Schools carried forward (reserve) a net total of £21.3m (13.2%) at the end of the financial year at 31 March 2022, which was an increase of £0.8m compared to 31 March 2021. Table below shows the numbers and value of schools with surplus and deficits.

		Primary	Secondary	Special	Total
All schools with surpluses					
Number of schools	No.	108	9	1	118
Total surplus	£000	14,902	6,266	161	21,329
All schools with deficits					
Number of schools	No.	1	-	-	1
Total deficit	£000	(1)	-	-	(1)
Carry forward	£000	14,901	6,266	161	21,328
Less: Capital Loan to Schools	£000	-	-	-	-
Net carry forward	£000	14,901	6,266	161	21,328

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.

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 2022 are shown in Note 35.

Members and Chief Officers

Members of the Council have direct control over the Council's financial and operating policies. The Register of Members' Interests is held at County Hall, Lewes, and is open to public inspection. The total of members' allowances paid in 2021/22 is shown in Note 31. None of Members or Chief Officers had control or influence in any related party transactions during the year.

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 2021/22, goods and services to the value of £0.024m were commissioned from this entity.
- Chairman and Member of Ashdown Forest Trust. In 2021/22, rents of the golf course to the value of £0.070m were paid to this entity.

Entities that are controlled or significantly influenced by the Council

The Council acts as sole trustee for the Ashdown Forest Trust (see Note 46), for the balances held by the Council at 31 March 2022.

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 £1.6m to the fund in 2021/22 (£1.9m in 2020/21). The Council's contribution to the fund was £43.4m in 2021/22 (£43.2m in 2020/21).

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, treasury management, accountancy, VAT, IT services and internal audit. The cost of these services was £0.234m in 2021/22 (£0.232m in 2020/21).

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.

Other entities in which the Council has an interest

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 2021/22. There were no long term debts to the company at 31 March 2022.

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.

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.

	2020/21 £000	2021/22 £000
Opening Capital Financing Requirement	342,222	335,135
Property, Plant and Equipment	58,694	46,615
Investment Properties	4	-
Intangible assets	577	-
Capital Loans	652	378
Heritage assets	-	-
Capital grants repaid	-	804
Revenue Expenditure Funded from Capital under Statute	12,418	28,926
Total capital investment	72,345	76,723
Capital receipts	-	(5,840)
Government grants and other contributions	(65,938)	(38,823)
Revenue financing	(6,407)	(6,694)
Total financing other than from loans	(72,345)	(51,357)
Long Term capital debtors	(83)	672
Net investment financed from loans		
Minimum Revenue Provision (MRP) for the repayment of loans	(7,004)	(11,590)
Closing Capital Financing Requirement	335,135	349,583
Explanation of movements in year		
Increase/(decrease) in underlying need to borrow, that is not supported by government financial assistance	(7,087)	14,448

Authority as Lessee

Finance Leases - As at 31 March 2022, the Council has no assets classed as finance leases. There are 10 properties on the Balance Sheet which are valued as long leasehold however these properties do not have a corresponding liability on the Balance Sheet.

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

The minimum lease payments payable in future years are:

	31 March 2021	31 March 2022
	£000	£000
Not later than one year	2,793	2,980
Later than one year and not later than five years	5,329	7,191
Later than five years	6,346	5,713
Total	14,468	15,884

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

	2020/21	2021/22
	£000	£000
Land and Buildings	2,273	2,225
Schools	725	825
Vehicles	325	358
Total	3,323	3,408

Other payments for the renting and hiring of facilities in 2021/22 was £0.170m (£0.128m 2020/21).

Authority as Lessor

Finance Leases - As at 31 March 2022, the Council has no assets classed as finance leases.

Operating Leases - The Council leases out property under operating leases for the following purposes:

- schools and community centres for sports and other community uses;
- depots in relation to service contracts;
- properties surplus to requirements that are awaiting disposal.

The future minimum lease payments receivable in future years are:

	31 March 2021	31 March 2022
	£000	£000
Not later than one year	1,674	1,758
Later than one year and not later than five years	4,032	4,790
Later than five years	5,688	5,618
Total	11,394	12,166

The total income received from leasing, renting and hiring of facilities in 2021/22 was £1.905m (£1.638m 2020/21).

Other Long Term Liabilities in the Balance Sheet consist of:

	31 March 2021	31 March 2022
	£000	£000
Long Term PFI Liabilities	66,347	61,096
Financial Guarantees	60	54
Long Term Creditors	162	16
Total	66,569	61,166

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. During 2021/22 two of the remaining three PFI schools transferred into academies and were removed from the balance sheet.

Waste PFI

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

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

Peacehaven Schools PFI	Telscombe Cliffs £000	Meridian £000	Peacehaven Heights £000	Total £000
1 April 2021	5,505	5,655	2,994	14,154
Additions	17	8	7	32
Revaluations	-	-	-	-
Depreciation	(226)	(109)	(139)	(474)
Disposals	(5,296)	-	(2,862)	(8,158)
31 March 2022	-	5,554	-	5,554

Waste PFI	Hollingdean WTS & MRF £000	Maresfield WTS & HWRS £000	Whitesmith Composting Facility £000	Newhaven Energy Recovery Facility £000	Pebsham HWRS £000	Total £000
1 April 2021	8,132	2,716	15,308	14,691	474	41,321
Revaluations	903	-	2,733	-	-	3,636
Depreciation	(496)	(133)	(712)	(710)	(25)	(2,076)
31 March 2022	8,539	2,583	17,329	13,981	449	42,881

Notes:

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

Details of payments to be made under PFI contracts

Waste PFI

Based on the OBR projected RPIX annual inflation rate to 2027/28 and a projected 2.5% annual inflation rate beyond, 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: 2022/23	3,915	3,236	18,442	3,712	-	29,305
Within 2 to 5 years: 2023/24 to 2026/27	18,306	10,697	84,779	20,863	-	134,645
Within 6 to 10 years: 2027/28 to 2031/32	30,030	7,097	122,232	34,648	-	194,007
Within 11 years: 2032/33	7,147	394	26,639	8,088	-	42,268
Total	59,398	21,424	252,092	67,311	-	400,225

Peacehaven Schools PFI

Based on actual inflation to 31 March 2022, 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: 2022/23	1,337	681	1,922	1,070	373	5,383
Within 2 to 5 years: 2023/24 to 2026/27	5,612	1,279	7,021	4,069	1,361	19,342
Total	6,949	1,960	8,943	5,139	1,734	24,725

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 2022 is £66.3m (£59.4m for Waste PFI, and £6.9m for Peacehaven Schools PFI), and as at 31 March 2021 was £71.2m (£63m for Waste PFI, and £8.2m for Peacehaven Schools PFI).

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. In all cases the authority has the right to use the assets provided by the PFI contractor and is entitled to receive the services specified within each contract. Each of the PFI contracts contain a payment mechanism whereby the authority only pays for the services it receives. On expiry of the contracts, the assets created under the PFI arrangements automatically revert to the authority at nil consideration. Termination of the contracts prior to the expiry is permitted by either party but only in exceptional circumstances and only after a period of negotiation. There have been no material changes to any of the PFI contracts in the reporting period.

That part of the deferred liability due to be repaid in the next year is included under short term creditors in the Balance Sheet with the balance being shown under Other Long Term Liabilities. The breakdown between short term and long term, the total value of the liability and an analysis of movement in those values is shown below.

	Waste PFI	Schools PFI	Total	Included in Short Term Creditors	Included in Long term Liabilities
	£000	£000	£000	£000	£000
Balance outstanding at 1 April 2021	63,076	8,166	71,242	4,895	66,347
Lease principal repayment	(3,678)	(1,217)	(4,895)	356	(5,251)
Balance outstanding at 31 March 2022	59,398	6,949	66,347	5,251	61,096

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 2021/22 the Council incurred a total of £17.87m payable to Teachers Pensions Scheme in respect of teacher's pension costs, which represents 23.86% of teacher's pensionable pay. In addition the Council is responsible for all pension payments related to added years it has awarded, together with the related increase which amounted to £3.11m. These figures compare to an amount of £17.7m payable in 2020/21 (16.48% of pensionable pay) and £3.17m 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 2022, the Council owed £2.04m to Teachers Pensions for the employer's and employee's contribution to the Teachers Pensions Scheme (£2.08m at March 2021). 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 2021/22, the Council incurred a total of £0.15m payable to the NHS Pension Scheme in respect of former NHS staff retirement benefits, and there was £0.022m contributions remaining payable at the year end. This compares to an amount of £0.14m payable in 2020/21.

Participation in Pension Schemes

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

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

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

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

Comprehensive Income and Expenditure Statement

Cost of Services:

Service Cost Comprising:

- current service cost
- past service costs
- (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

2020/21 £000	2021/22 £000
70,118	78,827
-	-
9,890	(3,790)
11,413	12,173
91,421	87,210
(245,682)	(145,262)
(27,187)	-
384,767	(93,896)
(22,703)	5,200
180,616	(146,748)
(142,514)	184,034
38,102	37,286

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:

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Present Value of the define benefit obligations: Local Government Pension Scheme	(1,691,088)	(1,890,390)	(1,666,341)	(2,066,436)	(2,041,981)
Fair value of plan assets in the Local Government Pension Scheme	1,281,300	1,368,978	1,249,473	1,507,054	1,666,633
Deficit in the scheme: Local Government Pension Scheme	(409,788)	(521,412)	(416,868)	(559,382)	(375,348)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £2,042.0m (£2,066.4m in 2020/21) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £375.3m (£559.4m in 2020/21).

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 2023 is 17.6% of payroll plus monetary amounts of £4.966m.

Assets and Liabilities in Relation to Post-employment Benefits

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

	2020/21 £000	2021/22 £000
Opening balance at 1 April:	1,666,341	2,066,436
Current Service Cost	68,452	77,325
Interest Cost	31,205	40,099
Contributions by scheme participants	9,818	10,092
Re-measurement (gains) and losses:		
• Actuarial gains/losses arising from changes in demographic assumptions	(27,187)	-
• Actuarial gains/losses arising from changes in financial assumptions	384,767	(93,896)
• Other	(22,703)	5,200
Past Service Costs, including curtailments	405	522
Benefits paid	(48,200)	(51,278)
Liabilities assumed/(extinguished) on settlements	8,592	(8,531)
Unfunded Benefits paid	(5,054)	(3,988)
Closing balance at 31 March	2,066,436	2,041,981

Reconciliation of fair value of the scheme assets:

	2020/21 £000	2021/22 £000
Opening fair value of scheme asset at 1 April:	1,249,473	1,507,054
Interest Income	19,792	27,926
Re-measurement gain / (loss):		
• The return on plan assets, excluding the amount included in the net interest expense	245,682	145,262
• Other	-	-
Contributions from employer	38,102	37,286
Contributions from employees into the scheme	9,818	10,092
Benefits paid	(48,200)	(51,278)
Unfunded benefits paid	(5,054)	(3,988)
Other payments	(2,559)	(5,721)
Closing fair value of scheme assets at 31 March	1,507,054	1,666,633

Other payments for scheme assets include administration expenses and settlement prices paid.

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 £27.93m (£19.79m in 2020/21).

Local Government Pension Scheme assets comprised:

Cash and cash equivalents

Bonds:

By sector

- Government

Sub-total bonds

Private equity:

All

Sub-total private equity

Other investment funds:

- UK Property

Sub-total other investment funds

Investment funds and unit trusts:

- Equities
- Bonds
- Infrastructure
- Other

Sub-total Investment funds and unit trusts

Total assets

Fair value of scheme assets 2020/21 £000	%	Fair value of scheme assets 2021/22 £000	%
21,099	1	33,333	2
46,719	3	49,999	3
46,719	3	49,999	3
123,578	8	133,331	8
123,578	8	133,331	8
113,029	8	133,331	8
113,029	8	133,331	8
669,132	44	716,652	43
159,748	11	149,997	9
4,521	-	49,999	3
369,228	25	399,991	24
1,202,629	80	1,316,639	79
1,507,054	100	1,666,633	100

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The County Council Fund liabilities have been assessed by Barnett Waddingham, an independent firm of actuaries, based on the calculations in the latest full valuation of the scheme as at 31 March 2020 rolled forward to the Balance Sheet date allowing for the different assumptions required by accounting standards.

The principal assumptions used by the actuary have been:

Mortality assumptions:

Longevity at 65 for current pensioners

Men

Women

Longevity at 65 for future pensioners

Men

Women

Rate of increase in salaries

Rate of inflation/increase in pensions

Rate for discounting scheme liabilities

2020/21	2021/22
21.1	21.2
23.7	23.8
21.9	22.0
25.0	25.1
2.8%	3.2%
2.8%	3.2%
2.0%	2.6%

The mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's model, CMI_2020, which was released in March 2021. This update has been made in light of the coronavirus pandemic and reflects the latest information available from the CMI.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme i.e. on an actuarial basis using the projected unit credit method.

Change in assumptions at 31 March 2022:

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

Impact on the Defined Benefit Obligation in the Scheme	
Approximate increase to Employer	Approximate monetary amount
%	£000
2	38,185
-	2,150
2	35,773
5	96,056

At 31 March 2022, the Council owed £4.15m (£3.58m 31 March 2021) to the Pension Fund in respect of employer's and employees' contributions.

Details of the East Sussex Pension Fund, for which a full actuarial valuation was last carried out at 31 March 2020, can be found on pages 124 to 160.

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 2023 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 31 March 2020.

<https://www.eastsussexpensionfund.org/resources/>

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

43. Contingent Liabilities

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

44. Contingent Assets

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

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 9 February 2021 and is available on the Council website.

The key issues within the strategy were:

- The Authorised Limit for 2021/22 was set at £405m. This is the maximum limit of external borrowings or other long-term liabilities;
- The Operational Boundary was expected to be £385m. This is the expected level of debt and other long-term liabilities during the year;
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 15% based on the Council's net debt;
- The maximum and minimum exposures to the maturity structure of debt (see table below).

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

1. Credit Risk

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

There are financial risks that the impact of the pandemic will be felt into 2022/23 and later years due to the uncertainty surrounding its impact on residents, particularly with regard to Children's and Adult Social Care. The slowdown in house building will impact in the growth in Council Tax base, whilst the impact businesses may impact on 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 2021/22 was approved by Full Council on 9 February 2021 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 £319m 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 2022 that this was likely to crystallise.

Amounts Arising from Expected Credit Losses (ECL)

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

	12 Month ECL	Lifetime ECL	Lifetime ECL – Simplified Approach	Total
	£000	£000	£000	£000
Opening balance 1 April 2021	23	153	1,509	1,685
Change in credit loss	11	19	68	98
Closing balance 31 March 2022	34	172	1,577	1,783

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

Collateral

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

2. Liquidity risk

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

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets, excluding sums due from customers £11.13m at 31 March 2022 (£12.29m 31 March 2021), is as follows:

	31 March 2021	31 March 2022
	£000	£000
Less than one year	290,921	315,030
Between one and two years	24,355	25,621
Total	315,276	340,651

3. Refinancing and Maturity risk

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

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

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

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period approved by Council in the Treasury Management Strategy:

	Approved Minimum Limit	Approved Maximum Limit	31 March 2021 (Restated)	31 March 2022
	%	%	£000	£000
Less than one year (current liabilities)	0%	25%	89,155	103,555
Between one and two years	0%	40%	17,528	10,432
Between two and five years	0%	60%	33,143	34,999
Between five and ten years	0%	70%	59,648	65,121
More than ten years	0%	90%	190,128	179,686
Total			389,602	393,793

*Restated to include the SALIX loan liability

4. Market risk

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

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

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

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

According to this assessment strategy, at 31 March 2022, if all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000
Increase in interest payable on variable rate borrowings (none held)	-
Increase in interest receivable on variable rate investments	759
Impact on Comprehensive Income and Expenditure	<u>759</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 in the unaudited financial statements at 31 March 2021 were £258,258 (£276,916 at 31 March 2020).

The legal liability of the County Council is limited to £4m between its four guarantors. As no amount has been invested in this company, since it is limited by guarantee, and investments are carried at cost, the Council has not recognised any amount as an investment in this company.

The Council does hold £5m in a property asset fund, and its price varies. The fair value at 31 March 2022 is £5.2m. However, any movement in price will not impact on the General Fund Balance as regulations are in force to ameliorate the impact of fair value movements.

Foreign exchange risk

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

46. Trust Funds

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

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

- East Sussex Music Trust: for the provision of music education opportunities for children and young people in East Sussex;
- Robertsbridge Youth Centre: interest from money raised by the sale of land at the youth centre, applied towards youth services in Robertsbridge;
- Lewes Educational Charity: interest from money raised by the sale of former educational premises, applied towards education in Lewes and the surrounding area;
- How Scholarship: assistance to individuals in the Borough of Hastings;
- Wright Legacy: for the purchase of particular classes of books for Eastbourne Library;
- The Ashdown Forest Trust: a registered charity that was set up by a declaration of trust in 1988. The Council is trustee and agrees grants made to the Ashdown Forest conservators, from the Ashdown Forest Trust Fund. An independent examination of the Trust Fund accounts is provided by external auditors.
- Performing Arts Centre, Lewes: the centre is leased to the Council by East Sussex College as trustee of the East Sussex Music Trust.

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

	2021/22			
	Opening Balance Restated £000	Expenditure £000	Income £000	Closing Balance £000
Sole trustee funds				
East Sussex Music Trust	(32)	5	-	(27)
Robertsbridge Youth Centre	(107)	-	-	(107)
Lewes Educational Charity	(62)	-	-	(62)
Heathfield Youth Centre	(59)	-	(1)	(60)
How Scholarship	(5)	-	-	(5)
Wright Legacy	(2)	-	-	(2)
Total sole trustee funds	(267)	5	(1)	(263)
Comforts funds	(37)	4	(3)	(36)
Total trust funds	(304)	9	(4)	(299)
 Ashdown Forest Trust	 (1,363)*	 -	 (4)	 (1,367)
Performing Arts Centre, Lewes	(508)	16	-	(492)

*Opening balance was restated to reflect the latest set of available accounts, this has no impact elsewhere in the statements.

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 2022, the liability had reduced to £9.02m (£9.16m at 31 March 2021).

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 58), has recognised the land value in the Balance Sheet. Four of the sites are located on land included elsewhere in the Council's Balance Sheet and the remaining four sites are valued separately as Property, Plant & Equipment at £1.2m at 31 March 2022 (£1.2m at 31 March 2021).

48. Prior Period Adjustment

During the year the Council became aware that a SALIX Capital loan received during 2020/21 had been treated incorrectly as a grant which had therefore overstated income in the Comprehensive Income and Expenditure Statement by £1.1m

In order to correct this error the Council has restated the prior year information for 2020/21.

The effect on the Comprehensive Income and Expenditure Statement for 2020/21 is shown below:

	Originally Stated	Restated	Amount of Restatement
	2020/21 £000	2020/21 £000	2020/21 £000
Taxation and non-specific grant income	(470,501)	(469,379)	1,122
Deficit on Provision of Services	<u>77,611</u>	<u>78,733</u>	<u>1,122</u>
Total Comprehensive (Income) and Expenditure	94,505	95,627	1,122

The effect on the Balance Sheet for 2020/21 is shown below:

	Originally Stated	Restated	Amount of Restatement
	2020/21 £000	2020/21 £000	2020/21 £000
Short Term Borrowing	(4,615)	(4,839)	(224)
Current Liabilities	(147,884)	(148,108)	(224)
Long Term Borrowing	(232,980)	(233,878)	(898)
Long Term Liabilities	<u>(884,687)</u>	<u>(885,585)</u>	<u>(898)</u>
Net Assets	291,109	289,987	(1,122)
Usable Reserves	<u>234,847</u>	<u>233,725</u>	<u>(1,122)</u>
Total Reserves	291,109	289,987	(1,122)

The following restatement was also required for the Movement in Reserves Statement for Usable reserves:

	Originally Stated	Restated	Amount of Restatement
	31 March 2021 £000	31 March 2021 £000	31 March 2021 £000
Total Comprehensive Income and Expenditure	(77,611)	(78,733)	(1,122)
Net Increase / (Decrease) before Transfers to Earmarked Reserves	<u>67,934</u>	<u>66,812</u>	<u>(1,122)</u>
Balance at 31 March 2021	234,837	233,725	(1,122)

See pages 45 - 45 for the full statements.

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 and provide the statutory basis within which the Scheme can operate.

Although a national pension scheme, mainly set up for the benefit of local government employees, the LGPS is 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 Further Education Colleges, 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.

Currently within the East Sussex Pension Fund there are 134 participating employers. A full list of participating employers is given at note 29.

Administering Authority Responsibilities

East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund (the Fund) on behalf of all the participating employers of the Fund in East Sussex, and in turn the past and present contributing members, and their dependents.

The Fund receives contributions from both employees and employers, as well as income from its investments, these elements then meet the cost of paying benefits of the pension scheme. As part of its responsibilities as the administering authority the County Council is responsible for setting the funding and investment strategies and reviewing the performance of the Fund's external investment managers and advisers. The administration and management of the Pension Fund has been delegated to the East Sussex Pension Committee supported by the East Sussex Pension Board.

The Fund has brought the day to day functions of managing the governance and administration functions under its sovereign control moving away from the Orbis partnership arrangements that were in place in 2019/20. The main services provided by the Fund include governance and compliance, investment, accounting, maintenance of scheme members' records, calculation and payment of pension benefits, transfers of pension rights, calculation of annual pension increases and the provision of information and communications to scheme members, scheme employers and other stakeholders.

The Fund has increased its governance arrangements following a good governance review resulting in a change to terms of reference, delegations, policies and team structure with all decision-making residing with the Pension Committee. The Fund ensures that all the participating employers within the Fund are aware of their own responsibilities through its administration strategy, as well as any changes to the provisions of the Scheme that may be introduced through an employer engagement team, communications and an annual employer forum.

A major responsibility of 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 size of 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 currently under way with new contribution rates due to be set at the 31 March 2023.

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. West Northamptonshire | 10. Isle of Wight |
| 4. West Sussex | | |

At the 30 March 2021 collectively the pool has assets of £56 billion (of which 57% has been pooled) serving 3,400 employers with over 1.1 million members including 300,000 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 their website <https://www.accesspool.org/>.

Pension Fund Account for the year ended 31 March 2022

2020/21			2021/22	
£000	£000	Notes	£000	£000
		Dealings with members, employers and others directly involved in the fund		
(100,042)		Contributions		
(31,435)		From Employers	(99,617)	
		From Members	(34,556)	
	(131,477)			(134,173)
	(6,044)	Transfers in from other pension funds		(8,246)
	(137,521)			(142,419)
128,707		Benefits		134,595
5,561		Payments to and on account of leavers		10,744
134,268				145,339
(3,253)		Net (additions)/withdrawals from dealings with members		2,920
17,296		Management expenses		26,671
14,043		Net (additions)/withdrawals including fund management expenses		29,591
		Returns on investments		
(39,089)		Investment income		(40,549)
19		Taxes on income		2
(739,914)		Profit and losses on disposal of investments and changes in the value of investments		(432,676)
(778,984)		Net return on investments		(473,223)
(764,941)		Net (increase)/decrease in net assets available for benefits during the year		(443,632)
(3,479,094)		Opening net assets of the scheme		(4,244,035)
(4,244,035)		Closing net assets of the scheme		(4,687,667)

Net Assets Statement for the year ended 31 March 2022

31 March 2021 £000		Notes	31 March 2022 £000
4,173,990	Investment assets	14	4,587,145
357	Other Investment balances	21	774
(775)	Investment liabilities	22	(1,173)
56,736	Cash deposits	14	90,216
4,230,308	Total net investments		4,676,962
15,675	Current assets	21	15,391
(1,948)	Current liabilities	22	(4,686)
4,244,035	Net assets of the fund available to fund benefits at the year end.		4,687,667

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 2022 and of the movements for the year then ended.

Ian Gutsell

Chief Finance Officer (Section 151 Officer)

Business Services Department

xx November 2022

Notes to the East Sussex Pension Fund Accounts

1: Description of fund

The East Sussex Pension Fund ("the Fund") is part of the Local Government Pension Scheme and is administered by East Sussex County Council ("the Scheme Manager"). The County Council is the reporting entity for this pension fund.

The following description of the Fund is a summary only. For more detail, references should be made to the East Sussex Pension Fund Annual Report 2021/22 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

1. General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- a) The Local Government Pension Scheme Regulations 2013 (as amended)
- b) The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- c) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Fund is a contributory defined benefit pension scheme administered by East Sussex County Council to provide pensions and other benefits for pensionable employees of East Sussex County Council, Brighton and Hove City Council, the district and borough councils in East Sussex County and a range of other scheduled and admitted bodies within the county area.

The Fund is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

The Council has delegated its pension functions to the East Sussex Pension Committee. Responsibility for the administration and financial management of the Fund has been delegated to the Chief Finance Officer along with the Head of Pensions. The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with the administration and 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 liquid investments such as equities and bonds as well as illiquid investments such as private equity, infrastructure, and private debt. The Committee oversees the management of these investments and the Fund and its advisers meet regularly with the investment managers to monitor their performance against agreed benchmarks. The Pension Committee take proper advice from specialist advisers when making investment decisions.

2. 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. Employees are auto enrolled into the scheme every three years and on appointment.

Organisations participating in the East Sussex Pension Fund include:

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

There are 134 employer organisations within East Sussex Pension Fund including the County Council itself, and 81,291 members as detailed below:

East Sussex Pension Fund	31 March 2021	31 March 2022
Number of employers with active members	127	134
Number of employees		
County Council	8,163	8,059
Other employers	16,839	16,455
Total	25,002	24,514
Number of pensioners		
County Council	9,805	10,125
Other employers	12,425	13,006
Total	22,230	23,131

Notes to the East Sussex Pension Fund Accounts

Deferred pensioners		
County Council	13,805	14,223
Other employers	17,429	19,423
Total	31,234	33,646
Total number of members in pension scheme	78,466	81,291

3. 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 2022. 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.

4. 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 (CARE), whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated 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 2021/22 financial year and its position at year-end as at, 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector. The accounts have been prepared on a going concern basis.

Accounting standards issued but not yet adopted - Under the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, 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. The standards introduced by the 2022/23 Code where disclosures are required in the 2021/22 financial statements are:

- IFRS 16 Leases (but only for those local authorities that have decided to adopt IFRS 16 in the 2022/23 year).
- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes 4 changed standards:
 - IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
 - IAS 37 (Onerous contracts) – clarifies the intention of the standard
 - IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
 - IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

None of the matters covered in the annual improvements are dealt with in detail in the 2022/23 Code. During the consultation process on the 2022/23 Code CIPFA/LASAAC did not envisage them having a significant effect.

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).

There were no amendments for 2021/22 for the accounts of the Pension Fund.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The code gives administering authorities the option to disclose this information in the net asset statement, in the notes to the accounts or appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 20.

The Pension Fund publishes a number of statutory documents, including an Investment Strategy Statement, a Funding Strategy Statement, Governance and Compliance Policy Statement and Communications Strategy Statement. Copies can be obtained by contacting the Council's Pensions team or alternatively are available from <https://www.eastsussexpensionfund.org/>

The Fund invest a large portion of its investment assets through the ACCESS (A Collaboration of Central, Eastern and Southern Shires) LGPS Pool. There is no specific accounting policy for the Pool. The ACCESS Pool is not a legal entity in itself but is governed by an 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 and is FCA regulated. There is no direct investment in the third party, only a contractual arrangement to provide services, so there is no investment balance to carry forward in the net asset statement.

3: Summary of significant accounting policies

Fund account – revenue recognition

1. Contribution income

Normal contributions are accounted for on an accruals basis as follows:

Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes, which rise according to pensionable pay.

Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body.

Additional employers' contributions in respect early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

2. 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.

3. Investment income

a) 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.

b) 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.

c) 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.

d) 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

4. 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.

5. 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.

6. 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:

a) Administrative expenses

All staff costs relating to the pensions administration team are charged direct to the Fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses of the Fund.

b) Oversight and governance costs

All costs associated with governance and oversight are separately identified, apportioned to this activity and charged as expenses to the Fund.

c) **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 2021/22, £1.2m of fees is based on such estimates (2020/21: £0.8m).

Net assets statement

7. Financial assets

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 14a. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

8. 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.

9. 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.

10. 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.

11. 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.

12. 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).

13. 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).

14. 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 2022 was £374 million (£265 million at 31 March 2021).

Pension fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

Use of Financial Instruments

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

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions are made to take into account historical experience, current trends and other relevant factors. However, actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. As a result of Coronavirus pandemic there is an increase in the uncertainty around the mortality provisions within the Fund, however it is too early to assess this figure at the current time so has not been included in our calculations. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2019 Valuation the actuary advised that: <ol style="list-style-type: none"> 1. A 0.2% increase in the discount rate assumption would result in a decrease in the pension liability by approximately £113 million (3%). 2. A 0.2% increase in benefit increases and CARE revaluation would increase the value of liabilities by approximately £95 million (3%). 3. A 0.25% change in mortality rates would increase the liability by approximately £25 million (0.7%).
Private equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2015). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £373.7 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.

Notes to the East Sussex Pension Fund Accounts

Item	Uncertainties	Effect if actual results differ from assumptions
Infrastructure	Infrastructure investments are valued at fair value in accordance with industry guidelines, based on the Fund manager valuations as at the end of the reporting period. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total infrastructure investments in the financial statements are £140.6 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 investment managers. The sensitivity of this figure is discussed further in Note 16 and Note 18.
Private Debt	Private debt investments are valued at fair value in accordance with industry guidelines, based on the Fund manager valuations as at the end of the reporting period. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private debt investments in the financial statements are £39.7 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 investment managers. The sensitivity of this figure is discussed further in Note 16 and Note 18.
Climate Risk	Climate risk is the potential for adverse consequences for human or ecological systems, recognising the diversity of values and objectives associated with such systems. In the context of climate change, risks can arise from potential impacts of climate change as well as human responses to climate change. The outcomes of these risks is unknown and as such there is a degree of estimation involved in the valuation of companies.	The total net investment assets of the Fund are £4,677.0 million. There is a risk that the investments may be over or understated in the accounts depending on the assumptions around policy responses to climate change in the valuation of investments. The sensitivity of the investments to valuations changes are discussed further in Note 16 and Note 18.

6: Events after the balance sheet date

There have been one event since 31 March 2022, and up to the date when these accounts were authorised that require any adjustments to these accounts. This related to the disbandment of legal proceedings for tax reclaims on certain dividends and the removal of a contingent asset and the creation of a contingent liability.

7: Contributions Receivable

	2020/21 £000	2021/22 £000
By category		
Employee's contributions	31,435	34,553
Employer's contributions		
Normal contributions	83,643	83,884
Deficit recovery contributions	15,336	14,936
Augmentation contributions	1,063	800
Total	131,477	134,173
By authority		
Scheduled bodies	84,803	85,174
Admitted bodies	3,653	4,166
Administrative Authority	43,021	44,833
Total	131,477	134,173

8: Transfers in from other pension funds

	2020/21 £000	2021/22 £000
Group transfers	-	-
Individual transfers	6,044	8,246
Total	6,044	8,246

Notes to the East Sussex Pension Fund Accounts

9: Benefits payable

	2020/21 £000	2021/22 £000
By category		
Pensions	108,927	111,786
Commutation and lump sum retirement benefits	17,194	19,179
Lump sum death benefits	2,586	3,630
Total	128,707	134,595
By authority		
Scheduled bodies	76,492	79,660
Admitted bodies	3,781	3,977
Administrative Authority	48,434	50,958
Total	128,707	134,595

10: Payments to and on account of leavers

	2020/21 £0	2021/22 £0
Refunds to members leaving service	242	326
Group transfers	-	2,700
Individual transfers	5,319	7,718
Total	5,561	10,744

Notes to the East Sussex Pension Fund Accounts

11: Management expenses

	2020/21	2021/22
	£000	£000
Administrative costs	1,680	2,216
Investment management expenses	13,785	23,929
Oversight and governance costs	1,831	526
Total	17,296	26,671

11a: Investment management expenses

	Total	Management Fees	Performance Related Fees	Transaction costs*
	£000	£000	£000	£000
2021/22				
Bonds	10	10	-	-
Equities	392	81	-	311
Pooled investments				
Fixed Income	2,219	2,158	-	61
Equity	7,124	6,652	-	472
Diversified growth funds	6,072	5,561	-	511
Pooled property investments	1,601	1,508	-	93
Private equity / infrastructure	6,372	4,787	1,585	-
	<u>23,790</u>	<u>20,757</u>	<u>1,585</u>	<u>1,448</u>
Custody	<u>139</u>			
Total	<u>23,929</u>			

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

	Total	Management Fees	Performance Related Fees	Transaction costs*
	£000	£000	£000	£000
2020/21				
Bonds	38	14	-	24
Equities	802	113	-	689
Diversified growth				
Pooled investments	-	-	-	-
Fixed Income	1,769	1,769	-	-
Equity	2,872	2,593	-	279
Diversified growth funds	3,373	3,373	-	-
Pooled property investments	1,307	1,307	-	-
Private equity / infrastructure	3,563	3,563	-	-
	<u>13,724</u>	<u>12,732</u>	<u>-</u>	<u>992</u>
Custody	<u>61</u>			
Total	<u>13,785</u>			

*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 2021/22 of £4.0m (£2.2m in 2020/21) on its private equity investments, fees of £2.4m (£1.1m in 2020/21) on its infrastructure investments, fees of £9.1m (£5.1m in 2020/21) on investments in the ACCESS Pool and fees of £4.6m (£1.9m in 2020/21) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

Notes to the East Sussex Pension Fund Accounts

12: Investment income

	2020/21	2021/22
	£000	£000
Income from bonds	122	-
Income from equities	654	985
Private equity/Infrastructure income	1,458	2,161
Pooled property investments	9,584	11,971
Pooled investments - unit trusts and other managed funds	25,402	24,752
Interest on cash deposits	1,869	680
Class Actions	-	-
Total	39,089	40,549

13: Other fund account disclosures

13a: Taxes on income

	2020/21	2021/22
	£000	£000
Withholding tax – equities	(19)	(2)
Total	(19)	(2)

13b: External audit costs

	2020/21	2021/22
	£000	£000
Payable in respect of external audit for 2019/20	5	-
Payable in respect of external audit for 2020/21	35	8
Payable in respect of external audit for 2021/22	-	35
Payable in respect of other services	5	5
Grant	-	(10)
Total	45	38

* The final fee for 2019/20 was agreed after the audit opinion was received for 2019/20

** The final fee for 2020/21 was agreed after the audit opinion was received for 2020/21

14: Investments

	2020/21	2021/22
	£000	£000
Investment assets		
Bonds	128,765	134,975
Equities	-	237,482
Pooled Investments		
Fixed Income	485,996	476,264
Equity	1,864,834	1,797,637
Diversified growth funds	1,002,298	1,036,214
Pooled property investments	319,533	390,179
Private equity/infrastructure	372,564	514,383
Derivative contracts:		
Forward Currency Contracts	-	11
	4,173,990	4,587,145
Cash deposits with Custodian	56,736	90,216
Other Investment balances (Note 21)	357	774
Total investment assets	4,231,083	4,678,135
Investment Liabilities (Note 22)	(775)	(1,170)
Derivative contracts:		
Forward Currency Contracts	-	(3)

Notes to the East Sussex Pension Fund Accounts

Total Investment Liabilities
Net investment assets

(775)	(1,173)
4,230,308	4,676,962

14a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2021	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 2022
	£000	£000	£000	£000	£000
Bonds	128,765	-	-	6,210	134,975
Equities	-	346,994	(272,967)	163,455	237,482
Pooled investments	3,353,128	155,487	(223,349)	24,849	3,310,115
Pooled property investments	319,533	34,405	(23,111)	59,352	390,179
Private equity/infrastructure	372,564	71,813	(107,111)	177,117	514,383
	4,173,990	608,699	(626,538)	430,983	4,587,134
Derivative contracts					
■ Futures	-	16	(23)	15	8
■ Forward currency contracts		726	(132)	(594)	-
	4,173,990	609,441	(626,693)	430,404	4,587,142
Other investment balances:					
■ Cash deposits	56,736			2,272	90,216
■ Other Investment Balances	357				774
■ Investment Liabilities	(775)				(1,170)
Net investment assets	4,230,308			432,676	4,676,962

	Market value 1 April 2020	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2021
	£000	£000	£000	£000	£000
Bonds	212,331	-	(92,246)	8,680	128,765
Equities	-	618,587	(534,059)	(84,528)	-
Pooled investments	2,579,793	253,354	(246,139)	766,120	3,353,128
Pooled property investments	318,129	11,928	(9,059)	(1,465)	319,533
Private equity/infrastructure	291,413	77,295	(47,943)	51,799	372,564
Commodities	-	-	-	-	-
Multi Asset	-	-	-	-	-
	3,401,666	961,164	(929,446)	740,606	4,173,990
Derivative contracts					
■ Forward currency contracts	-	575	(162)	(413)	-
	3,401,666	961,739	(929,608)	740,193	4,173,990
Other investment balances:					
■ Cash deposits	63,715			(279)	56,736
■ Other Investment Balances	340				357
■ Investment Liabilities	(475)				(775)
Net investment assets	3,465,246			739,914	4,230,308

Notes to the East Sussex Pension Fund Accounts

14b: Investments analysed by fund manager

	Market value 31 March 2021		Market value 31 March 2022	
	£000	%	£000	%
Investments in the ACCESS Pool				
ACCESS - Alpha Opportunities (M&G)	-	0.0%	287,673	6.2%
ACCESS - Absolute Return (Ruffer)	458,786	10.8%	537,861	11.5%
ACCESS - Corporate Debt (M&G)	158,430	3.7%	148,858	3.2%
ACCESS - Global Alpha (Bailie Gifford)	-	0.0%	197,397	4.2%
ACCESS - Global Equity (Longview)	492,250	11.6%	525,660	11.2%
ACCESS - Real Return (Newton)	510,048	12.1%	498,354	10.7%
ACCESS - UBS Passive	557,483	13.3%	134,974	2.9%
ACCESS - UBS Osmosis	-	0.0%	238,150	5.1%
	2,176,997	51.5%	2,568,927	55.0%
Investments held directly by the Fund				
Adams St Partners	154,497	3.7%	206,010	4.4%
Atlas Infrastructure	77,324	1.8%	95,964	2.1%
East Sussex Pension Fund Cash	30,674	0.7%	77,869	1.7%
Harbourvest Strategies	110,515	2.6%	167,729	3.6%
M&G Real Estate Debt	42,416	1.0%	39,733	0.8%
Pantheon	38,120	0.9%	62,374	1.3%
Prudential Infracapital	32,707	0.8%	42,449	0.9%
Schroders Property	344,204	8.1%	402,175	8.6%
Storebrand Smart Beta & ESG	454,529	10.7%	510,338	10.8%
UBS Infrastructure Fund	37,697	0.9%	35,821	0.8%
Wellington Active Impact Equity	222,751	5.3%	237,481	5.1%
Wheb Active Impact Equity	222,727	5.3%	230,092	4.9%
M&G Absolute Return Bonds	285,150	6.7%	-	0.0%
	2,053,311	48.5%	2,108,035	45.0%
	4,230,308		4,676,962	100.00%

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

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

Security	Market Value 31 March 2021	% of total fund	Market value 31 March 2022	% of total fund
	£000		£000	
ACCESS - Absolute Return (Ruffer)	458,786	10.8%	537,861	11.5%
ACCESS - Global Equity (Longview)	492,250	11.6%	525,660	11.2%
Storebrand Smart Beta & ESG Fund	454,529	10.7%	510,338	10.9%
ACCESS - Real Return (Newton)	510,048	12.1%	498,354	10.7%
ACCESS - Alpha Opportunities (M&G)	-	0.0%	287,673	6.2%
Wellington Active Impact Equity Fund	222,751	5.3%	237,481	5.1%
Wheb Active Impact Equity Fund	222,727	5.3%	230,092	4.9%
M&G Absolute Return Bonds	285,150	6.7%	-	0.0%

14c: Stock lending

The East Sussex Pension Fund has not operated a direct stock lending programme since 13 October 2008 but stock lending may occur in some of our pooled vehicles the fund is invested in.

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.

1. Futures

The Fund'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.

Type	Expires	Economic Exposure £000	Market Value 31 March 2021 £000	Economic Exposure £000	Market Value 31 March 2022 £000
Assets					
UK Equity Futures	Less than one year	-	-	150	4
Overseas Equity Futures	Less than one year	-	-	516	7
Total assets			-		11
Liabilities					
Overseas Equity Futures	Less than one year	-	-	129	(3)
Total liabilities			-		(3)
Net futures			-		8

2. 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.

No forward foreign currency investments were held at the 31 March 22 (Nil 31 March 21)

3. 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.

No options investments were held at the 31 March 22 (Nil 31 March 21)

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	<p>Closing bid price where bid and offer prices are published</p> <p>Closing single price where single price published</p>	<p>The valuation is undertaken by the investment manager or responsible entity and advised as a unit or security price. Observable inputs are used.</p> <p>The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.</p>	Not Required
Pooled investments – Property Funds	Level 3	<p>Closing bid price where bid and offer prices are published</p> <p>Closing single price where single price published</p> <p>Investments in unlisted property funds are valued at the net asset value (NAV). The underlying real estate assets values have been derived by independent valuers on a fair value basis and generally in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards.</p>	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)	<p>Observable inputs are subject to judgment by the respective manager but are applied in accordance with the appropriate industry guidelines.</p> <p>Valuations are audited as at 31 December, and the valuations as at 31 March reflect cash flow transactions since 31 December.</p>	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

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 consequential potential impact on the closing value of investments held at 31 March 2022 and 31 March 2021.

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2022 £000	Value on increase £000	Value on decrease £000
Pooled Investment (1)	9%	39,733	43,309	36,157
Pooled property investments (2)	13%	390,179	440,902	339,456
Private Equity/Infrastructure (3)	25%	514,383	643,493	385,273
Total		944,295	1,127,704	760,886

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2021 £000	Value on increase £000	Value on decrease £000
Pooled Investment (1)	9%	42,416	46,233	38,599
Pooled property investments (2)	13%	319,533	361,072	277,994
Private Equity/Infrastructure (3)	25%	372,564	464,960	280,168
Total		734,513	872,265	596,761

1. All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate debt assets, the range in the potential movement of 9% is caused by how this value is measured.
2. All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate assets, the range in the potential movement of 13% is caused by how this value is measured.
3. All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 25% is caused by how this profitability is measured.

16a: Fair value hierarchy

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With Significant unobservable inputs	Total
Values at 31 March 2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	238,267	3,405,357	944,295	4,587,919
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	(11)	(1,162)	-	(1,173)
Net investment assets	238,256	3,404,195	944,295	4,586,746

	Quoted market price	Using observable inputs	With Significant unobservable inputs	Total
Values at 31 March 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	357	3,439,477	734,513	4,174,347
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(775)	-	(775)
Net investment assets	357	3,438,702	734,513	4,173,572

Notes to the East Sussex Pension Fund Accounts

16b: Transfers between levels 1 and 2

During 2021/22 the fund has transferred no financial assets between levels 1 and 2.

16c: Reconciliation of fair value measurements within level 3

	Market value 1 April 2021 £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 2022 £000
Period 2021/22								
Pooled investments	42,416	-	-	6,150	(11,175)	2,342	-	39,733
Pooled property investments	319,533	-	-	34,405	(23,093)	58,566	768	390,179
Private Equity/Infrastructure	372,564	-	-	71,813	(100,760)	114,336	56,430	514,383
Total	734,513	-	-	112,368	(135,028)	175,244	57,198	944,295

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

	Unrealised gains/(losses)	Realised gains/(losses)	Change in market value during the year
Level 1 and 2	(8,876)	209,110	200,234
3	175,244	57,198	232,442
Total	166,368	266,308	432,676

	Market value 1 April 2020 £000	Transfers into Level 3 £000	Transfers out of Level 3 £000	Purchases during the year £000	Sales during the year £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	Market value 31 March 2021 £000
Period 2020/21								
Pooled investments	30,583	-	-	18,074	(6,715)	474	-	42,416
Pooled property investments	318,129	-	-	11,928	(9,274)	(4,459)	3,209	319,533
Private Equity/Infrastructure	291,413	-	-	77,295	(47,943)	24,207	27,592	372,564
Total	640,125	-	-	107,297	(63,932)	20,222*	30,801*	734,513

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

	Unrealised gains/(losses)	Realised gains/(losses)	Change in market value during the year
Level 1 and 2	566,319	122,572	688,891
3	20,222	30,801	51,023
Total	586,541	153,373	739,914

Notes to the East Sussex Pension Fund Accounts

17: Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (including cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2021			31 March 2022		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£000	£000	£000	£000	£000	£000
Financial Assets					
128,765	-	-	134,975	-	-
-	-	-	237,482	-	-
3,353,128	-	-	3,310,115	-	-
319,533	-	-	390,179	-	-
372,564	-	-	514,383	-	-
-	-	-	11	-	-
-	56,736	-	-	90,216	-
-	1,560	-	-	2,178	-
357	-	-	774	-	-
-	14,115	-	-	13,213	-
4,174,347	72,411	-	4,587,919	105,607	-
Financial liabilities					
-	-	-	(3)	-	-
(775)	-	-	(1,170)	-	-
-	-	-	-	-	-
-	-	(1,948)	-	-	(4,686)
(775)	-	(1,948)	(1,173)	-	(4,686)
4,173,572	72,411	(1,948)	4,586,746	105,607	(4,686)

*Reconciliation to Current Assets Note 21

	2020/21	2021/22
	£000	£000
Cash held by ESCC	1,560	2,178
Debtors	14,115	13,213
Current Assets	15,675	15,391

17a: Net gains and losses on financial instruments

	31 March 2021	31 March 2022
	£000	£000
Financial assets		
Fair value through profit and loss	740,512	430,660
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	(598)	2,024
Financial liabilities		
Fair value through profit and loss	-	(8)
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	-	-
Total	739,914	432,676

18: Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

a) Market risk

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

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

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

The Fund manages these risks in two ways:

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

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

Other price risk

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

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

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

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2021/22 reporting period:

Asset Type	Potential Market Movements (+/-)
Index Linked	12%
Other Bonds	7%
UK Equities	20%
Global Equities	21%
Absolute Return	13%
Pooled Property Investments	13%
Private Equity	30%
Infrastructure Funds	12%

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

Notes to the East Sussex Pension Fund Accounts

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

Asset Type	Values at 31 March 2022 £000	Value on increase £000	Value on decrease £000
Index Linked	134,975	150,497	119,453
Other Bonds	476,264	510,397	442,131
UK Equities	9,738	11,686	7,790
Global Equities	2,025,381	2,450,711	1,600,051
Absolute Return	1,036,214	1,165,741	906,687
Pooled Property Investments	390,179	440,902	339,456
Private Equity	373,740	485,862	261,618
Infrastructure Funds	140,643	157,520	123,766
Net Derivative Assets*	8	260	(244)
Total assets available to pay benefits	4,587,142	5,373,576	3,800,708

*Movement on net derivative assets is based on the underlying economic exposure of the derivative instrument.

Asset Type	Values at 31 March 2021 £000	Value on increase £000	Value on decrease £000
Index Linked	128,765	143,573	113,957
Other Bonds	485,996	512,310	459,682
UK Equities	825,342	990,410	660,274
Global Equities	1,039,492	1,257,785	821,199
Absolute Return	1,002,298	1,127,585	877,011
Pooled Property Investments	319,533	361,072	277,994
Private Equity	264,039	343,251	184,827
Infrastructure Funds	108,525	121,548	95,502
Net Derivative Assets	-	-	-
Total assets available to pay benefits	4,173,990	4,857,534	3,490,446

Interest rate risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2022 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100-basis point (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment adviser has advised that this is consistent with an annual one standard deviation move in interest rates, where interest rates are determined by the prices of fixed interest UK government bonds.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 bps change in interest rates:

Asset type	Carrying amount as at 31 March 2022 £000	Impact of 1% increase £000	Impact of 1% decrease £000
Cash and cash equivalents	90,216	90,216	90,216
Cash balances	2,178	2,178	2,178
Fixed interest securities	476,264	481,027	471,501
Index linked securities	134,975	134,975	134,975
Total change in assets available	703,633	708,396	698,870

Notes to the East Sussex Pension Fund Accounts

Asset type	Carrying amount as at 31 March 2021	Impact of 1% increase	Impact of 1% decrease
	£000	£000	£000
Cash and cash equivalents	56,736	56,736	56,736
Cash balances	1,560	1,560	1,560
Fixed interest securities	485,996	490,856	481,136
Index linked securities	128,765	128,765	128,765
Total change in assets available	673,057	677,917	668,197

Income Source	Interest receivable 2021/22	Value on 1% increase	Value on 1% decrease
	£000	£000	£000
Cash deposits/cash and cash equivalents	680	1,604	(244)
Fixed interest securities	7,325	7,325	7,325
Index linked securities	-	1,350	(1,350)
Total change in assets available	8,005	10,279	5,731

Income Source	Interest receivable 2020/21	Value on 1% increase	Value on 1% decrease
	£000	£000	£000
Cash deposits/cash and cash equivalents	1,869	2,452	1,286
Fixed interest securities	14,072	14,072	14,072
Index linked securities	122	1,410	(1,166)
Total change in assets available	16,063	17,934	14,192

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

Currency risk

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in pound sterling. Following analysis of historical data in consultation with the Fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements not more than 10%. A 10% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Values at 31 March 2022	Potential Market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Overseas quoted securities	227,744	22,091	249,835	205,653
Overseas unit trusts	3,348,234	324,779	3,673,013	3,023,455
Total change in assets available	3,575,978	346,870	3,922,848	3,229,108

Currency exposure - asset type	Values at 31 March 2021	Potential Market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Overseas unit trusts	2,326,940	225,713	2,552,653	2,101,227
Total change in assets available	2,326,940	225,713	2,552,653	2,101,227

Climate Change risk

Current asset pricing may not take into account the emerging climate risk to the underlying holdings, markets may be over or underestimating the value of the assets and could lead to future price volatility. Climate change will affect economic growth and there is uncertainty in the economic outlook due to climate change which could lead to lower returns on equities or risk to future discounted cash flows. High carbon emitters are more exposed to risks from climate change particularly from a transition risk

Notes to the East Sussex Pension Fund Accounts

perspective. The Fund mitigates this climate change market risk through diversification and the selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the Fund's investment strategy. In addition, the Fund is underweighted in high carbon emitting stocks such as fossil fuel companies and carries out carbon foot printing of the Fund's investments and asset managers and the Fund through its collaborative partners engage with corporate management of the underlying holdings to ensure companies are responsibly managing their climate change risks. The Fund's Taskforce for Climate Related Financial Disclosure (TCFD) report is included in the Annual Report.

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 2021 £000	Asset value as at 31 March 2022 £000
UK Treasury bills	-	-
Overseas Treasury bills	23,531	11,556
Bank current accounts		
NT custody cash accounts	33,205	78,660
Total overseas assets	56,736	90,216

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 there are adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Fund has immediate access to its cash holdings and 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 2022 are due within one year.

Refinancing risk

The key risk is that the Fund will be bound to replenish a significant proportion of its pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

19: Funding arrangements

Introduction

The last full triennial valuation of the Fund was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:

- The market value of the Fund's assets as at 31 March 2019 was £3,633m.

Notes to the East Sussex Pension Fund Accounts

- The Fund had a funding level of 107% i.e. the value of assets for valuation purposes was 107% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a surplus of £247m.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these falls due.
- plus, an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 18.0% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

In addition, each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustments Certificate in Appendix 3 of the triennial valuation report.

Assumptions

The key assumptions used to value the liabilities at 31 March 2019 are summarised below:

Assumptions	Assumptions used for the 2019 valuation
Financial assumptions	
Market date	31 March 2019
CPI inflation	2.3% p.a.
Long-term salary increases	2.3% p.a.
Discount rate	4.0% p.a.
Demographic assumptions	
Post-retirement mortality	
<i>Base tables</i>	Based on Club Vita analysis
<i>Projection model</i>	CMI 2018
<i>Long-term rate of improvement</i>	1.25% p.a.
<i>Smoothing parameter</i>	7.0
<i>Initial addition to improvements</i>	
<i>Males</i>	0.5% p.a.
<i>Females</i>	0.25% p.a.

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2019 valuation report.

Updated position since the 2019 valuation

Update to funding basis and assumptions

The Fund appointed a new fund actuary with effect from 1 January 2021. For employers commencing participation in the Fund on or after 1 January 2021, the calculated contribution rate will be set to meet a funding target over a specified time horizon. The funding target is set based on a single set of financial assumptions. These assumptions are set so as to achieve broad consistency with the previous fund actuary's approach.

With effect from 1 January 2021, the salary growth assumption was reviewed, and salaries are now assumed to increase at CPI plus 1.0% p.a. with no additional promotional salary scale. The derivation of CPI is discussed below.

The Fund actuary have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20-year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20-year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. The Fund Actuary have included in the discount rate assumption an explicit prudence

Notes to the East Sussex Pension Fund Accounts

allowance of 1.1%. This incorporates an allowance for current uncertainties in LGPS benefits (relating to the effects of the McCloud/Sargeant judgement and the cost cap).

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

The update to the CPI assumption mentioned above leads to a small increase in the value of liabilities. The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

Assets

Returns over the year to 31 March 2022 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2022, in market value terms, the Fund assets were more than where they were projected to be based on the previous valuation.

Overall position

On balance, the Fund Actuary estimate that the funding position (allowing for the revised funding basis) has improved compared to the funding position as at 31 March 2019.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends.

There is also uncertainty around future benefits due to the McCloud/Sargeant cases and the cost cap process.

The next formal valuation is being carried out as at 31 March 2022 with new contributions effective from 1 April 2023.

20: Actuarial present value of promised retirement benefits

Introduction

Barnett Waddingham, the Fund Actuary, have been instructed by East Sussex County Council, the administering authority to the East Sussex County Council Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to members of the Fund as at 31 March 2022. The Fund Actuary have taken account of current LGPS Regulations, as amended, as at the date of this report.

This report is addressed to the administering authority and its advisers; in particular, this report is likely to be of relevance to the Fund's auditor.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings. Full details of the benefits being valued are as set out in the Regulations and summarised on the LGPS website (www.lgpsregs.org/) and the Fund's membership booklet (www.lgpsmember.org/).

This report is prepared in accordance with our understanding of IAS26 and complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100). In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This report should be read in conjunction with the post accounting date briefing note for disclosures as at 31 March 2022.

Roisin McGuire FFA Associate
Barnett Waddingham

Data used

We have used the following items of data which we received from the administering authority:

31 March 2019	- results of the latest funding valuation
31 March 2021	- results of the latest IAS26 report
31 March 2022	- Fund asset statement
31 March 2022	- Fund income and expenditure items (estimated where necessary) to
31 March 2022	- details of any new unreduced early retirement payments out to

The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of our advice.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report.

We are not aware of any material changes or events since we received the data.

Notes to the East Sussex Pension Fund Accounts

Employer membership statistics

The table below summarises the membership data at 31 March 2019

Member data summary

	Number	Salaries/Pensions £000	Average age
Actives	22,718	414,051	52
Deferred pensioners	36,094	43,738	51
Pensioners	20,328	102,766	69

Unfunded benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Fund.

Early retirements

We have requested data on any early retirements in respect of the Fund from the administering authority for the year ending 31 March 2022. We have been notified of 44 new early retirements during the year which were not allowed for at the previous accounting date. The total annual pension that came into payment was £320,000

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2022 is estimated to be 10.36%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for the Fund is as follows (noting that due to rounding they may not total 100%):

Asset breakdown	31 Mar 2021		31 Mar 2022	
	£000s	%	£000s	%
Equities	3,227,118	76%	3,445,580	74%
Bonds	627,339	15%	751,882	16%
Property	319,533	8%	390,241	8%
Cash	70,882	2%	90,420	2%
Total	4,244,872	100%	4,678,123	100%

Actuarial methods and assumptions

Valuation approach

To assess the value of the Fund's liabilities at 31 March 2022, we have rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2019, using financial assumptions that comply with IAS19.

A full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2022 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2022 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

Experience items allowed for since the previous accounting date

Experience items arise due to differences between the assumptions made as part of the roll forward approach and actual experience. This includes (but is not limited to) assumptions made in respect of salary increases, pension increases, mortality, and member transfers. Any experience items accounted for will be observed in the asset and/or defined benefit obligation reconciliation tables in the appendices in the individual employer's report.

Allowance for actual pension increases

Our standard approach is to include actual pension increase experience up to the accounting date. The impact will come through as an experience item. The 2022 pension increase is higher than previously assumed which will result in a higher value being placed on the defined benefit obligation and a worsening in the overall position. The impact may differ depending on the employer's previous assumption and if an employer has not previously allowed for actual pension increases up to 2021.

Ukraine crisis – impact on approach

As a result of this crisis, many equity markets across the globe have witnessed significant falls, but so far the impact has been felt most prominently in equities with a close link to Russian markets, i.e. Russian equities themselves and in European tilted funds. Beyond equity markets, we have also seen volatility in government bond and credit markets. However, there has been no large directional move to date. The expected longer-term impact on gilt yields will largely depend on how these developments affect inflation (for example, through disruption to the supply of energy and commodities), and how central banks react to this.

From an accounting perspective, we are comfortable that our current methodology in deriving assumptions continues to be appropriate with the current uncertainties in the market. We can also confirm that our approach is in line with the current FRS102/IAS19 accounting standard. Therefore, we do not propose to change our approach in light of this crisis. We recognise the current volatility in the market and the effect this is having across various asset classes globally.

Guaranteed Minimum Pension (GMP) Equalisation

Impact of Lloyds judgement on past transfer values

The latest news on the Lloyds Banking Group court case involved a ruling that, in cases where a member exercised their right to a transfer value out of the scheme, the trustee had the duty to make a transfer payment that reflects the member's right to equalised benefits and remains liable if an inadequate transfer payment had been paid.

It is not yet known if, or how, this will affect the LGPS. We await further guidance from CIPFA and DLUHC on this. Whilst no guidance nor data is available, our standard approach currently is to make no allowance to reflect this judgement. Please see [FRS102/IAS19/IAS26 Glossary and FAQs \(bwlfp.co.uk\)](#) for further details.

GMP Indexation Consultation response

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here [Public Service Pensions: Guaranteed Minimum Pension Indexation consultation - GOV.UK \(www.gov.uk\)](#)

Our standard assumption for GMP is that the fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we assume that the fund will be required to pay the entire inflationary increase. Therefore, our assumption is consistent with the consultation outcome and we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome [FRS102/IAS19/IAS26 Glossary and FAQs \(bwlfp.co.uk\)](#) for further details.

Demographic/Statistical assumptions

Our standard approach is to use demographic assumptions in line with the latest actuarial valuation. For more information please see the latest valuation report. For the assumptions as at 31 March 2022, we propose adopting the CMI_2020 model, further details of which are set out below.

Mortality assumption

The key demographic assumption is the mortality assumption and there are two main steps in setting this assumption:

- Making a current assumption of members' mortality (the base mortality); and
- Projecting these current mortality rates into the future, allowing for further potential improvements in mortality. Future members' mortality is almost impossible to predict and therefore there is a lot of judgement involved and we naturally have to refine our view on this over time.

Base table mortality

The base table mortality assumptions adopted for the funds' latest triennial funding valuations were best estimate assumptions and we will, therefore, be using the same assumptions, as standard for accounting.

Future improvements to mortality

To project future improvements in mortality, we use a model prepared by the Continuous Mortality Investigation Bureau (CMI). The CMI update their model on an annual basis, incorporating the latest mortality data in the national population. At the last accounting date, unless an employer opted out, we updated the demographic assumptions to use the CMI_2020 Model.

Notes to the East Sussex Pension Fund Accounts

The CMI published their updated CMI_2021 Model in March 2022. We do not propose to update our standard approach to use the CMI_2021 Model as we do not expect this to have a significant impact on the value of the liabilities for those employers who adopted our standard approach last year.

The CMI have made a material change to CMI_2020 (compared to previous versions) due to the impact of abnormal mortality data in 2020. This change introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results. The CMI have confirmed the core value of this parameter will be 0% (i.e. no allowance for 2020 mortality data). However, the CMI encourages users to consider the parameter in detail before adopting a certain value, and not to take the core values as the CMI's "recommendation".

Changing the 2020 weight parameter has a material impact on projected mortality improvements from 2020. Placing a higher weight on data for 2020 leads to materially lower future mortality improvements as you would expect. However, the impact of the 2020 weight parameter on future mortality improvements "dissipates" over time, with the effect completely disappearing by 2040.

Our view is that the overall outlook for best-estimate future mortality improvements looks more negative than implied by the core CMI_2020, with the adverse consequences of the pandemic seeming to outweigh the positive ones.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)	31 Mar 2021	31 Mar 2022
Retiring today		
Males	21.1	21.2
Females	23.7	23.8
Retiring in 20 years		
Males	21.9	22.0
Females	25.0	25.1

We have also assumed that:

- Members will exchange half of their commutable pension in respect of pre-April 2008 service and 75% of their commutable pension in respect of their post 2008 service, for cash at retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations.
- Members retire following the retirement age pattern assumption as specified by the Scheme Advisory Board for preparing Key Performance Indicators.; and
- 1% of active members will take up the option to pay 50% of contributions for 50% of benefits.

Financial assumptions

The financial assumptions used to calculate the results in the Appendices are as follows:

Year ended	31/03/2020	31/03/2021	31/03/2022
	p.a.	p.a.	p.a.
Discount rate	2.30%	1.95%	2.60%
Pension increases (CPI)	1.90%	2.85%	3.25%
Salary increases	1.90%	2.85%	3.25%

The key financial assumptions required for determining the defined benefit obligation for accounting are the discount rate, linked to high quality corporate bond yields, and the rate of future inflation.

We set out our standard approach to the derivation of these assumptions and possible outcomes using market conditions at 31 March 2022.

Discount rate

Under both the IAS19 and FRS102 standards the discount rate should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. Our standard approach to derive the appropriate discount rate is known as the Single Equivalent Discount Rate (SEDR) methodology.

We use sample cashflows for employers at each duration year (from 2 to 30 years) and derive the single discount rate which results in the same liability value as that which would be determined using a full yield curve valuation (essentially each year's cashflows has a different discount rate). In carrying out this derivation we use the annualised Merrill Lynch AA rated corporate bond yield curve and assume the curve is flat beyond the 30-year point.

The standard assumptions set for an employer will be based on their individual duration. For example, an employer with an estimated liability duration of 13 years will adopt assumptions consistent with those derived using the 13-year cashflows.

Inflation expectations

Whilst the change in corporate bond yields is an important factor affecting the valuation of the liabilities, so too is the assumed level of future inflation as this determines the rate at which the benefits increase.

Notes to the East Sussex Pension Fund Accounts

IAS19 suggests that in assessing future levels of long-term inflation we should use assumptions that would result in a best estimate of the ultimate cost of providing benefits whilst also giving consideration to the gilt market (in line with general price levels) to give us an indication of market expectation. FRS102 simply refers to a best estimate of the financial variables used in the liability calculation.

Pension increases in the LGPS are expected to be based on the Consumer Prices Index (CPI). As there is limited market information on CPI-linked assets, to derive our CPI assumption we first make an assumption on the Retail Prices Index (RPI) then make an adjustment.

Retail Prices Index (RPI) assumption

Similar to the SEDR approach described above we intend to adopt a Single Equivalent Inflation Rate (SEIR) approach in deriving an appropriate RPI assumption.

The SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied inflation curve. The BoE implied inflation curve is assumed to be flat beyond the 40-year point.

Following a recent review of the market, and in particular noting the muted market reaction to the likely alignment of RPI with CPIH (Consumer Prices Index with Housing) from 2030, our view is that gilt-implied inflation rates are currently distorted by supply and demand factors at medium and longer terms. We have therefore allowed for an Inflation Risk Premium (IRP) of 0.4% at medium and longer terms (from 10 years). This results in an overall IRP of between 0.0% p.a. and 0.3% p.a. depending on the term of the liabilities (for terms ranging from 2 years up to 30 years).

Consistent with the SEDR approach, assumptions are rounded to the nearest 0.05% and we intend to use sample cashflows for employers at each duration year (from 2 to 30 years) in deriving the assumptions for employers.

Difference between RPI and CPI

It is expected that RPI will be on average 1.0% p.a. lower than it would have otherwise been from 2030 as a result of the proposed alignment of RPI to CPIH (and CPI) from that date. We have therefore assumed that the annual increase in CPI inflation will be 1.0% p.a. lower than the market implied increases in RPI for each year prior to 2030, and will be in line with RPI inflation thereafter. This results in an assumed gap between the two inflation measures of between 0.25% p.a. and 0.85% p.a. depending on the term of the liabilities (for terms ranging from 30 years down to 5 years).

Results and disclosures

We estimate that the net liability as at 31 March 2022 is a liability of £860,985

The results of our calculations for the year ended 31 March 2022 are set out below.

The figures presented in this report are prepared only for the purposes of FRS102. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

Statement of financial position as at 31 March 2022

Net pension asset in the statement of financial position as at	31-Mar-20 £000s	31-Mar-21 £000s	31-Mar-22 £000s
Present value of defined benefit obligation	4,378,000	5,609,613	5,539,108
Fair value of Fund assets (bid value)	3,465,246	4,244,872	4,678,123
Net Liability in balance sheet	912,754	1,364,741	860,985

*Present value of funded obligation consists of £5,539,108,000 in respect of vested obligation and £0 in respect of non-vested obligation.

Notes to the East Sussex Pension Fund Accounts

Asset and benefit obligation reconciliation for the year to 31 March 2022

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	31-Mar-21 £000s	31-Mar-22 £000s
Opening defined benefit obligation	4,378,000	5,609,613
Current service cost	151,881	221,170
Interest cost	99,610	108,410
Change in financial assumptions	1,202,783	(307,673)
Change in demographic assumptions	(71,775)	-
Experience loss/(gain) on defined benefit obligation	(55,900)	11,029
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(128,225)	(137,108)
Past service costs, including curtailments	3,809	2,491
Contributions by Scheme participants	29,430	31,176
Unfunded pension payments	-	-
Closing defined benefit obligation	5,609,613	5,539,108

Reconciliation of opening & closing balances of the fair value of Fund assets	31-Mar-21 £000s	31-Mar-22 £000s
Opening fair value of Fund assets	3,465,246	4,244,872
Interest on assets	79,719	82,740
Return on assets less interest	701,817	359,554
Other actuarial gains/(losses)	-	-
Administration expenses	(3,496)	(2,731)
Contributions by employer including unfunded	100,381	99,620
Contributions by Scheme participants	29,430	31,176
Estimated benefits paid plus unfunded net of transfers in	(128,225)	(137,108)
Settlement prices received / (paid)	-	-
Closing Fair value of Fund assets	4,244,872	4,678,123

The total return on the Fund's assets for the year to 31 March 2021 is £781,536,000.

Sensitivity Analysis

Sensitivity Analysis	Approximate % increase to liabilities	Approximate monetary amount (£m)
Present value of total obligation		5,539,108
Sensitivity to	+0.1%	-0.1%
Discount rate	5,446,007	5,633,894
Long term salary increase	5,547,028	5,531,232
Pension increases and deferred revaluation	5,625,280	5,454,375
Sensitivity to	+1 Year	- 1 Year
Life expectancy assumptions	5,795,053	5,294,810

The information in the above note is all from our Fund Actuary - **Barnett Waddingham**

Notes to the East Sussex Pension Fund Accounts

21: Current assets

	31 March 2021 £000	31 March 2022 £000
Other Investment Balances		
Investment Income Due	82	500
Recoverable Taxes	275	274
Total	357	774

	31 March 2021 £000	31 March 2022 £000
Current Assets		
Contributions receivable from employers and employees	10,870	11,136
Sundry Debtors	3,245	2,077
Cash	1,560	2,178
Total	15,675	15,391

22: Current liabilities

	31 March 2021 £000	31 March 2022 £000
Investment Liabilities		
Purchases including currency	-	-
Derivative Contracts Futures	-	(3)
Variation Margin	-	(8)
Managers Fees	(775)	(1,162)
Total	(775)	(1,173)

	31 March 2021 £000	31 March 2022 £000
Current Liabilities		
Pension Payments (inc Lump Sums)	(184)	(306)
Cash	-	-
Professional Fees	(64)	(2,798)
Administration Recharge	(51)	(72)
Sundry Creditors	(1,649)	(1,510)
Total	(1,948)	(4,686)

23: Additional voluntary contributions

	Market value 31 March 2021 £000	Market value 31 March 2022 £000
Prudential	21,944	22,647

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. Some members of the pension scheme paid voluntary contributions and transfers in of £2.241m (£2.067m 2020/21) to Prudential to buy extra pension benefits when they retire. £3.479m was disinvested from the AVC provider in 2021/22 (£2.607m 2020/21). 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.

	2020/21	2021/22
	£000	£000
East Sussex County Council	4,793	4,638
Brighton & Hove City Council	2,261	2,105
Eastbourne Borough Council	308	289
Magistrates	212	192
Hastings Borough Council	175	169
Wealden District Council	174	170
Rother District Council	111	102
Lewes District Council	71	69
South-East Water	29	32
Brighton University	24	23
Mid-Sussex District Council	19	19
Westminster (used to be LPFA)	18	18
East Sussex Fire Authority	17	14
London Borough of Camden	7	7
London Borough of Southwark	6	6
The Eastbourne Academy	6	6
West Midlands Pension Fund	5	5
West Sussex County Council	4	4
Torfaen Borough Council	4	4
Sussex University	3	3
Varndean College	2	2
London Borough of Ealing	2	2
East Sussex College Group	1	1
Plumpton College	1	1
Optivo	-	1
Capita Hartshead	14	-
Total	8,267	7,882

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 £1.6m to the Fund in 2020/21 (£1.9m in 2020/21). The Council's contribution to the Fund was £43.4m in 2021/22 (£43.0 in 2020/21). All amounts due to the Fund were paid in the year. At, 31 March 2022 the Pension Fund bank account held £3.7m in cash (£1.6m at 31 March 2021). The average throughout the year was £6.1m (£8.4 in 2020/21).

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 2021	31 March 2022
	£000	£000
Short-term benefits	26	26
Post-employment benefits	5	5
Total	31	31

Notes to the East Sussex Pension Fund Accounts

26: Contingent liabilities and contractual commitments

1. Outstanding capital commitments (investments) at 31 March 2022 totalled £304.1m (31 March 2021: £232.3m).

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 2022, the unfunded commitment was £211.2m for private equity, £69.1m for infrastructure and £23.8m for private debt. The commitments are paid over the investment timeframe of the underlying partnerships. As these partnerships mature, they are due to distribute capital back to investors. Commitments are made in US Dollars or Euros and the figures presented here are based on relevant Sterling exchange rates as at 31 March 2021.

2. Exit Payments

There were 3 employers whose contracts were due to end by the 31 March 2022 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.

3. GMP Reconciliation Project

The Guaranteed Minimum Pension (GMP) Reconciliation project was split into number stages for Local Government Pension Schemes (LGPS). The Fund has completed the discovery and GMP reconciliation phases, which reviewed data inconsistencies, raised issues with HMRC and agreed outcomes. GMP elements of LGPS pension where State Pension Age is prior to 6 April 2016 has not increased in respect of the period 6 April 1978 to 5 April 1988. While the Post 1988 GMP element in respect of the period 6 April 1988 to 5 April 1997 might be increased up to a maximum of 3% p.a. The Government increase the State Pension for the member fully on the Pre 1988 GMP element and for Post 1988 GMP element has only increased if CPI is above 3% p.a.

The effect of LGPS pensions not showing the correct amount of GMP for its members would mean that their pension might be increased incorrectly. This can result in underpayments and overpayments, at a member specific level. The next stage, which is GMP Rectification, will amend LGPS pensions in line with the reconciled GMP information. Rectification will also involve a significant member communication exercise to explain the changes taking place.

The Fund has contracted a specialist provider who are carrying out the rectification project with the aim of completing the project by the 31st of October 2022. As such, we are unable to quantify the under/overpayment liability values as at 31 March 2022

4. Tax charges

The Fund is currently undertaking a review of the Annual Allowance pension saving statements issued and has identified some discrepancies in tax liabilities. Where the Fund has incorrectly advised a member of a tax payment, the Fund will pay any interest payments and penalties due to HMRC. As at the balance sheet date these potential interest and penalties payments were unknown.

5. Recovery of dividend taxation

Following rulings given by the European Court of Justice, along with a number of other local authority pension funds, the East Sussex Pension Fund was pursuing the recovery of tax paid on certain dividends. Due to some adverse rulings impacting the likelihood of recovery of the tax paid on certain dividends the test claimant withdrew from the claim. No other claimant wished to take on the test claimant role and this claim is now moving to disbandment. This is likely to incur additional adverse cost, which is not currently quantifiable.

27: Contingent assets

1. Employer bonds/guarantees

There are 8 admitted body employers in the Fund that hold insurance bonds to guard against the possibility of them being unable to meet their pension obligations. 3 employers are currently negotiating new bonds due to expiry of their current bonds. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. In addition to these bonds, pension's obligations in respect of 12 other admitted bodies are covered by:

9 guarantees by local authorities participating in the Fund.

2 Parent company guarantee.

1 deposit held by East Sussex County Council

2. Private market investments

At 31 March 2022, the Fund has invested £373.7 million in private equity funds managed by Adams Street and HarbourVest. The Fund has also invested £39.7 million in the M&G real estate debt fund VI and £140.6 million in the infrastructure funds managed by UBS, Pantheon and Infracapital.

Notes to the East Sussex Pension Fund Accounts

28: Impairment losses

During 2021/22, the fund has not recognised any impairment losses.

29: East Sussex Pension Fund – Active Participating Employers

Employer Name	2020/21		2021/22		2022/23	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	20.8	-	20.3	-	19.8	-
East Sussex County Council	17.6	6,141	17.6	5,568	17.6	4,966
East Sussex Fire and Rescue Service	17.9	164	17.9	137	17.9	109
Eastbourne Borough Council	19.9	-	19.4	-	18.9	-
Hastings Borough Council	17.6	538	17.6	508	17.6	476
Lewes District Council	24.1	-	23.6	-	23.1	-
Rother District Council	26.1	-	25.6	-	25.1	-
University of Brighton	18.2	-	17.7	-	17.2	-
Wealden District Council	17.6	576	17.6	538	17.6	499
Other Scheduled Bodies						
Arlington Parish Council	22.1	-	21.6	-	21.1	-
Battle Town Council	22.1	-	21.6	-	21.1	-
Berwick Parish Council	22.1	-	21.6	-	21.1	-
Buxted Parish Council	22.1	-	21.6	-	21.1	-
Camber Parish Council	22.1	-	21.6	-	21.1	-
Chailey Parish Council	22.1	-	21.6	-	21.1	-
Chiddingfold Parish Council	22.2	-	21.6	-	21.1	-
Conservators of Ashdown Forest	22.1	-	21.6	-	21.1	-
Crowborough Town Council	22.1	-	21.6	-	21.1	-
Danehill Parish Council	22.1	-	21.6	-	21.1	-
Ditchling Parish Council	22.1	-	21.6	-	21.1	-
Fletching Parish Council	22.1	-	21.6	-	21.1	-
Forest Row Parish Council	22.1	-	21.6	-	21.1	-
Frant Parish Council	22.1	-	21.6	-	21.1	-
Hadlow Down Parish Council	22.1	-	21.6	-	21.1	-
Hailsham Town Council	22.1	-	21.6	-	21.1	-
Hartfield Parish Council	22.1	-	21.6	-	21.1	-
Heathfield & Waldron Parish Council	22.1	-	21.6	-	21.1	-
Herstmonceux Parish Council	22.1	-	21.6	-	21.1	-
Hurst Green Parish Council	22.1	-	21.6	-	21.1	-
Icklesham Parish Council	22.1	-	21.6	-	21.1	-
Isfield Parish Council	22.1	-	21.6	-	21.1	-
Lewes Town Council	22.1	-	21.6	-	21.1	-
Maresfield Parish Council	22.1	-	21.6	-	21.1	-
Newhaven Town Council	22.1	-	21.6	-	21.1	-
Newick Parish Council	22.1	-	21.6	-	21.1	-
Peacehaven Town Council	22.1	-	21.6	-	21.1	-
Pett Parish Council	22.1	-	21.6	-	21.1	-
Plumpton Parish Council	22.1	-	21.6	-	21.1	-
Ringmer Parish Council	22.1	-	21.6	-	21.1	-
Rye Town Council	22.1	-	21.6	-	21.1	-
Salehurst & Robertsbridge Parish Council	22.1	-	21.6	-	21.1	-
Seaford Town Council	22.1	-	21.6	-	21.1	-
Telscombe Town Council	22.1	-	21.6	-	21.1	-
Uckfield Town Council	22.1	-	21.6	-	21.1	-
Wartling Parish Council	22.1	-	21.6	-	21.1	-

Notes to the East Sussex Pension Fund Accounts

Employer Name	2020/21		2021/22		2022/23	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
Willingdon and Jevington Parish Council	22.1	-	21.6	-	21.1	-
Wivelsfield Parish Council	22.1	-	21.6	-	21.1	-
Academy Schools						
Annecy Catholic Primary Academy	15.5	-	15.0	-	14.5	-
Aquinas Trust	21.0	-	20.5	-	20.0	-
ARK Schools Hastings	20.6	-	20.1	-	19.6	-
Aurora Academies Trust	20.4	-	19.9	-	19.4	-
Beacon Academy	23.0	-	22.5	-	22.0	-
Beckmead Ropemakers Academy	16.3	-	16.3	-	16.3	-
Bexhill Academy	22.9	-	22.4	-	21.9	-
Bilingual Primary School	15.6	-	15.1	-	14.6	-
Breakwater Academy	17.0	-	16.5	-	16.0	-
Burfield Academy (Hailsham Primary)	20.0	-	19.5	-	19.0	-
Cavendish Academy	20.5	-	20.0	-	19.5	-
Diocese of Chichester Academy Trust	24.4	-	23.9	-	23.4	-
Eastbourne Academy	21.2	-	20.7	-	20.2	-
Falmer (Brighton Aldridge Community Academy)	20.0	-	19.5	-	19.0	-
Gildredge House Free School	19.6	-	19.1	-	18.6	-
Glyne Gap Academy	21.4	-	20.9	-	20.4	-
Hailsham Academy	20.0	-	19.5	-	19.0	-
Hawkes Farm Academy	16.4	-	15.9	-	15.4	-
High Cliff Academy	20.0	-	19.5	-	19.0	-
Jarvis Brook Academy	14.5	-	14.0	-	13.5	-
King's Church of England Free School	16.2	-	15.7	-	15.2	-
Langney Primary Academy	13.4	-	12.9	-	12.4	-
Ore Village Academy	18.5	-	18.0	-	17.5	-
Parkland Infant Academy	14.8	-	14.3	-	13.8	-
Parkland Junior Academy	14.4	-	13.9	-	13.4	-
Peacehaven Academy	13.0	-	12.5	-	12.0	-
Pebsham Academy	19.5	-	19.0	-	18.5	-
Phoenix Academy	20.4	-	19.9	-	19.4	-
Portslade Aldridge Community Academy	19.9	-	19.4	-	18.9	-
King's Academy Ringmer	20.8	-	20.3	-	19.8	-
SABDEN Multi Academy Trust	23.6	-	23.1	-	22.6	-
Saxon Shore Academy	22.7	-	22.7	-	22.7	-
Seaford Academy	21.1	-	20.6	-	20.1	-
Seahaven Academy	21.5	-	21.0	-	20.5	-
Shinewater Primary Academy	14.5	-	14.0	-	13.5	-
Sir Henry Fermor Academy	14.8	-	14.3	-	13.8	-
The South Downs Learning Trust	12.2	-	11.7	-	11.2	-
The Southfield Trust	14.4	-	13.9	-	13.4	-
Torfield & Saxon Mount Academy Trust	22.6	-	22.1	-	21.6	-
University of Brighton Academies Trust	20.0	-	19.5	-	19.0	-
White House Academy	17.5	-	17.0	-	16.5	-
Colleges						
Bexhill College	21.2	-	21.2	-	21.2	-
Brighton, Hove & Sussex Sixth Form College	19.8	-	19.8	-	19.8	-
East Sussex College Group	20.7	-	20.7	-	20.7	-
Plumpton College	18.9	-	18.9	-	18.9	-
Varndean Sixth Form College	19.8	-	19.8	-	19.8	-
Admission Bodies						

Notes to the East Sussex Pension Fund Accounts

Employer Name	2020/21		2021/22		2022/23	
	Payroll %	Amount £(000)	Payroll %	Amount £(000)	Payroll %	Amount £(000)
BHCC - Wealden Leisure Ltd	33.0	11	33.0	-	33.0	-
Biffa Municipal Ltd	28.8	-	28.8	-	28.8	-
Brighton and Hove CAB	0.00	-	0.0	-	0.0	-
Brighton Dome & Festival Limited (Music & Arts Service)	0.0	-	0.0	-	0.0	-
Care Outlook Ltd	0.0	-	0.0	-	0.0	-
Care Quality Commission	49.2	92	49.2	92	49.2	92
Churchill St Leonards	29.7	-	29.7	-	29.7	-
Churchill St Pauls	34.1	-	34.1	-	34.1	-
De La Warr Pavilion Charitable Trust	4.8	-	4.8	-	4.8	-
Eastbourne Homes – SEILL	19.2	-	19.2	-	19.2	-
East Sussex Energy, Infrastructure & Development Ltd (ESEIDL)	29.2	13	29.2	13	29.2	13
EBC – Towner	31.0	7	31.0	7	31.0	7
ESCC - NSL Ltd	3.6	-	3.6	-	3.6	-
Glendale Grounds Management Ltd	29.4	-	29.4	-	29.4	-
Grace Eyre	0.0	-	0.0	-	0.0	-
Halcrow Group Ltd	5.4	-	5.4	-	5.4	-
Just Ask Estates Ltd	32.6	3	32.6	-	32.6	-
Nviro Ltd	35.3	-	35.3	-	35.3	-
Optivo	45.8	920	45.8	920	45.8	920
Royal Pavilion & Museums Trust	17.8	-	17.8	-	17.8	-
Sussex County Sports Partnership	18.2	-	17.7	-	17.2	-
Sussex Housing & Care	0.0	-	0.0	-	0.0	-
Telent Technology Services Ltd	20.8	-	20.8	-	20.8	-
Wave Leisure - Newhaven Fort	0.0	-	0.0	-	0.0	-
Wave Leisure Trust Ltd	0.0	-	0.0	-	0.0	-
WDC - Wealden Leisure Ltd	33.0	-	33.0	-	33.0	-
Wealden Leisure Ltd - Portslade Sports Centre	0.0	-	0.0	-	0.0	-
White Rock Theatres Hastings Ltd	0.0	-	0.0	-	0.0	-

30: Investment Performance

The Fund uses an independent Investment performance measurement service, provided by Pensions & Investment Fnetpension funds. Pension Fund investment is long-term, 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	10.6	8.9	7.2	9.1
Benchmark	10.1	7.7	6.4	7.9
Relative*	0.5	1.2	0.8	1.2

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	10.6	8.9	7.2	9.1
Local Authority Average	8.6	8.3	7.1	8.9
Relative*	1.8	0.6	0.1	0.2

The Fund outperformed the (weighted) average local authority Fund over the year by 1.8% (0.6% underperformance 2020/21), ranking the East Sussex Fund in the 14 percentiles (69th 2020/21) in the local authority universe. Over three years the Fund outperformed by 0.6% (0.2% outperformance 2020/21) and was placed in the 29 percentiles (56th 2020/21). Over five years the Fund outperformed by 0.1% (0.5% underperformance in 2020/21) and was placed in the 40 percentiles (67th 2020/21). Over ten

Notes to the East Sussex Pension Fund Accounts

years the fund years, the fund outperformed by 0.2% (0.1% underperformance 2020/21) and was placed in the 38 percentiles (54th 2020/21).

*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.

Academy Schools

Academies are independently-managed, all-ability schools which operate outside the control of the local authority.

Accounting Standards

A set of rules about how accounts are to be kept. By law, local authorities must follow "proper accounting practices" which are set out both in acts of parliament and in professional codes and statements of recommended practice.

Accruals

Provision made at the year-end to bring into account outstanding debtors, creditors, etc., in order to show income and expenditure as it is earned or incurred.

Actuarial Gains and Losses

The change in pension liabilities since the previous year, caused either by events differing from the previous forecast, or a change in actuarial assumptions.

Actuarial Valuation

A review of the Pension Fund normally carried out at 3-year intervals, which assesses the contributions required from employing bodies in order to maintain the Fund's ability to pay benefits in future years to pensioners, contributors and their dependants.

Admitted Bodies

Bodies whose staff can become members of the Pension Fund by virtue of an admission agreement made between the Pension Fund and the relevant body (contrasting with Scheduled Bodies – see below).

Amortisation

A charge to services in the Comprehensive Income & Expenditure Account, assessed as the amounts by which the value of intangible assets are consumed during the year, calculated from the estimated life expectancy and any residual value.

Bad Debt Provision (Impairment)

Amount of money set aside to meet cost of monies owed to the Council that are not expected to be repaid.

Balances

A working balance maintained as a cushion against unexpected expenditure during the year. It is the amount of money left over at the end of the year after allowing for all expenditure and income that has taken place. These are also known as financial reserves.

Business Rates Retention

Under the Business Rates Retention scheme, Councils will retain a 50% share of all and any additional business rates they get above a determined baseline. This potentially provides a direct local incentive to encourage growth within local boundaries.

Capital / Capital Expenditure / Capital Receipts

Capital expenditure pays for the acquisition of assets or the enhancement (rather than maintenance) of existing assets. It is financed mainly from borrowing, and charged to revenue over a number of years. We plan for capital expenditure over several years in the published capital programme. The term 'capital receipts' covers income from the sale of assets, together with grants and contributions received specifically for financing the capital programme. Capital receipts can only be used for capital purposes, and not to support the revenue budget.

Cash Equivalents

These are investments, which amount to short term deposits.

Community Assets

These are assets, which the County Council intends to hold in perpetuity and have no determinable finite useful life.

Community Schools

In a community school, the local education authority owns the land and buildings, but the governing body is responsible for running the school. The local education authority funds the school, employs the staff, provides support services and determines and administers the admissions policy. The pupils have to follow the national curriculum.

Contingent Assets and Liabilities

A statement of a possible gain or loss to the Council, which is contingent upon the outcome of an event, which is not known for certain when the accounts are drawn up.

Corporate and Democratic Core (CDC)

Corporate and Democratic Core is defined as the two divisions of Democratic Representation and Management and Corporate Management.

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.

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Report to: **Audit Committee**

Date: **18 November 2022**

By: **Chief Finance Officer**

Title of report: **Review of the Grant Thornton (GT) report to those charged with governance for 2021/22**

Purpose of report: **For the Committee to note the Independent Auditor's (GT) report to those charged with governance.**

RECOMMENDATIONS: The Committee is recommended to:

- 1) note the report and appendix.**
-

1. Background

1.1 This report summarises the key findings arising from GT's audit work in relation to the East Sussex Pension Fund, in compliance with the requirement for administering authorities to deliver an audit of the Pension Fund separate from the Council's accounts.

1.2 The accounts for the Pension Fund are incorporated within the authority's Statement of Accounts from page 124 of Item 5 Appendix A, with the East Sussex Pension Fund Annual Report 2021/22 having been presented to the Pension Board on 15 November 2022 and due to be presented to the Pension Committee on 30 November 2022.

2. Supporting Information

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

2.2 It is the role of the Pension Committee to approve the Pension Fund annual report/accounts having considered whether appropriate accounting policies have been followed and any issues raised by GT from the audit.

2.3 The GT report to those charged with governance is attached at Appendix A.

2.4 The audit of the 2021/22 Pension Fund accounts is substantially complete. Whilst there remain a few outstanding items to finalise the audit, GT are anticipating being able to issue an unqualified audit opinion.

2.5 The report on pages 20 to 21 (Appendix A) sets out the Audit Adjustments identified. 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. There were also items for which the decision was made not to adjust the accounts as the items were not material. Any decision to adjust the accounts considers whether the adjustment improves the reader's understanding of the accounts.

2.6 At this stage, no specific management actions arising from the 2021/22 audit have been notified. Page 19 (Appendix A) provides an update on management actions arising from prior year audits, confirming that from the audit undertaken to date the agreed management actions have been delivered.

3. Conclusion and reasons for recommendations

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

- The findings made by the external auditors as a result of audit of the 2021/22 accounts

IAN GUTSELL

Chief Finance Officer

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Local Member(s): All

The Audit Findings for East Sussex Pension Fund

Year ended 31 March 2022

East Sussex Pension Fund
18 November 2022



Contents



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Section

1. Headlines
2. Financial statements
3. Independence and ethics

Appendices

- A. Follow up of prior year recommendations
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- D. Audit Opinion

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

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of East Sussex Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

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

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

Our audit work was completed on site/remotely during June-November. Our findings are summarised on pages 4 to 15. We have not identified adjustments to the financial statements that have resulted in an adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

Our audit work was undertaken predominantly remotely with our team spending one day a week on site at the Council offices in order to pick up testing and queries with officers face to face where possible. Largely though, our testing work has been undertaken remotely via Teams as most of the Council's officers are predominantly working from home, and therefore some of the difficulties of auditing remotely still continued to be present for the 2021/22 audit as it takes longer to complete audit testing and clear queries remotely than working with direct access to Council officers. The audit was undertaken during August to November. The start of the audit was initially planned to be from the beginning of July, but the start date and our planned staff time had to be moved back to the first week of August due to:

- Working papers to support the Pension Fund financial statements not being complete and ready for the July start date, meaning that where our audit team was planned to work across both the Pension Fund audit and County audit simultaneously it was not efficient/productive to start the audit until August.

The move in the start date has had significant knock-on effect on our staffing arrangements for the audit where dates had to be moved around, and some planned team members were not available for the full period of the audit. This has caused increased handover and complexity in completing the work.

The working papers overall are not as high quality or clear as we would expect, and we have communicated these issues to your finance team to recommend that improvements are made for next year. The working papers tend to require quite a lot of audit team time/investigation to understand them fully and sometimes the working papers do not explain issues and variances, and the clear connection to the general ledger and financial statement notes as clearly as required to allow for a fast and efficient audit. We will propose an audit fee variance for the additional time required to complete the audit related to these issues.

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

- Completion of work to gain assurance over the valuation of Level 3 investments (significant risk) where we are awaiting some information from investment fund managers;
- Completion of our journals sample testing;
- Completion of testing of a sample of contributions received where supporting documentation for 5 samples are outstanding;
- Clearance of a number of audit queries relating to contributions and benefits;
- Closure of points around the technical review of the draft accounts by Grant Thornton's Financial Reporting Team and agreeing any changes to the statements;
- Completion of our work to tie in immaterial disclosure notes to working papers provided by the finance team;
- Completion of our work on the Related Parties note;
- Review of the IT General Controls work completed by our Technology Audit team around the Altair system and data transfer;
- Senior Manager and Engagement Lead review of the completed audit sections which could potentially raise further queries for the Council to respond to;
- receipt of management representation letter;
- review of the final set of amended financial statements after any agreed changes; and
- Receipt and review of the Annual report.

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

Our anticipated audit report opinion will be unmodified.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

We have had to alter our audit plan, as communicated to you on 29 March 2022 where we have increased the detail of work we carried out on the other risk Altair system data transfer. On further understanding of the transfer of the system and the data, we required additional IT General Controls assurance over the system hosted at the Council (as opposed to being hosted at Surrey County Council). This work has now been completed by our Technology Audit team and is being reviewed.

Conclusion

As detailed on page 3 there is still work to complete on this audit. Based on the work to date no material errors or issues have arisen which would require modification of our audit opinion. We will not be able to issue our audit opinion until all outstanding work on page 3 is completed and reviewed, and until the County Council audit is also completed.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

As highlighted on page 3 your finance team and our audit team faced audit challenges this year, including:

- initial delays in June in providing full sets of working papers on the Pension Fund audit;
- Some delays in responses to audit samples/queries during the audit;
- Continued remote working on the audit meaning testing/queries take longer to resolve.

These issues meant that we delayed the start of the fieldwork audit from the beginning of July to the first week of August and consequently, at the date of presenting this report, there is work ongoing to complete the audit. We will propose a fee variance for the audit related to these issues.

2. Financial Statements



Our approach to materiality

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.
- We have revised the performance materiality due to the actual net assets changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.
- We detail in the table below our determination of materiality for East Sussex Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	46.9m	We have determined financial statement materiality based on a proportion of the net assets of the Council for the financial year.
Performance materiality	35.2m	The maximum amount of misstatement the audit team could accept in an individual account or group of related accounts. This is less than materiality due to “aggregation risk”.
Trivial matters	2.3m	We are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance



2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan	Commentary
Management override of controls Risk description unchanged from that reported in our audit plan.	We have: <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • obtained a full listing of journal entries which was then analysed to identify and test high risk unusual journals; • tested unusual journals recorded during the year and post year end for appropriateness and corroboration; • considered the reasonableness of significant accounting estimates and critical judgements made by management; and • evaluated the rationale for any changes in accounting policies or significant transactions. We are still completing our testing subject to outstanding items as detailed on Page 3. We have otherwise not identified any issues in the audit processes carried out to date.
ISA240 fraudulent revenue recognition Risk description unchanged from that reported in our audit plan.	As documented in the Audit Plan, we considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including East Sussex County Council as the Administering Authority of East Sussex Pension Fund, mean that all forms of fraud are seen as unacceptable.
Fraudulent expenditure recognition Risk description unchanged from that reported in our audit plan.	As documented in the Audit Plan, we considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition. We were satisfied that this did not present a significant risk of material misstatement in the 2021/22 accounts, and the risk could be rebutted because: <ul style="list-style-type: none"> • The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong; • We have not found significant issues, errors or fraud in expenditure recognition in the prior 3 years audits; • Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of Level 3 investments

Risk description unchanged from that reported in our audit plan.

We have:

- gained an understanding of your process for valuing Level 3 investments and evaluating the design of the associated controls;
- reviewed the nature and basis of estimated Level 3 valuations and considered what assurance management has over the year end valuations provided for these investments, against the requirements of the Code;
- independently requested year-end confirmations from investment managers and custodian and carried out a triangulation test between these confirmations of valuations and the general ledger to identify any discrepancies;
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2022 with reference to known movements in the intervening period;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- tested revaluations made during the year to see if they had accounted for correctly; and
- where available, reviewed investment manager and custodian service auditor report on design effectiveness of internal controls.

In our testing of Level 3 investments we identified some variances between the valuation in the accounts and our expectation of the valuation per Fund Manager confirmations and our own expectation as informed by our testing of the audited accounts for the funds and known cash movements.

This highlighted that the accounts and general ledger figure for Investments was understated by £12.9m. The reason for this is that the custodian valuation used to produce the accounts was from December 2021, adjusted for cash activities to the year end date for each fund manager. In most cases this results in a materially accurate value for investments, but where there is another market value movement in the interim this can lead to this method leading to an inaccurate valuation, as it has here. We have included this difference as an unadjusted misstatement on Appendix B.

Note at this date some of the service auditor reports/audited fund statements are outstanding from the Fund Managers. We are chasing these with the Managers.

Subject to completion of the work set out on page 3, we have not identified any further issues in this risk area.

2. Financial Statements – other audit risks

This section provides commentary on other audit risks:

Issue	Commentary	Auditor view
<p>Altair system data transfer</p> <p>The Pensions Administration Team was brought under sovereign control at the start of the 2021/22 financial year. This involved a data migration of member data (this was between Altair databases as opposed to a change of system). Although, this meant the process was intrinsically more straightforward, there is still some risk of data loss/errors.</p>	<p>We have:</p> <ul style="list-style-type: none"> - reviewed the Pension Fund's process for ensuring the Altair data migration was complete and accurate and obtained detailed documentation supporting how the Fund had reconciled opening/closing data on the system; and - carried out more detailed IT General Controls testing of the Altair system hosted on the Council's servers to gain assurance that this system is operating as expected and would not lead to financial statement misstatements. 	<p>We are still completing and reviewing the audit work on IT General Controls in this area. Subject to completion of work set out on page 3, we have not identified any issues.</p>
<p>IAS26 Pension Fund Disclosures</p> <p>The methods, assumptions and judgements made in calculating these disclosures are complex and subjective, and as such there is a risk of error.</p>	<p>We have:</p> <ul style="list-style-type: none"> - updated our understanding of the processes and controls put in place by management to ensure that the IAS26 disclosures are accurate; - evaluated the instructions issued by management to their management expert (an actuary) for producing the disclosures of the net liability 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 and produce the IAS26 disclosures; and - undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. 	<p>Subject to completion of work set out on page 3, we have not identified any issues.</p>

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £944.3m	<p>The Pension Fund has investments in equities, pooled property investment and private equity that in total are valued on the balance sheet as at 31 March 2022 at £944.3m.</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management place reliance on the valuation provided by their fund managers. The value of the investment has increased by £209m in 2021/22, due to both changes in market value but also due to movements in sales/purchases in the year.</p>	<p>We have:</p> <ul style="list-style-type: none"> assessed the independence, objectivity and expertise of management's experts which management use to estimate the value of the Level 3 investments. Management's experts are the investment managers; assessed the valuation method, key assumptions and the appropriateness of the underlying information used to determine the estimate. We have confirmed that the valuation method and significant assumptions are in line with those generally accepted in the field; obtained service auditor reports on design effectiveness of internal controls at each of the investment managers to confirm that these are effectively designed and operating effectively; agreed level 3 investments to year-end confirmations from investment managers of the valuations at the year end together with a statement of transactions for the period; and tested a sample of investments obtaining and reviewing the audited accounts (confirming the expertise of the auditor) at latest date for individual investments and agreeing these to the investment manager reports at that date. Where there was a gap between the accounting period end for the audited accounts and the Pension Fund year end/investment valuation date, we reconciled the difference in value to known movements in the intervening period to confirm the difference was reasonable. <p>Note the issue related to the timing of investment valuations used in the statements on page 7, which we have concluded is not material (£12.9m understatement) and is included as in unadjusted misstatement in Appendix B. We have not identified any further issues, subject to completion of outstanding tasks on page 3.</p>	No issues arising in our work so far, but work outstanding.

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £3,404m	<p>The Pension Fund have investments in unquoted bonds and pooled investments that in total are valued on the balance sheet as at 31 March 2022 at £3,404m.</p> <p>The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management place reliance on the valuation provided by both their investment managers and custodian. The value of the investment has decreased by £35m in 2021/22 due to both changes in market value but also due to movements in sales and purchases in the year.</p>	<p>We have:</p> <ul style="list-style-type: none"> assessed the independence, objectivity and expertise of management's experts which management use to estimate the value of the Level 2 investments. Management's experts are both the investment managers and the custodian (who value the investments independently of the investment managers); assessed the valuation method, key assumptions and the appropriateness of the underlying information used to determine the estimate. We have confirmed that the valuation method and significant assumptions are in line with those generally accepted in the field; obtained service auditor reports on design effectiveness of internal controls at each of the investment managers to confirm that these are effectively designed and operating effectively; and agreed level 2 investments to year-end confirmations from investment managers and the custodian of the valuations at the year end together with a statement of transactions for the period. 	

Assessment

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

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

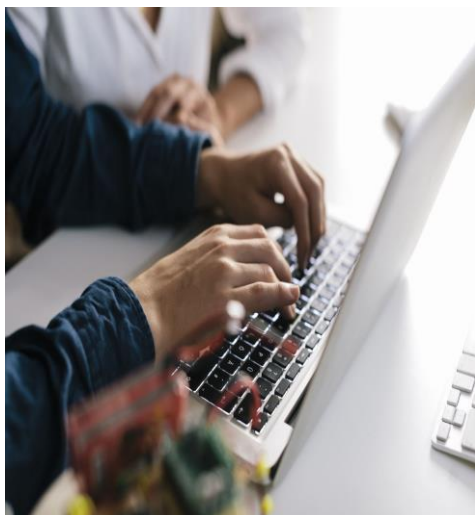
Significant matter	Commentary	Auditor view and management response
Significant events or transactions that occurred during the year – financial market fluctuations/turmoil related to war in Ukraine.	We have discussed the market fluctuations with your finance team, and particular types of investments which could be impacted by the turmoil, interest rate and inflationary impacts of the current situation to gain assurance as to whether this either gives rise to a material uncertainty related to going concern, or a non-adjusting subsequent event which would require disclosure in the statements.	Management’s view is that this has not given rise to a material uncertainty related to going concern, or a non-adjusting subsequent event which would require disclosure in the statements. We are in agreement with management on this conclusion.

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	<p>You have made us aware of an incidence of non-compliance with relevant laws and regulations, the breach in timescale for submission of Annual Benefit Statements by August in the relevant year. And you cite this as an ongoing risk in the current period. We understand from discussions with management that compliance has been steadily improving as the pensions administration has been brought in-house, and also that it is unlikely to result in a significant fine. As stated in the risk register this represents a reputational risk for the fund.</p> <p>We have not identified any further incidences from our audit work.</p>
Written representations	A letter of representation has been requested from the Pension Fund.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to your fund managers, custodians and other institutions with which you held bank or investment balances at the year end. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	<p>As set out on pages 3 and 4, there were some delays in the provision of financial statements and supporting working papers at the agreed start date for our fieldwork. This led to us agreeing to delay the start of fieldwork to allow the finance team time to prepare and upload complete working papers. There were also issues with the clarity/quality of working papers which mean these take the audit team longer to process, tie into the general ledger/financial statements and reach sample populations.</p> <p>This has led to delay in completion of the audit. A delay in completion of our work on the Pension Fund audit would delay our provision of assurance letters to other scheme employer auditors including for the County Council, and therefore could delay the signing of the opinion on those audits.</p>

2. Financial Statements - other communication requirements



Our responsibility

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

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

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix D.
Matters on which we report by exception	<p>We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2022 and therefore this report has not yet been provided to the audit team.</p> <p>We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.</p>



3. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix C

Transparency

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

3. Independence and ethics

Audit and non-audit services

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

Service	Fees £	Threats identified	Safeguards
Audit related			
Provision of IAS 19 Assurances to Scheme Employer auditors	£14,000 (see adjacent commentary, this is the expected fee, however the fee is dependent on the number of assurance letters requested from other auditors)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 (plus £1,000 for each assurance letter to be issued, expected to be 9 but not all requests received from other auditors yet. We are therefore reporting the maximum expected fee here; if any requests are not received the fee will be reduced for these letters not needed to be issued) in comparison to the total fee for the audit of £38,487 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

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

Appendices

A. Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Pension Fund's 2020/21 financial statements, which resulted in 3 recommendations being reported in our 2020/21 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Internal Controls around investment valuations at year end not operating We reviewed and tested the valuation of Level 3 investments via a full triangulation between the custodian confirmation, the fund manager confirmations and the general ledger balances as recognised at the year end. This highlighted that the accounts and general ledger figure for Investments was understated by £25.2m. The reason for this is that the custodian valuation used to produce the accounts was from prior to the year end, adjusted for cash activities to the year end date for each fund manager. In most cases this results in a materially accurate value for investments, but where there is another market value movement in the interim this can lead to this method leading to an inaccurate valuation. Our understanding of the Pension Fund internal controls is that an internal triangulation check should have been undertaken to pick up any such market value movements and ensure where this has happened an updated custodian valuation to the year end is requested.	Recommendation We recommend that management ensure that checks and controls around investment valuations (particularly Level 3 Investments where the valuation is more uncertain) to ensure the correct valuation is recognised in the financial statements. Recommendation update We are satisfied that the finance team carried out their own checks of final valuations in 2021/22 to gain their own assurance that the valuations were not materially misstated.
✓	Internal Controls around contributions received during the year not operating In our testing of contributions we set out to review quarterly LGPS31 reconciliations which the Pension Fund should produce at each quarter to compare contributions expected from members to the actual amounts received. Where the amount received varies significantly from the expectation of the Fund this would be investigated/reconciled. In our testing we review these LGPS31 reconciliations, reconcile them to the general ledger and then review/reperform the analytics to gain assurance over the contributions received. However for the first 3 quarters of the year this reconciliation was not prepared. This was prepared during the audit fieldwork. This is part of the Fund's own documented internal control environment.	Recommendation We recommend that management ensure that key internal reconciliations such as the LGPS31 reconciliations are prepared and reviewed internally in a timely way, and they are also made available as key working paper alongside the financial statements as a robust audit trail for contributions received. Recommendation update We are satisfied that key internal reconciliations for contributions were prepared in the 2021/22 financial year.
✓	Journals controls exception In our testing of manual journal we identified one journal where the internal process for journals of value over £1m was not observed. Journals over £1m should be sent to a more senior officer in the team for review and authorization prior to posting to the general ledger. Manual journals are known to be a method by which override of controls and/or fraud can be perpetrated.	Recommendation We recommend that management recommunication this control to all new starters and existing staff to ensure that it is observed for all manual journals posted. Recommendation update We have not identified any exceptions in our work to date. Note however our journals testing work is still subject to senior management review.

Assessment

- ✓ Action completed
- X Not yet addressed

B. Audit Adjustments

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

Misclassification and disclosure changes

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

Disclosure omission	Auditor recommendations	Adjusted?
Various minor casting/disclosure amendments	<p>We identified a small number of minor casting and disclosure issues.</p> <p>Management response</p> <p>Agreed and these were amended in the accounts.</p>	✓
Note 17a: Net gains and losses on financial instruments	<p>Net gains and losses on financial instruments in Note 17a did not agree correctly through to Note 14 a.</p> <p>Management response</p> <p>Agreed and amended in the accounts.</p>	✓

B. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Level 3 Investment Valuations In our triangulation and detailed sample testing of the Level 3 investments we identified a difference between the Fund Manager valuations and the accounts. See pages 7 for further information on this error.	Credit Changes in value of Investments: (£12.9m)	Debit Level 3 investments: £12.9m	(£12.9m)	The total error is not material
Overall impact	(£12.9m)	£12.9m	(£12.9m)	

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Level 3 Investment Valuations In our triangulation and detailed sample testing of the Level 3 investments we identified a difference between the Fund Manager valuations and the accounts.	Credit Changes in value of Investments: (£25.2m)	Debit Level 3 investments: £25.2m	(£25.2m)	The total error is not material – and note would be corrected via subsequent in year valuation movements in 2021/22.
Overall impact	(£25.2m)	£25.2m	(£25.2m)	

C. Fees

We confirm below our final fees charged for the audit and provision of non-audit services. Note that the final fee is to be confirmed – we will propose a fee variance for the issues around delays to the audit which have been highlighted in this report.

Details of variations in final fees from the proposed fee per the audit plan

The fees reconcile to the financial statements.

Audit fees	Proposed fee	Final fee
Pension Fund Audit	£38,487	TBC
Total audit fees (excluding VAT)	£38,487	£TBC
Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Provision of IAS 19 Assurances to Scheme Employer auditors £5,000 (plus £1,000 for each assurance letter to be issued)	5,000	TBC
Total non-audit fees (excluding VAT)	£5,000	£TBC

Audit fees –detailed analysis

Scale fee published by PSAA	£20,487
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£7,000
<i>New issues for 2020/21</i>	
Impact of new auditing standards	£8,000
<i>New issues for 2021/22</i>	
Remote working – the audit has still needed to be completed mainly remotely which increases the resources needed to complete the audit.	£3,000
Fee variance for:	TBC
<ul style="list-style-type: none"> - Delay in the start date of the audit due to working papers not being ready, and financial statements not being available at the date of the start of the audit with significant impact on our resource planning. This led to us starting the audit, then pausing it and restarting a month later with reallocation of audit staff - Minor delays in query/sample responses 	
Total audit fees (excluding VAT)	£TBC

C. Draft Audit opinion

Our draft audit opinion is included below.

We anticipate we will provide the Pension Fund with an unmodified audit report.

Independent auditor's report to the members of East Sussex County Council on the pension fund financial statements of East Sussex Pension Fund

Opinion

We have audited the financial statements of East Sussex Pension Fund (the 'Pension Fund') administered by East Sussex County Council (the 'Authority') for the year ended 31 March 2022 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2022 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

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

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

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

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

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

C. Draft Audit opinion continued

Other information

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

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

Matters on which we are required to report by exception

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

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

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

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

C. Draft Audit opinion continued

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

- In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations.

- We enquired of senior officers and the Pension Fund Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

- We enquired of senior officers, internal audit and the Pension Fund Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- Journals, in particular with regard to manual journals, posted after the year end date which have an impact on the Fund's financial position, as well as any journals made by infrequent posters or senior management personnel;

- The appropriateness of assumptions applied by management in determining significant accounting estimates, such as the valuation of level 2 and 3 investments as well as the valuation of directly held investment properties.

- Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;

- journal entry testing, with a focus on manually posted journals which have a significant impact on the financial position, journals which were posted by infrequent or unusual users, journals posted after the year-end, and journals which are individually material, and any journals posted by senior financial reporting personnel;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 2 and 3 investments and directly held investment property;

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of level 2 and 3 investments and directly held investment property.

- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government pensions sector

- understanding of the legal and regulatory requirements specific to the Pension Fund including:

- the provisions of the applicable legislation

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Use of our report

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

Signature and name and date to be added, Key Audit Partner

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



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Report to: **Audit Committee**
Date: **18 November 2022**
By: **Chief Finance Officer**
Title of report: **Treasury Management – Stewardship Report 2021/22**
Purpose of report: **To present a review of the Council's performance on Treasury Management for the year 2021/22 and Mid-Year Review for 2022/23.**

RECOMMENDATION: Audit Committee is recommended to note the Treasury Management performance in 2021/22, incorporating the Mid-Year Review for the first half of 2022/23.

1. Background

1.1 The annual stewardship report presents the Council's treasury management performance for 2021/22 and Mid-Year performance for 2022/23, as required by the Code of Practice for Treasury Management.

2. Supporting Information

2.1 The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance. The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates the treasury management function in compliance with this Code. These require that the prime objective of the treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis and treasury management practices demonstrate a low risk approach. The Code requires the regular reporting of treasury management activities to:

- Forecast the likely activity for the forthcoming year (in the Annual Treasury Strategy Report); and
- Review actual activity for the preceding year (this Stewardship Report).
- A mid-year performance review (this Stewardship Report).

2.2 This report sets out:

- A summary of the original strategy agreed for 2021/22 and the economic factors affecting this strategy (Appendix A).
- The treasury management activity during the year 2021/22 (Appendix B);
- The treasury management midyear activity for 2022/23 (Appendix C);
- The Prudential Indicators, which relate to the Treasury Management function, Minimum Revenue Policy (MRP) and compliance with limits (Appendix D).

3. The economic conditions compared to our Strategy for 2021/22

3.1 The original 2021/22 strategy was set against a backdrop of low Bank of England (BoE) interest rates and modest increases to that rate over the medium term. The economic environment remained a challenging one with concerns over the UK, European and Global economies. The global impact of the coronavirus pandemic, and the national recovery from measures taken during that period, weighed heavily on the economy as a whole.

3.2 The economic situation since the original strategy formulation has seen heightened uncertainties in the UK economy, particularly from inflationary, geopolitical and domestic political factors. Inflationary pressure has been driven by the price of fuel and the fallout from the conflict in the Ukraine. Energy security has put further pressure on inflationary concerns across Europe since January 2022. The Fiscal Event on 23 September 2022 saw gilt yields surge and sterling fall, as markets reacted to the announcements made. Despite the subsequent change of approach market sentiment is still in the direction of a higher interest rate environment for the UK in the near term, with a potential BoE base rate of 4.25% by March 2023 currently forecast.

3.3 The strategy and the economic conditions prevailing in 2021/22 are set out in Appendix A with an updated economic summary set out in Appendix C.

4. Treasury Management activity during 2021/22

The Treasury Management Strategy

4.1 The strategy for 2021/22, agreed in February 2021, continued the prudent approach and ensured that all investments were only to the highest quality rated institutions with regard to security, liquidity and yield. Treasury Management officers have explored ways in which the Council's cash balances can be utilised to support Environmental, Social and Governance (ESG) factors.

Short term lending

4.2 The Bank of England (BoE) Base Rate increased three times during 2021/22. By March 2022 the rate was 0.75%. These marginal increases reflected the concern, at the time, that inflationary pressures could result in headline inflation being above 2%.

4.3 The total amount received in short term interest for 2021/22 was £1.2m at an average rate of 0.38%. This was above the average base rate in the same period (0.19%) and above the average returns achieved with peer authorities from treasury advisors (Link Asset Services) investment benchmarking. The Return for 2021/22 was against a backdrop of ensuring, as far as possible in the financial climate, the security of principal and the minimisation of risk about liquidity to support the Council's cashflow should it be required.

Longer term lending

4.4 During 2021/22 a number of longer term local authority investments were placed with the aim of locking in certainty of return. These investments have secured a fixed level of return without compromising credit quality in a low interest rate environment.

Long term borrowing

4.5 Details of long term borrowing are included in Appendix B of the report. The important points are:

- No new borrowing was undertaken in 2021/22.
- The average interest rate of all debt at 31 March 2022 (£232.9m) was 4.63%.
- Public Works Loan Board (PWLb) Debt maturing during 2021/22 totalled £3.6m and was at an average rate of 6.84%.

Minimum Revenue Provision (MRP)

4.6 Full details of the 2021/22 MRP policy are set out in appendix D.

5. Treasury Management 2022/23 Mid-Year Review.

5.1 The Treasury Management and Annual Investment Strategy for 2022/23 was approved by Full Council on 8 February 2022 and was prepared within the context of the financial challenge being faced by the County Council.

5.2 The Bank of England Base Rate as of 30 September 2022 is 2.25%. During the first 6 months of the year, it has increased four times. The latest economic commentary provided by Link Asset Services (LAS) is set out in Appendix D.

5.3 Opportunities to place fixed term deposits during the period have been undertaken to secure a fixed rate of return on a laddered maturity profile in a rising interest rate environment. During the period fixed term bank deposits totalling £80m were placed at rates between 1.50% and 3.90%. Deposits included £30m with Standard Chartered Bank that are ringfenced within a sustainable lending ESG framework. These investments fulfilled the key principals of security, liquidity and yield with the overlay of ESG included.

5.4 The total amount received in short term interest for 6 months to 30 September 2022 was £1,650,000 at an average rate of 1.07%. This was below the average base rates in the same period (1.28%) and with peer authorities through benchmarking. The laddered approach to investment maturities will result in a pick up in return in the next 6 months.

5.5 No PWLB borrowing was undertaken in the period, with the Council's long-term debt at 30 September 2022 being £228.7m.

5.6 Opportunities for cost effective repayment of existing debt and restructuring opportunities are constantly monitored but none emerged in the first six months of the year. However, during October 2022, a LOBO loan with Commerzbank was repaid early in full at par value £6.45m. This was following a call option date where the lender proposed a new rate of interest on the loan. The Council had the options to either accept the new rate, a movement from 3.75% to 4.50%, or repay in full at no additional cost. Following advice from the Treasury Management Team's external advisors the loan was repaid on the 11 October 2022.

6. Prudential Indicators which relate to the Treasury function and compliance with limits

6.1 The Council is required by the CIPFA Prudential Code to report the actual prudential indicators after the end of each year. There are eight indicators which relate to treasury management and they are set out in Appendix D, the Council is fully compliant with these indicators.

7. Conclusion and reason for recommendation

7.1 This report updates the Committee and will be reported to Cabinet in December 2022, and fulfils the requirement to submit an annual/half yearly report in the form prescribed in the Treasury Management Code of Practice. Short term lending throughout the 18 month period covered achieved returns between 0.35% and 1.40%. The key principles of security, liquidity and yield are still relevant. Officers are currently investigating further opportunities within the strategy to increase investment income whilst minimising costs and maintaining security, in a period of significant uncertainty.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Ian Gutsell Tel No. 01273 481399

BACKGROUND DOCUMENTS

Department for Levelling up, Housing and Communities – Finance and Capital Assets
<https://www.gov.uk/topic/local-government/finance-capital-assets>

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A summary of the strategy agreed for 2021/22 and the economic factors affecting this strategy

1. Background information

1.1 Full Council approved the annual Treasury Management Strategy report in February 2021, which sets out the proposed strategy for the year ahead. This strategy includes the limits and criteria for organisations to be used for the investment of cash surpluses and has to be approved by the Council.

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

1.3 The original strategy for 2021/22 was prepared within the context of the financial challenge being faced by the County Council over the Medium Term Financial Plan:

- Utilising long term cash balances as effectively as possible by investing in longer term instruments and/or using to fund borrowing to reduce borrowing costs;
- Ensuring the investment portfolio is working hard to maximise income by further use of alternative appropriate investment opportunities during 2021/22;
- Ensuring effective management of the borrowing portfolio by exploring rescheduling opportunities and identifying and exploiting the most cost effective ways of funding the Council's borrowing requirement.

1.4 At the same time, the Treasury Management Policy Statement was agreed as unchanged for 2021/22.

East Sussex County Council defined its treasury management activities as:

"The management of the organisation's cash flows, its banking, money market and Capital market transactions (other than those of the Pension Fund) the effective management of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council regards the successful identification, monitoring and management of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

This authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management."

2. Investment

2.1 When the strategy was agreed in February 2021, it emphasised the continued importance of credit quality. The Treasury Management Advisors Link Asset Services commented on short term interest rates, the UK economy, inflation, the outlook for long term interest rates and these factors were taken into account when setting the Strategy. The 2021/22 Investment Strategy was set in the context of diminishing returns and opportunities in the post Covid-19 pandemic economic environment.

2.2 During the period investments to other Local Authorities could secure an enhanced fixed level of return over traditional bank deposits with an increased level of credit security

2.3 Officers continue to monitor opportunities to invest in Environmental Social and Governance (ESG) products. In reality, the market for green and ESG investments is relatively immature, which reduces the ability to actively invest in products that support the Council's aspirations. However, research and the consideration of suitability of ESG investment products is ongoing.

2.4 This Council, in addition to other tools, uses the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

2.5 The strategy going forward was to continue with the policy of ensuring minimum risk, but was also intended to deliver secure investment income on the Council's cash balances.

2.6 As was clear from events globally and nationally since 2008, it is impossible in practical terms to eliminate all credit risk.

2.7 The strategy aimed to ensure that in the economic climate it was essential that a prudent approach was maintained. This would be achieved through investing with selected banks and funds which met the Council's rating criteria. The emphasis would continue on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed) rather than yield.

2.8 The Council's investment policy has regard to the Department for Levelling Up, Housing & Communities Guidance on Local Government Investments ("the [Guidance on local government investments.pdf \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/64444/guidance-on-local-government-investments.pdf)) and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Link Asset Services Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, and then return.

2.9 Investment instruments identified for use in the financial year are listed in section 3.2 and 4.1 under the 'Specified and Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

2.10 The weighted scoring system produces an end product of a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments, i.e., using counterparties within the following durational bands provided they have a minimum AA+ sovereign rating from three rating agencies:

- Yellow 2 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months

- Green 3 months
- No Colour, not to be used

Y	P	B	O	R	G	N/C
Up to 2yrs	Up to 2yrs	Up to 1yr	Up to 1yrs	Up to 6 mths	Up to 100days	No Colour

2.11 The Link credit worthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue influence to just one agency's ratings.

2.12 Typically the minimum credit ratings criteria the Authority use, will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored daily. The Authority is alerted to changes to ratings of all three agencies through its use of the Link Asset Services credit worthiness service.

- if a downgrade results in the counterparty or investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

2.13 The Link Asset Services methodology determines the maximum investment duration under the credit rating criteria. Key features of Link Asset Services credit rating policy are:

- a mathematical based scoring system is used taking ratings from all three credit rating agencies;
- negative and positive watches and outlooks used by the credit rating agencies form part of the input to determine a counterparty's time band (i.e. 3, 6, 9, 12 months etc.).
- CDS spreads are used in Link Asset Services creditworthiness service as it is accepted that credit rating agencies lag market events and thus do not provide investors with the most instantaneous and "up to date" picture of the credit quality of a particular institution. CDS spreads provide perceived market sentiment regarding the credit quality of an institution.
- After a score is generated from the inputs a maximum time limit (duration) is assigned and this is known as the Link Asset Services colour which is associated with a maximum suggested time boundary.

2.14 All of the investments were classified as Specified (i.e., investment is sterling denominated and has a maximum maturity of 1 year) and non-Specified Investments (i.e., any

other type of investment not defined as Specified). These investments were sterling investments for up to two years maturity with institutions deemed to be high credit quality or with the UK Government (Debt Management Account Deposit Facility). These were considered low risk assets where the possibility of loss of principal or investment income was small.

2.15 If investment instruments identified in the financial year under the 'Non-Specified and Specified' Investments categories were used, the Council funds would be invested as follows:

3. Specified Investments

3.1 An investment is a specified investment if all of the following apply:

- the investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;
- the investment is not a long term investment (i.e. up to 1 year);
- the making of the investment is not defined as Capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146 as amended];
- the investment is made with a body or in an investment scheme of high credit quality (see below) or with one of the following public-sector bodies:
 - The United Kingdom Government;
 - A local authority in England or Wales (as defined under section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland; and
 - High credit quality is defined as a minimum credit rating as outlined in section 4.2 of this strategy.

3.2 The use of Specified Investments

Investment instruments identified for use in the financial year are as follows:

- The Table below set out the types of investments that fall into each category, counterparties available to the Council, and the limits placed on each of these. A detailed list of each investment type is available in the Treasury Management Practices guidance notes;
- all investments will be within the UK or AA+ sovereign rated countries.

Criteria for specified Investments:

Counterparty	Country/ Domicile	Instrument	Min. Credit Criteria/LAS colour band	Max. Amount	Max. maturity period
Debt Management and Deposit Facilities (DMADF)	UK	Term Deposits (TDs)	N/A	unlimited	12 Months
Government Treasury bills	UK	TDs	UK Sovereign Rating	unlimited	12 Months
UK Local Authorities	UK	TDs	UK Sovereign Rating	£60m	12 Months
Banks – part nationalised	UK	▪ TDs	N/A	£60m	12 Months

Counterparty	Country/ Domicile	Instrument	Min. Credit Criteria/LAS colour band	Max. Amount	Max. maturity period
		<ul style="list-style-type: none"> Deposits on Notice Certificates of Deposit (CDs) 			
Banks	UK	<ul style="list-style-type: none"> TDs Deposits on Notice CDs 	Blue	£60m	12 Months
			Orange	£60m	12 Months
			Red	£60m	6 Months
			Green	£60m	100 Days
Building Societies	UK	<ul style="list-style-type: none"> TDs Deposits on Notice CDs 	Blue	£60m	12 Months
			Orange	£60m	12 Months
			Red	£60m	6 Months
			Green	£60m	100 Days
Individual Money Market Funds (MMF) CNAV and LVNAV	UK/Ireland/ EU domiciled	AAA Rated Money Market Fund Rating	N/A	£60m	Liquid
VNAV MMF's and Ultra-Short Dated Bond Funds	UK/Ireland/EU domiciled	AAA Rated Bond Fund Fund Rating	N/A	£60m	Liquid
Banks – Non-UK	Those with sovereign rating of at least AA+*	<ul style="list-style-type: none"> TDs Deposits on Notice CDs 	Blue	£60m	12 Months
			Orange	£60m	12 Months
			Red	£60m	6 Months
			Green	£60m	100 Days

4. Non Specified Investments

4.1 Non-Specified investments are any other types of investment that are not defined as specified. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below.

Counterparty	Minimum credit criteria	Maximum investments	Period
UK Local Authorities**	Government Backed	£60m	2 years
Corporate Bond Fund(s)	Investment Grade	£30m	2 - 5 years
Pooled Property Fund(s)	N/A	£30m	5+ years
Mixed Asset Fund(s)	Appropriate rating	£30m	2 - 5 years
Short Dated Bond Fund(s)	N/A	£30m	2 – 5 years

** Local Authorities appear on both Specified and Non-specified investment list – an investment with a LA for up to a year is Specified, and between 1-2 years is Non-specified. The maximum amount that can be lent to any single Local Authority is £60m across both specified and Unspecified Investments

4.2 The maximum amount that can be invested will be monitored in relation to the Council surplus monies and the level of reserves. The approved counterparty list will be maintained by referring to an up-to-date credit rating agency reports, and the Council will liaise regularly with brokers for updates. Where Externally Managed Funds are not rated a selection process will evaluate relative risks & returns. Security of the council's money and fund volatility will be key measures of suitability. Counterparties may be added to or removed from the list only with the approval of the Chief Finance Officer.

5. The economy in 2021/22 – Commentary from Link Asset Services (Treasury Management Advisors) in April 2022

5.1 Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

5.2 The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

5.3 Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

5.4 Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

5.5 Until recent years, world growth has been boosted by increasing globalisation i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last 30 years, which now accounts for 18% of total world GDP (the USA accounts for 24%), and Russia's recent invasion of Ukraine, has unbalanced the world economy. In addition, after the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies. It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China (and to a much lesser extent Russia) to supply products and vice versa. This is likely to reduce world growth rates.

5.6 Central banks' monetary policy. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond

yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

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The Treasury Management activity during the year 2021/22

1. Investment activity interest rates

1.1 Investments were placed with reference to the core balance and cash flow requirements and the outlook for interest rates. Base interest rates averaged during the period were 0.19%, a low rate environment.

1.2 Following consultation, changes to the strategy were made from 2017/18 to broaden the risk profile by reducing liquidity and to include some suitable, alternative investment products that are held for the medium (2-5 years) to longer term (5 years+). These products can generate better overall returns but there is a higher risk of volatility of performance so a longer term commitment is required.

1.3 The following table below summarises the changes made since 2017/18 no further changes were proposed for 2021/22. The inclusion of an investment product category in the strategy does not automatically result in investments being placed.

Investment options	2017/18	2018/19	2019/20	2020/21	2021/22
Money Market Funds (Including LVNAV)	✓	✓	✓	✓	✓
Bank Notice Accounts	✓	✓	✓	✓	✓
Fixed Term Bank Deposits	✓	✓	✓	✓	✓
UK Local Authorities	✓	✓	✓	✓	✓
Enhanced Money Market Funds (VNAV)	✓	✓	✓	✓	✓
Building Societies	✗	✓	✓	✓	✓
Pooled Property Funds	✗	✓	✓	✓	✓
Corporate Bond Funds	✗	✓	✓	✓	✓
Mixed Asset Funds	✗	✓	✓	✓	✓
Equity Funds	✗	✗	✓	✓	✓

The primary principle governing the Council's investment criteria is the security of its investments, although the return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security;
- It has sufficient liquidity in its investments;
- It receives a yield that is aligned with the level of security and liquidity of its investments;
- Where possible, it actively seeks to support Environmental, Social and Governance (ESG) investment products and institutions that meet all of the above requirements.

1.4 The total amount received in short term interest for 2021/22 was £1.17m at an average rate of 0.38%. This was above the average of base rates in the same period (0.19%) and against a backdrop of ensuring, as far as possible in the financial climate, the security of principal and the minimisation of risk within a broader boundary.

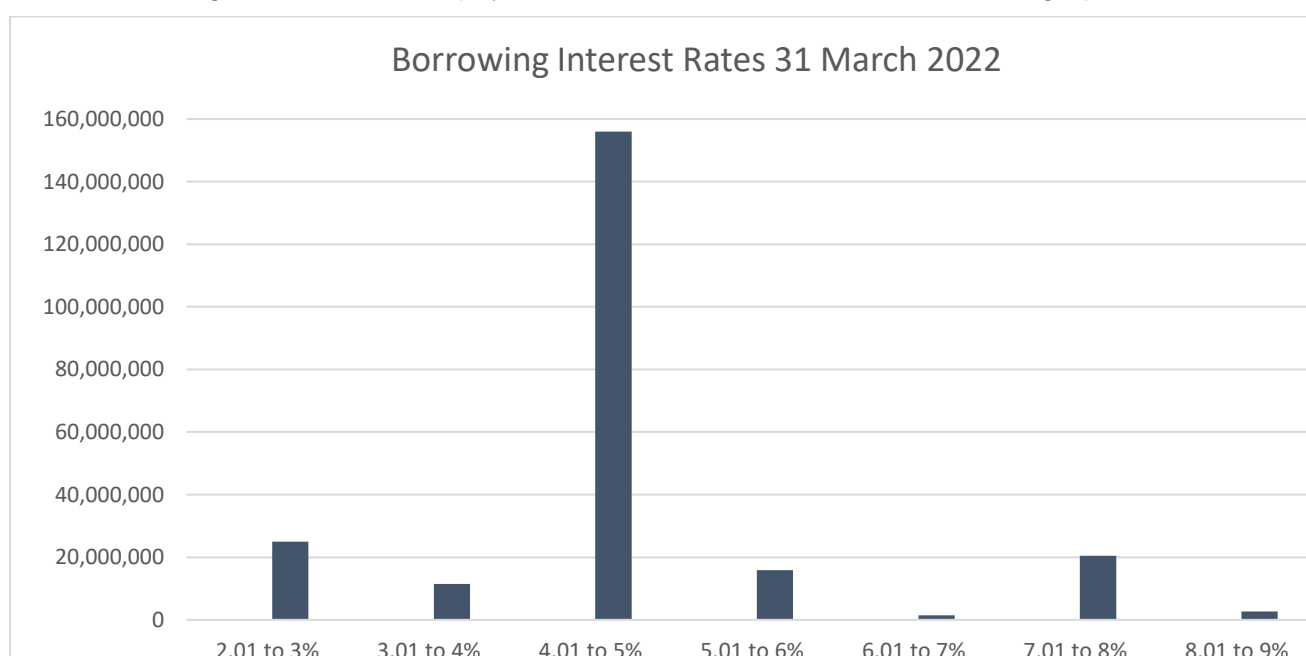
2. Long term borrowing

2.1 Officers constantly reviewed the need to borrow taking into consideration the potential movements in borrowing costs, the need to finance new capital expenditure, refinancing maturing debt, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns.

2.2 During 2021/22 £3.6m of PWLB debt matured at a coupon rate of 6.84%. This historic maturing debt was not replaced with additional in year new borrowing.

2.3 The average interest rate of all debt at 31 March 2022 of £232.9m was 4.63%. No beneficial rescheduling of debt has been available, due to a considerable widening of the difference between new borrowing and repayment rates, which has made PWLB debt restructuring much less attractive. Consideration would have to be given to the large premiums (cash payments) which would be incurred by prematurely repaying existing PWLB loans. It is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.

2.4 The range of interest rates payable in all of the loans is illustrated in the graph below:



3. Short term borrowing

3.1 No borrowing was undertaken during 2021/22 to cover temporary overdraft situations.

4. Treasury Management Advisers

4.1 The Strategy for 2021/22 explained that the Council uses Link Asset Services as its treasury management consultant on a range of services which include:

- Technical support on treasury matters, Capital finance issues and advice on reporting;
- Economic and interest rate analysis;
- Debt services which includes advice on the timing of borrowing;
- Debt rescheduling advice surrounding the existing portfolio;
- Generic investment advice on interest rates, timing and investment instruments;

- Credit ratings from the three main credit rating agencies and other market information;
- Assistance with training on treasury matters

4.2 Whilst the advisers provide support to the internal treasury function, under current market rules and the Code of Practice the final decision on treasury matters remained with the Council. This service remains subject to regular review.

4.3 Link Asset Services is the largest provider of Treasury Management advice services to local authorities in the UK and they claim to be the market leading treasury management service provider to their clients. The advice has been and will continue to be monitored regularly to ensure a continued excellent advisory service.

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The Treasury Management Activity Mid-Year Report – 2022/23

1. Background

1.1 The Treasury Management and Annual Investment Strategy for 2022/23 were approved by the Cabinet 25 January 2022. The 2022/23 strategy maintained the approved instruments adopted previously to improve yield and diversify the investment portfolio. Changes to the strategy are summarised below.

Investment options	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Money Market Funds (Including LVNAV)	✓	✓	✓	✓	✓	✓
Bank Notice Accounts	✓	✓	✓	✓	✓	✓
Fixed Term Bank Deposits	✓	✓	✓	✓	✓	✓
UK Local Authorities	✓	✓	✓	✓	✓	✓
Enhanced Money Market Funds (VNAV)	✓	✓	✓	✓	✓	✓
Building Societies	✗	✓	✓	✓	✓	✓
Pooled Property Funds	✗	✓	✓	✓	✓	✓
Corporate Bond Funds (Including Short Dated Bond Funds)	✗	✓	✓	✓	✓	✓
Multi Asset Funds	✗	✓	✓	✓	✓	✓
Equity Funds	✗	✗	✓	✓	✓	✓

1.2 This report considers treasury management activity over six months of the financial year.

2. Treasury Management Strategy

2.1 The Council approved the 2022/23 treasury management strategy at its meeting on 25 January 2022. The Council's stated investment strategy is to prudently manage an investment policy achieving first of all, security (protecting the Capital sum from loss), liquidity (keeping money readily available for expenditure when needed), and to consider what yield can be obtained consistent with those priorities.

2.2 The 2022/23 Investment Strategy has been set in the context of diminishing returns and opportunities in the current economic environment. The provides the framework for officers to seek new opportunities to invest long-term cash in suitable longer term instruments in order to assist in delivering treasury efficiencies by securing a level of investment income.

2.3 The pandemic, and resultant market uncertainty, has limited the scope for new investments. Actions to explore the available options for Short Dated Bond Funds and Multi Asset Funds have been paused but will be explored in the future when appropriate.

2.4 In response to the Council declaring a Climate Emergency, the Annual Investment Strategy for 2021/22 included Environmental Social and Governance (ESG) as a factor when undertaking investment decisions to allow the Treasury Management Strategy to actively support the Council's aspirations to tackle climate change and other ESG factors. Officers have been exploring how the Council's current counterparties are contributing to this area and are being asked how investment solutions can complement this strategy. In reality, the market

for green and ESG investments is relatively immature, which reduces the ability to actively invest in products that support the Council's aspirations. However, research and the consideration of suitability of ESG investment products will continue into 2022/23.

2.5 The Chief Finance Officer is pleased to report that all treasury management activity undertaken from April 2021 to September 2022 period complied with the approved strategy, the CIPFA Code of Practice, and the relevant legislative provisions.

3 Summary of financial implications / activity

3.1 The Bank of England's Monetary Policy Committee (MPC) raised interest rates on four occasions over the period in May, June, August and September. The rate as at 30 September is 2.25%. Our Treasury Advisors Link Asset Services are forecasting MPC to increase interest rates further and faster, from 2.25% to a peak of 4.25% by March 2023.

3.1 During the first half year investments have been held in Money Market Funds, Bank Notice Accounts, other Local Authorities and the CCLA Local Authority Property Fund. Counterparty credit quality remains a primary concern for the treasury team, with security, liquidity and yield in that order a priority.

3.2 Measures have been undertaken to ensure that levels of liquidity are available during the last 6 months but also opportunities explored in this rising interest rate environment to secure investment returns. Several fixed term bank deposits have been reinvested up to 12 months securing a fixed rate of return between 1.50% - 3.90% within a low credit risk parameter.

3.3 Local Authority deposits have been placed in the period at moderate returns compared to the current bank rates, but their inclusion forms part of a balanced portfolio. Deposits held for liquidity purposes in Money Market Funds are providing a return nearing the current base rate, compared to previous years where they performed well below that benchmark.

3.4 The Council is continuing to invest in deposits with regard to ESG and sustainable lending, through Standard Chartered Bank. These investments are assigned to sustainable assets with the aim of addressing the UN sustainable development goals. The offering fulfils the key principle of security, liquidity and yield and is consistent with the banks current other fixed term deposit rates.

3.5 The average investment balance to September 2022 was £307m and generated investment income of £1,650,000. The forecast for 2022/23 is £5.4m and is within budgeted provision.

3.7 No short term loan borrowing was arranged during the period. Future short-term borrowing in the current year is not forecasted but remains an option to cover temporary cashflow requirements.

3.8 The level of Council long-term debt at 30 September 2022 was £228.7m, two loans matured with the PWLB during the period on the 30 June (£2.3m) and the 30 September 2022 (£1.98m) held at 5.75% and 7.75%. The next maturity is on the 31 December 2022 a £1.3m PWLB Loan at a rate of 7.625%. The forecast for interest paid on long-term debt in 2022/23 is approximately £10.5m and is within the budgeted provision.

3.9 Opportunities to reduce the cost of carry (interest paid against interest received) are constantly being explored as and when options arise. In October, a LOBO market loan was called by the borrower, Commerzbank. Exercising their option to increase the coupon rate of the loan from 3.75% to 4.50%. The Council could accept the new borrowing rate for the next

6 months or repay the principal. The Loan was repaid early by the Council at par value £6.45m. This was the last LOBO loan in the Council's wider debt portfolio.

4. Economic Review (provided by Link Asset Services, September 2022)

4.1 The second quarter of 2022/23 saw:

- GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession for the time being;
- Signs of economic activity losing momentum as production fell due to rising energy prices;
- CPI inflation ease to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of abating in the near-term;
- The unemployment rate fell to a 48-year low of 3.6% due to a large shortfall in labour supply;
- Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% with further rises to come;
- Gilt yields surge and sterling fall following the "fiscal event of the new Prime Minister and Chancellor on 23rd September.

4.2 The UK economy grew by 0.2% q/q in Q1 2022/23, though revisions to historic data left it below pre-pandemic levels.

4.3 There are signs of higher energy prices creating more persistent downward effects in economic activity. Both industrial production (-0.3% m/m) and construction output (-0.8% m/m) fell in July 2022 for a second month in a row. Although some of this was probably due to the heat wave at the time, manufacturing output fell in some of the most energy intensive sectors (e.g., chemicals), pointing to signs of higher energy prices weighing on production. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.

4.4 The fall in the composite PMI from 49.6 in August to a 20-month low preliminary reading of 48.4 in September points to a fall in GDP of around 0.2% q/q in Q3 and consumer confidence is at a record low. Retail sales volumes fell by 1.6% m/m in August, which was the ninth fall in 10 months. That left sales volumes in August just 0.5% above their pre-Covid level and 3.3% below their level at the start of the year. There are also signs that households are spending their excess savings in response to high prices. Indeed, cash in households' bank accounts rose by £3.2bn in August, which was below the £3.9bn rise in July and much smaller than the 2019 average monthly rate of £4.6bn.

4.5 The labour market remained exceptionally tight. Data for July and August provided further evidence that the weaker economy is leading to a cooling in labour demand. Labour Force Survey (LFS) employment rose by 40,000 in the three months to July (the smallest rise since February). But a renewed rise in inactivity of 154,000 over the same period meant that the unemployment rate fell from 3.8% in June to a new 48-year low of 3.6%. The single-month data showed that inactivity rose by 354,000 in July itself and there are now 904,000 more inactive people aged 16+ compared to before the pandemic in February 2020. The number of vacancies has started to level off from recent record highs but there have been few signs of a slowing in the upward momentum on wage growth. Indeed, in July, the 3my/y rate of average earnings growth rose from 5.2% in June to 5.5%.

4.6 CPI inflation eased from 10.1% in July to 9.9% in August, though inflation has not peaked yet. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. And with the oil price now just below \$90pb, we would expect to see fuel prices fall further in the coming months.

4.7 However, utility price inflation is expected to add 0.7% to CPI inflation in October when the Ofgem unit price cap increases to, typically, £2,500 per household (prior to any benefit payments). But, as the government has frozen utility prices at that level for two years, energy price inflation will fall sharply after October and have a big downward influence on CPI inflation.

4.8 Nonetheless, the rise in services CPI inflation from 5.7% y/y in July to a 30-year high of 5.9% y/y in August suggests that domestic price pressures are showing little sign of abating. A lot of that is being driven by the tight labour market and strong wage growth. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

4.9 During H1 2022, there has been a change of both Prime Minister and Chancellor. The new team (Liz Truss and Kwasi Kwarteng) have made a step change in government policy. The government's huge fiscal loosening from its proposed significant tax cuts will add to existing domestic inflationary pressures and will potentially leave a legacy of higher interest rates and public debt. Whilst the government's utility price freeze, which could cost up to £150bn (5.7% of 4.10 GDP) over 2 years, will reduce peak inflation from 14.5% in January next year to 10.4% in November this year, the long list of tax measures announced at the "fiscal event" adds up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. These included the reversal of April's national insurance tax on 6th November, the cut in the basic rate of income tax from 20p to 19p in April 2023, the cancellation of next April's corporation tax rise, the cut to stamp duty and the removal of the 45p tax rate, although the 45p tax rate cut announcement has already been reversed.

4.10 Fears that the government has no fiscal anchor on the back of these announcements has meant that the pound has weakened again, adding further upward pressure to interest rates. Whilst the pound fell to a record low of \$1.035 on the Monday following the government's "fiscal event", it has since recovered to around \$1.12. That is due to hopes that the Bank of England will deliver a very big rise in interest rates at the policy meeting on 3rd November and the government will lay out a credible medium-term plan in the near term. This was originally expected as part of the fiscal statement on 23rd November but has subsequently been moved forward to an expected release date in October. Nevertheless, with concerns over a global recession growing, there are downside risks to the pound.

4.11 The MPC has now increased interest rates seven times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. Even so, coming after the Fed and ECB raised rates by 75 basis points (bps) in their most recent meetings, the Bank of England's latest 50 basis points hike looks relatively dovish. However, the UK's status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

4.12 Since the fiscal event on 23 September, we now expect the Monetary Policy Committee (MPC) to increase interest rates further and faster, from 2.25% currently to a peak of 5.00% in February 2023. The combination of the government's fiscal loosening, the tight labour market and sticky inflation expectations means we expect the MPC to raise interest rates by 100bps at the policy meetings in November (to 3.25%) and 75 basis points in December (to 4%) followed by further 50 basis point hikes in February and March (to 5.00%). Market expectations for what the MPC will do are volatile. If Bank Rate climbs to these levels the housing market looks very vulnerable, which is one reason why the peak in our forecast is lower than the peak of 5.50% - 5.75% priced into the financial markets at present.

4.13 Throughout 2022/23, gilt yields have been on an upward trend. They were initially caught up in the global surge in bond yields triggered by the surprisingly strong rise in CPI inflation in the US in May. The rises in two-year gilt yields (to a peak of 2.37% on 21st June) and 10-year yields (to a peak of 2.62%) took them to their highest level since 2008 and 2014 respectively. However, the upward trend was exceptionally sharply at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's extraordinary fiscal stimulus plans. The 30-year gilt yield rose from 3.60% to 5.10% following the "fiscal event", which threatened financial stability by forcing pension funds to sell assets into a falling market to meet cash collateral requirements. In response, the Bank did two things. First, it postponed its plans to start selling some of its quantitative easing (QE) gilt holdings until 31st October. Second, it committed to buy up to £65bn of long-term gilts to "restore orderly market conditions" until 14th October. In other words, the Bank is restarting QE, although for financial stability reasons rather than monetary policy reasons.

4.14 Since the Bank's announcement on 28 September, the 30-year gilt yield has fallen back from 5.10% to 3.83%. The 2-year gilt yield dropped from 4.70% to 4.30% and the 10-year yield fell back from 4.55% to 4.09%.

4.15 There is a possibility that the Bank continues with QE at the long-end beyond 14th October or it decides to delay quantitative tightening beyond 31 October, even as it raises interest rates. So far at least, investors seem to have taken the Bank at its word that this is not a change in the direction of monetary policy nor a step towards monetary financing of the government's deficit. But instead, that it is a temporary intervention with financial stability in mind.

5.0 Link Asset Services interest rate forecast - November 2022 update

5.1 Since our last update at the end of September, the Bank of England's Monetary Policy Committee (MPC) has increased Bank Rate to 3.00% from 2.25%. The increase was made on the 3 November and reflected a split vote - seven members voting for a 75 basis points increase, one for 50 basis points and one for 25 basis points. The MPC continues to grapple with getting inflation back on track over a three-year horizon.

5.2 Moreover, the UK has a new Prime Minister, Rishi Sunak, a new Chancellor, Jeremy Hunt, and new fiscal policies to be firmed up on the 17 of November Autumn Statement - that seek to ensure that the public finances are kept on a sound footing and that any projected gaps (possibly £50bn to £60bn) are fully funded from services efficiencies and/or net tax increases.

5.3 In the interim period, since the end of September, the Government scrapped the reduction in the basic rate of income tax by 1p in the £; maintained the higher band 45p in the £ income tax rate; did not reduce Corporation Tax to 19% from 25%; only put in place support for businesses and households for 6 months (October to March) regarding caps on the unit costs of gas and electricity.

5.4 In addition, the Bank of England has had to intervene in the longer part of the gilt market to ensure that pension funds did not have to undertake a "fire sale" of assets to raise cash to pay for margin calls, arising from the sell-off of long-dated gilts (yields rising) in the wake of the former Chancellor's policy to seek to boost growth with unfunded tax cuts.

5.5 We now expect the MPC to swiftly increase Bank Rate during the remainder of 2022 and into Q2 2023 to combat the sharp increase in inflationary pressures. We do not think that the MPC will embark on a series of increases in Bank Rate that would take it to more than 4.5%, but it is possible.

Link Group Interest Rate View 08.11.22		Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE		3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings		3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings		4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings		4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB		4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB		4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB		4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB		4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

5.6 Our central forecast for interest rates was previously updated on 28 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the new Government's policy of emphasising fiscal rectitude will probably mean Bank Rate does not now need to increase to further than 4.5%.

5.7 Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

5.8 The CPI measure of inflation will peak at close to 11% in Q4 2022. Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

5.9 Regarding the plan to sell £10bn of gilts back into the market each quarter (Quantitative Tightening), this has started but will focus on the short to medium end of the curve for the present so as to prevent any further disruption to the longer end of the curve following on from the short-lived effects of the Truss/Kwarteng unfunded dash for growth policy.

5.10 In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China/Taiwan/US also have the potential to have a wider and negative economic impact.)

5.11 On the positive side, consumers are still estimated to be sitting on over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

1. Prudential Indicators which relate to the Treasury function and compliance with limits

1.1 The Council is required by the Prudential Code to report the actual prudential indicators after the end of each year. There are eight indicators which relate to treasury management and they are set on an annual basis and monitored, they comprise:-

- Operational and authorised borrowing limits which includes short term borrowing (paragraph 2.1 below)
- Interest rate exposure (paragraph 3.1 below)
- Interest rate on long term borrowing (paragraph 4.1 below)
- Maturity structure of investments (paragraph 5.1 below)
- Compliance with the Treasury Management Code of Practice (paragraph 6.1 below)
- Interest on investments (paragraph 7.1 below)
- Capital Financing Requirement and Minimum Revenue Provision (paragraph 8.1 below)

2. Operational and authorised borrowing limits.

2.1 The tables below sets out the estimate and projected Capital financing requirement and long-term borrowing in 2021/22

	Capital Financing Requirement	2021/22 Estimate	2021/22 Actual
		£m	£m
	Capital Financing Requirement at 1 April 2021	355	335
add	Capital Expenditure	92	77
add	Impact for IFRS 16 Leases	-	-
less	Capital Financing	(59)	(51)
less	Provision for repayment of debt (MRP)	(11)	(11)
	Capital Financing Requirement at 31 March 2022	377	350
add	Short Term Borrowing Provision	10	
	Operational Boundary	387	
add	Short Term Borrowing Provision	20	
	Authorised Limit	407	

	Actual Borrowing	2021/22 Actual
		£m
	Long Term Borrowing at 1 April 2021	237
less	Loan redemptions	(4)
add	New Borrowing	-
	Long Term Borrowing at 31 March 2022	233

2.2 The 2021/22 actual Capital Financing Requirement of £350m included PFI Schemes and Finance Leases totalling £75.4m, excluding these balances the underlying need to borrow was £274.6m.

2.3 The Operational Boundary was consistent with the Council's current commitments, existing plans and the proposals for Capital expenditure and financing, and with its approved treasury management policy statement and practices. It was based on the estimate of most likely, prudent but not worst case scenario. Risk analysis and risk management strategies were taken into account as were plans for Capital expenditure, estimates of the Capital financing requirement and estimates of cash flow requirements for all purposes. The Operational boundary represents a key management tool for in year monitoring and long term borrowing control.

2.4 The Authorised Limit for borrowing was based on the same estimates as the Operational Boundary but includes additional headroom for a short term borrowing to allow, for example, for unusual cash movements or late receipt of income.

2.5 The Authorised limit is the "Affordable Borrowing Limit" required by S3 of the Local Government Act 2003 and must not be breached. The Long Term borrowing at 31st March 2021 of £236m is under the Operational boundary and Authorised limit set for 2020/21. The Operational boundary and Authorised limit have not been exceeded during the year.

3. Interest rate exposure

2.1 The Council continued the practice of seeking to secure competitive fixed interest rate exposure 2021/22. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs or improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

	2021/22	2022/23	2023/24
Interest rate exposure	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	15%	15%	15%
Maturity structure of fixed interest rate borrowing 2021/22			
	Lower	Upper	Actual 2021/22
Under 12 months	0%	25%	2%
12 months and within 24 months	0%	40%	2%
24 months and within 5 years	0%	60%	7%
5 years and within 10 years	0%	80%	15%
10 years and within 20 years	0%	80%	21%
20 years and within 30 years	0%	80%	22%

30 years and within 40 years	0%	80%	31%
40 years and above	0%	80%	0%

3.2 The Council has not exceeded the limits set in 2021/22. Not more than £20m of debt should mature in any financial year and not more than 15% to mature in any two consecutive financial years. Borrowing has been undertaken giving due consideration to the debt maturity profile, ensuring that an acceptable amount of debt is due to mature in any one financial year. This helps to minimise the authority's exposure to the risk of having to replace a large amount of debt in any one year or period when interest rates may be unfavourable. The bar chart in the attached Annex 1 shows the maturity profile.

4. Interest rate on long term borrowing

4.1 The rate of interest taken on any new long term borrowing will be defined with the assistance of Link Asset Services.

5. Maturity structure of investments

5.1 The Investment Guidance issued by the government, allowed local authorities the freedom to invest for more than for one year. All investments over one year were to be classified as Non-Specified Investments. The Council had taken advantage of this freedom and non-Specified Investments are allowed to be held within our overall portfolio of investments and in line with our prudent approach in our strategy.

6. Compliance with the Treasury Management Code of Practice

6.1 East Sussex County Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA), Code of Practice for Treasury Management in the Public Services. In December 2018, CIPFA, issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.

A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. The outcome is a new Capital Strategy document which now forms part of the annual budget papers.

7. Interest on investments 2021/22

7.1 The table below sets out the average monthly rate received on our investments and compares it to the Bank of England Base rate to reflect both the interest rates available in the market and limitation in the use of counterparties.

Month	Amount £'000	Monthly rate	Average Base Rate	Margin against Base Rate
April	103	0.43%	0.10%	+0.33%
May	101	0.37%	0.10%	+0.27%
June	98	0.39%	0.10%	+0.29%
July	100	0.38%	0.10%	+0.28%
August	101	0.37%	0.10%	+0.27%
September	96	0.38%	0.10%	+0.28%
October	91	0.35%	0.10%	+0.25%
November	105	0.40%	0.10%	+0.30%

December	97	0.38%	0.18%	+0.20%
January	95	0.37%	0.25%	-0.12%
February	88	0.39%	0.48%	-0.09%
March	98	0.40%	0.62%	-0.22%
Total for 2021/22	1,173	0.38%	0.19%	+0.19%

7.2 The total amount received in short term interest for the year was £1.173m at an average rate of 0.38%. This was above the average of base rates in the same period (0.19%) but ensuring, as far as possible in the financial climate, the security of principal and the minimisation of risk. This Council has continued to follow a prudent approach with security and liquidity as the main criteria before yield.

8. Capital Financing Requirement and Minimum Revenue Provision (MRP)

8.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement - CFR) through a revenue charge (the Minimum Revenue Provision - MRP). Department for Levelling Up, Housing and Communities and Local Government (DLUHC) regulations ([Statutory guidance on minimum revenue provision.pdf](#) ([publishing.service.gov.uk](#))) require the full Council to approve an MRP Statement in advance of each year. A variety of options are available to Councils, so long as the principle of any option selected ensures a prudent provision to redeem its debt liability over a period which is commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

8.2 The Council was recommended to approve the following MRP Statement for 2020/21 onwards:

For borrowing incurred before 1 April 2008, the MRP policy will be:

- Annuity basis over a maximum of 40 years.

From borrowing incurred after 1 April 2008, the MRP policy will be:

- Asset Life Method (annuity method) – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations. A maximum useful economic life of 50 years for land and 40 years for other assets. This option will also be applied for any expenditure capitalised under a capitalisation directive.

For PFI schemes, leases and closed landfill sites that come onto the Balance Sheet, the MRP policy will be:

- Asset Life Method (annuity method) - The MRP will be calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. Any related MRP will be equivalent to the “capital repayment element” of the annual charge payable.

There is the option to charge more than the prudent provision of MRP each year through a Voluntary Revenue Provision (VRP).

8.3 For loans to third parties that are being used to fund expenditure that is classed as capital in nature, the policy will be to set aside the repayments of principal as capital receipts to finance the initial capital advance in lieu of making an MRP.

8.4 In view of the variety of different types of capital expenditure incurred by the Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped

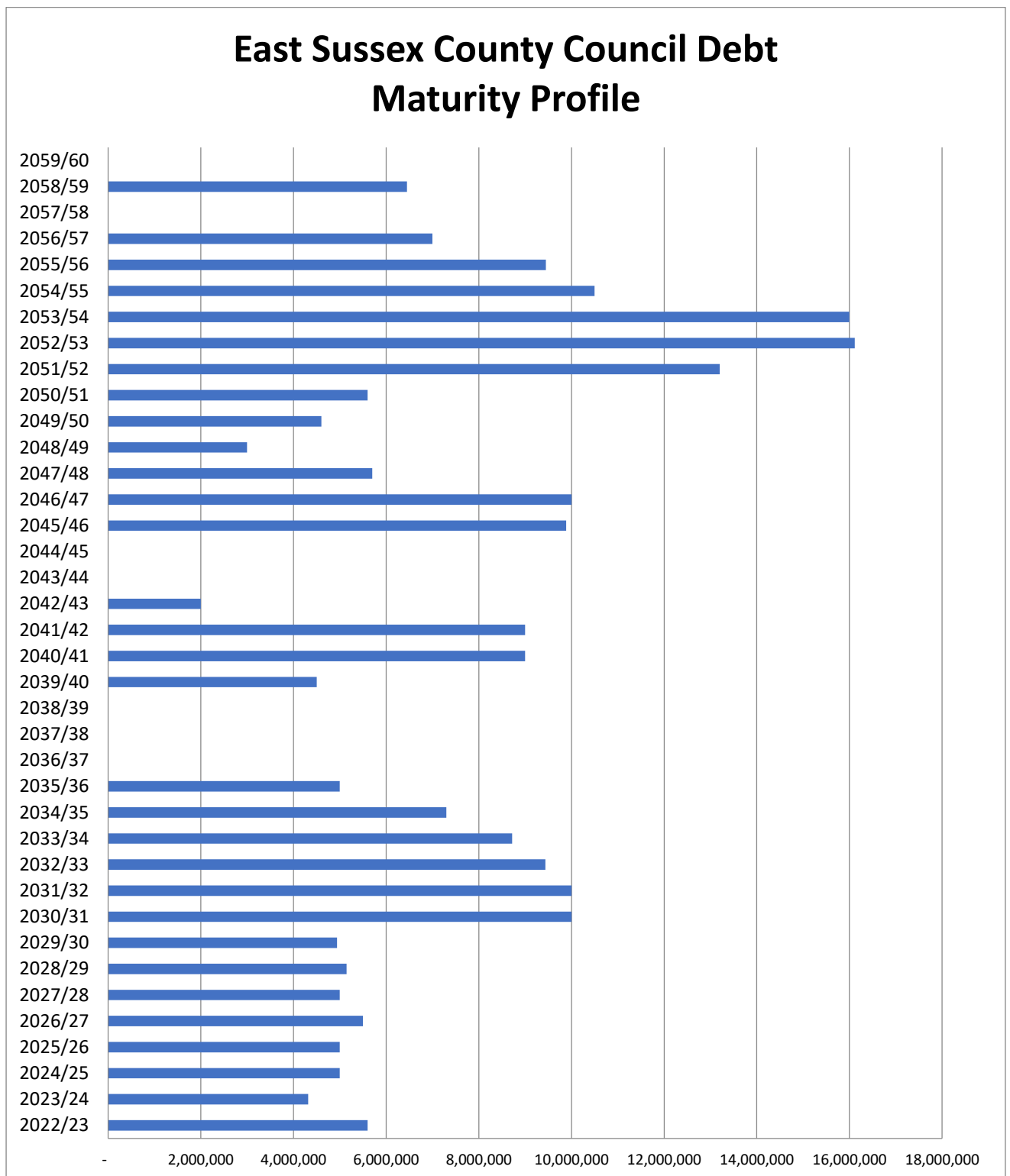
together in a manner which reflects the nature of the main component of expenditure. This approach also allows the Council to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending.

8.5 The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR including appropriate balances and MRP charges for PFI Schemes and Finance Leases.

	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	£m	£m	£m	£m
Total CFR	350	403	427	458
Movement in CFR	-	53	24	31

Annex 1



Report to: **Audit Committee**

Date: **18 November 2022**

By: **Chief Operating Officer**

Title of report: **Internal Audit Progress Report – Quarter 2 (01/07/22 – 30/09/22)**

Purpose of report: **To provide Members with an update on all internal audit and counter fraud activity completed during the quarter, including a summary of all key findings. To also provide an update on the performance of the internal audit service during the period.**

RECOMMENDATIONS: Committee Members are recommended to:

- 1) Note the report and consider any further action required in response to the issues raised.
-

1. Background

1.1 This progress report covers work completed between 1 July 2022 and 30 September 2022.

2. Supporting Information

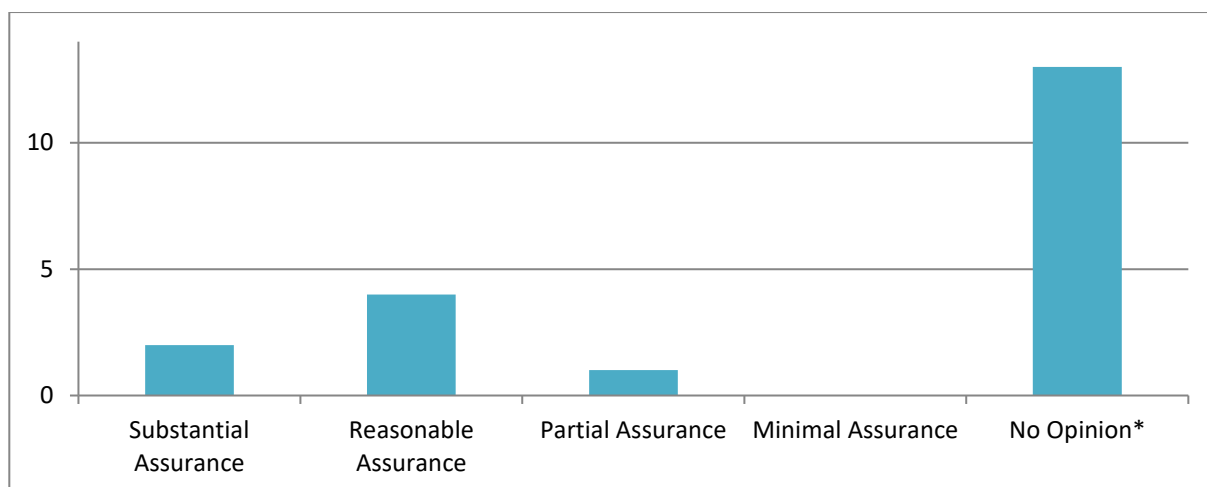
2.1 The current annual plan for internal audit is contained within the Internal Audit Strategy and Annual Plan 2022-23 which was approved by Audit Committee on 29 March 2022.

3. Conclusion and Recommendations

3.1 Key audit findings from final reports issued during Quarter 2 are summarised in Annexe A.

3.2 Overall, of the seven formal audits finalised during the quarter in which a formal audit opinion was given, two received an opinion of 'substantial assurance', four received opinions of 'reasonable assurance' and there was one 'partial' assurance.

Graph to show assurance levels of formal audits completed in Quarter 2



* No opinion (13 areas): Typically, this tends to be proactive advice and support activity where, due to the advisory nature of the audit work, provision of formal assurance-based opinions is not appropriate. It also includes grant certification work.

3.3 Although the same range of internal audit opinions is issued for all audit assignments (where an opinion is relevant), it is necessary to also consider the level of risk associated with each area under review when drawing an opinion on the Council's overall control environment. **Taking into account these considerations, the Chief Internal Auditor continues to be able to provide assurance that the Council has in place an effective framework of governance, risk management and internal control.**

3.4 The overall conclusion above has, therefore, been drawn based on all audit work completed in the year to date and considers the management response to audit findings and the level of progress in subsequent implementation. For example, as at the end of Quarter 2, 100% of high priority actions due had been implemented. This is something which will continue to be monitored and reported on throughout the year.

3.5 Formal follow-up reviews continue to be carried out for all audits where 'minimal assurance' opinions have been given and for higher risk areas receiving 'partial assurance'. Two follow-up reviews were completed during the quarter (included within the seven opinion audits above) and these resulted in improved opinions of reasonable assurance.

3.6 Progress against our performance targets (focussing on a range of areas relating to our service) can also be found in Annexe A (section 5) which shows that all targets are rated as green and on track.

ROS PARKER
Chief Operating Officer

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BACKGROUND DOCUMENTS:

None

Internal Audit and Counter Fraud

Quarter 2 Progress Report 2022/23

CONTENTS

1. Summary of Completed Audits
2. Counter Fraud and Investigation Activities
3. Action Tracking
4. Amendments to the Audit Plan
5. Internal Audit Performance

1. Summary of Completed Audits

Pension Fund Governance

1.1 East Sussex County Council (ESCC) administers and manages the East Sussex Pension Fund (the Fund) on behalf of 132 employers. The Fund is responsible for managing assets for the long-term benefit of scheme members in accordance with statutory regulations. Whilst the Pension Committee is responsible for making arrangements for the administration and investment of the Fund, they receive advice as appropriate from the Pension Board, which is a statutory requirement to assist the Scheme Manager (ESCC) in securing compliance with all relevant pensions' law, regulations and directions. The administration of the Pension Fund is undertaken by ESCC.

1.2 The purpose of this audit was to provide assurance that controls are in place to meet the following objectives:

- Governance arrangements are resilient and provide sufficient and effective oversight;
- Risk management arrangements are robust
- Communication is efficient and effective; and
- Reporting arrangements ensure that poor performance is identified and corrected.

1.3 Based on the work undertaken, we were able to provide an opinion of **substantial assurance**. Only one minor action for improvement was identified relating to the completion of skills evaluations for members of the Pension Board and Pension Committee. An appropriate action was agreed with management to address this.

Capital Project Management

1.4 The capital programme sets out the Council's investment plans to support its core services in the delivery of priority outcomes. It includes provision for essential school places, investments in roads and transport infrastructure, enhancing the life of existing assets and ensuring they are fit for purpose, and supporting invest to save schemes.

1.5 The agreed capital programme from 2020/21 to 2029/30 contained total planned expenditure of £586m. This was funded from a combination of formula grants (£211.6m), S106/CIL contributions (£41.8m), specific project grants (£44.8m), capital receipts (£19.0m), reserves & revenue set-aside (£40.9m) and borrowing (£227.9m).

1.6 This audit assessed the adequacy and appropriateness of the capital project management frameworks used across the Council, including the corporate project management framework, where inadequate controls could impact on the Council's ability to deliver key services in accordance with its core offer. The review was limited to the design of the frameworks; we did not test compliance with them at this stage.

1.7 As a result of our work, we were able to provide a **reasonable assurance** opinion. We found that a corporate framework is in place, which covers many of the principles of good project management and is easily accessible. The corporate framework is supplemented by a bespoke framework used by the IT and Digital Department (IT&D).

1.8 Whilst the frameworks used were found to have appropriate coverage, we did identify some areas where improvements could be made. These related to the need to:

- establish formal governance arrangements for maintaining the corporate framework to ensure it remains fit for purpose;
- clarify when (or if) use of the framework should be mandatory and to establish criteria to define where the use of other frameworks is appropriate;
- establish a mechanism to identify the complexity of projects to ensure that proportionate resources are allocated to project management;
- strengthen guidelines to provide further clarity over the responsibilities for project roles and clients, including those for consultants used in projects; and
- document both gross and net project risks to provide a more effective risk management process and improve the likelihood that projects deliver the required outcomes.

1.9 A formal action plan was agreed with management to address these findings.

1.10 Whilst the use of the corporate framework may not be mandatory, we shall continue to review individual high-profile projects where their success is essential to the running of Council services.

Procurement Data Analytics

1.11 The purpose of this audit was to obtain assurance that, where suppliers have been paid more than £25,000 (a key threshold within Procurement and Contract Standing Orders – PCSOs), during a twelve-month period, PCSOs have been complied with and value for money (VFM) has been demonstrated.

1.12 For this exercise, we used data analytics techniques to review the creditors data from SAP (the Council's ERP system), matching purchase orders (POs) to records on the Corporate Contracts Register and reports on waivers (where approval may have been given to not comply with PCSOs in exceptional circumstances). Where it appeared that contracts were not in place or on the Corporate Contracts Register, this would indicate potential non-compliance with the Councils PCSOs.

1.13 In completing this work, we identified that there are omissions in the data held on the Council's Contracts Register associated with a number of creditors. As the Contracts Register is also the primary basis for information published on the Council website under the Local Transparency Code 2015, the obligation for transparency, as detailed in the Public Contract Regulations 2015 and the Council's

PCSOs, is not being met. We were, therefore, only able to provide a **partial assurance** opinion. Our findings included:

- Three instances where POs had been raised in excess of £189,330 against individual creditors during the twelve-month period reviewed, with no contract or waiver in place (£189,330 is the threshold above which contracts should be publicly advertised via full tender, in consultation with the Procurement Team). The Procurement Team are now taking action to address this with the service areas involved.
- 59 creditors where at least one PO with a spend between £25,000 and £189,300 had been raised during the twelve-month period reviewed, but there was no corresponding contract or waiver in place. It should be noted, however, that our work in relation to these instances was limited to a high-level analysis and no further in-depth review was completed at the time of the audit. Consequently, there may be some instances where a contract was not required, due to exemptions.

1.14 In consulting on the findings of our review with the Procurement Team, a number of improvement actions were agreed to address these as part of a formal management action plan, to help ensure, wherever possible, compliance with the Council's PCSOs, the Local Government Transparency Code and Public Contracts Regulations 2015. These actions included:

- Implementing appropriate mechanisms to be able to forecast spend that may exceed PCSO and other thresholds, to assist in ensuring compliance with these;
- Ensuring that where contracts are known to be in place, these are recorded within the Council's Contract Register and/or published on the Council's website under the Local Transparency Code;
- Enabling the Procurement Team to have access to financial information in order to be able to actively monitor forecast spend against creditors;
- Monitoring of purchase order information to contracts, to flag or report where purchase orders above thresholds have no contract in place.

1.15 The upcoming implementation of the Council's new ERP system (Oracle) should present an opportunity to implement more robust controls in this area. Given the partial assurance opinion, we will complete a follow-up review as part of the 2022/23 internal audit plan once the new system has been implemented and had time to embed.

Building Security Follow-Up

1.16 An audit of Building Security was completed in 2021/22, following a number of incidents involving thefts from Council buildings, and this received an audit opinion of partial assurance. As part of our planned work for 2022/23, we completed a follow-up review to provide assurance that the actions agreed in the previous audit had been implemented.

1.17 Our work identified that all but one of the actions previously agreed had been fully implemented and we were therefore able to provide a revised opinion of **reasonable assurance**. The remaining action related to the need to document established procedures for identifying when holders of access cards, who are not ESCC staff (e.g., NHS staff) no longer require access. In addition, a further minor action was agreed in relation to clarifying procedures for withdrawing building access from staff who have been suspended. Both of these actions were agreed with management.

Network Access Controls

1.18 Network access management is the process by which users' network accounts and associated access is controlled, in order to maintain a secure data environment and therefore prevent unauthorised access to systems and data. Our audit was undertaken to understand the control environment for managing such access and changes across the Council, to obtain assurance that:

- Staff accounts are up-to-date and only had the correct network access permissions relevant to their job role;
- The Active Directory is regularly reconciled, and all leavers are removed;
- Users' permission changes are completed efficiently and accurately for internal movers; and
- New starters network accounts are set up correctly.

1.19 Our audit established that the expected controls were in place and operating effectively. Key findings from our review included:

- There are fully documented process maps and a Responsibility and Accountability Matrix (RACI) for each process required by the relevant departments for access management, including those conducted by the Access Management (AM) team;
- Our testing identified prompt disabling of leavers' accounts;
- Controls are in place to ensure contractors and agency access is removed in a timely manner;
- Requests for new network accounts and amendments to accounts were robustly managed;
- Network accounts were created using a 'copy user' functionality which assisted Access Management in assigning appropriate permissions;
- General maintenance of the Active Directory was effective; and
- Controls to ensure Accounts classed as 'privileged', with powerful administration access to servers and systems, are well-established.

1.20 We identified one process weakness where, when accounts are created, they are not assigned a unique identifier within the Active Directory (AD) (e.g., personnel number). Whilst it is a minor risk, it could create the potential for issues when amending, deleting or creating accounts of users with the same name or similar name.

1.21 As a result of our findings, and the low-risk action agreed, we were able to give an overall opinion of **reasonable assurance**.

Modernising Back Office Systems (MBOS) Audit Work

1.22 The MBOS programme was approved by the Corporate Management Team (CMT) in September 2019 to enable the Council to go to market for a replacement to the current version of SAP. Following a procurement process, Oracle Fusion was selected as the replacement, and this is expected to go live in quarter 1 of the 2023/24 financial year.

1.23 Alongside ad-hoc advice, support and guidance provided to the Programme Board, key workstreams and key stakeholders, a programme of work to support the implementation of the system has been agreed with the Board. In the past quarter, the following work has been delivered:

MBOS - Key Control Work (Phase 1)

1.24 The primary objective of this work was to ensure that the key controls expected to be in place within the new system in order to provide an effective control framework, are included as part of the design process.

1.25 The new system will be responsible for key functions across the Council. As part of our work, we concentrated on reviewing the control environment for the following key processes, considered to be of highest importance, as agreed with the Programme Board:

- HR & Payroll (Human Capital Management);
- Accounts Payable/Supply Chain Management;
- Accounts Receivable;
- Finance; and
- Projects.

1.26 Our work, which was undertaken at an early stage in the design and build process, identified a number of areas where improvements were required, including the need to:

- improve the quality and completeness of system design documentation;
- clarify the use of 'mandatory fields' in order to maintain sufficient levels of data quality; and
- define and document the system audit trail requirements.

1.27 In reporting our findings, programme management have committed to ensuring that appropriate action is taken to improve the control environment and have requested continued support from Internal Audit in evaluating this as the project progresses.

MBOS Reporting Arrangements

1.28 The primary objective of this work was to ensure the reporting functionality required by all business users is available from the new system.

1.29 In completing this review, we found that key reporting requirements have been identified and there is suitable testing in place to ensure reports are fit-for-purpose. Wherever possible, standard reports produced by the system will be used to help reduce the risks associated with using and updating custom-built reports.

MBOS Data Cleansing and Migration

1.30 Data cleansing and migration are important for organisations when implementing a replacement system, as it helps to ensure the accuracy, completeness and consistency of the data from the legacy system.

1.31 The purpose of this review was to provide a view as to the adequacy of the arrangements in place to meet the following objectives:

- Data ownership/stewardship is clearly defined, including associated responsibilities;
- Appropriate steps are being taken to cleanse data prior to it being migrated into Oracle, with decisions and corresponding approval being recorded;
- Issues in relation to data mapping are being recorded and addressed in a timely manner; and
- A data standard for the system is clearly defined and controls are in place to ensure continued compliance.

1.32 We found that there is a data ownership document in place which includes well defined responsibilities. Whilst appropriate officers (Subject Matter Experts - SMEs) have knowledge of the relevant information needed for a data standard (e.g., date format, cost code structures etc), no such standard had been formally established or documented. Introduction of a data standard will help ensure data is being cleansed consistently and to a high standard across all data sets as part of the MBOS programme.

1.33 Data cleansing control arrangements are in place. Some known issues were being managed as part of the ordinary programme risk and issue management arrangements.

1.34 A position statement summarising our work in this area was presented to the Programme Board for corrective action to be incorporated into the programme plan as appropriate.

Direct Payments Follow Up

1.35 Direct Payments are payments made directly to Adult Social Care clients that allow them to choose and pay for support to meet the level of care required, following an assessment of their needs. The legal framework for Direct Payments is set out in the Care Act 2014, Section 117(2C) of the Mental Health Act 1983 and the Care and Support (Direct Payments) Regulations 2014.

1.36 All clients are offered the option of a Direct Payment at assessment and at review. Direct Payments are established through an Individual Service Agreement, which states the weekly amount paid by ESCC, and the amount that the client must contribute towards the cost of their care.

1.37 Clients have the option to manage their own Direct Payment account or may choose to have the account managed by ESCC or an external service provider.

1.38 An audit of Direct Payments was completed in 2020/21 and received an audit opinion of partial assurance. The audit contained seven actions agreed with management, including one rated as high priority. As result, we completed a follow up review to provide assurance that the actions agreed in that audit had been implemented.

1.39 Our work identified that improvements have been made to strengthen the monitoring of clients' accounts, including where their accounts are managed by external providers. Transactions on client-managed card accounts now have more complete details recorded, further improving the Council's ability to monitor expenditure to ensure it is appropriate. The Care Management Team is also now working more closely with the Direct Payments Team to prioritise monitoring on the basis of risk.

1.40 As a result of the improvements we identified, we were able to issue an opinion of **reasonable assurance** on the controls in place. Only a few outstanding actions remained and were agreed with management. These covered the need to:

- absorb the new processes for the regular review of clients' direct payments into business as usual; and
- continue to strengthen the process for monitoring clients' expenditure to ensure that it is appropriate.

Elective Home Education

1.41 Under Section 7 of the Education Act, 1966, parents have the right to educate their child(ren) at home. Where they do, Local Authorities have a legal duty to ensure that a suitable education is being provided and a moral and social obligation to ensure such children are safe and suitably educated, where there is a risk of harm and/or a lack of proper education.

1.42 The purpose of this audit was to provide assurance that:

- Robust processes are in place to ensure that, where concerns are raised in relation to the safeguarding of electively home educated children, these are subject to appropriate follow-up;
- Adequate controls exist to ensure that children who are being electively home educated receive an appropriate education;
- Effective processes are in place for returning children to school where elective home education is not appropriate;
- Appropriate advice and support is provided to parents and carers in relation to the risks and responsibilities surrounding elective home education; and
- There is a robust process in place to identify potentially unregistered schools and respond to these appropriately.

1.43 In completing our work, we found that robust controls were in place, and we were able to provide an opinion of **substantial assurance**. Only a small number of actions were agreed with management to further improve controls, including the need to ensure that the relevant safeguarding policies include reference to identifying and raising safeguarding concerns in relation to electively home educated children.

Department for Levelling Up, Housing and Communities (DLUHC) Deep Dive

1.44 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. The South East Local Enterprise Partnership (SELEP) provides grants and loan funding to the Council to support the delivery of a number of projects.

1.45 Essex County Council (ECC) is the host accountable body for SELEP. The DULHC is undertaking an assurance review (deep dive) of SELEP, as part of which, a request was made, through ECC, for information supporting the grant agreements and procurement activities undertaken for projects delivered by Sea Change Sussex (SCS).

1.46 We provided additional resource and support in obtaining the evidence to support the request received. This involved the review of extensive documentation and the collation and analysis of records dating back many years. The requested work was completed, and this enabled the Council to provide the required information to ECC. No report was produced, and this work provided no opinion.

Grants Related Audit Work

Contain Outbreak Management Fund

1.47 The Local Authority Test and Trace Contain Outbreak Management Fund was a grant provided to support councils towards expenditure lawfully incurred to manage local outbreaks of COVID-19.

1.48 A return to the Department of Health and Social Care was required for this grant during the second quarter to confirm that expenditure had been incurred in accordance with the terms of the grant. Through our testing, we were able to confirm that the funding had been used in line with the grant's conditions.

1.49 There were no findings or actions for improvement identified during our work and we were able to sign the return as correct.

Bus Service Operators Grant (BSOG)

1.50 Payments from the Department of Transport (DfT) are made to local authorities for the running of local and community bus services. BSOG intends to benefit passengers through:

- helping to keep fares down; and
- enabling operators to run services that might otherwise be unprofitable and could lead to their closure.

1.51 The grant is ring-fenced and should be used to fund the provision of supported bus services or other related transport provision. We are required to undertake sample testing across a number of routes and payments made to operators on an annual basis to ensure that payments are calculated accurately, and that the conditions attached to the grant are complied with. We were able to confirm that payments were correct, and that the Council had complied with the terms of the grant. A signed declaration was returned to the DfT within the required timescales.

Additional Dedicated Home to School Transport (Covid) Grant

1.52 The Additional Dedicated Home to School Transport (Covid) Grant was provided to the Council to support the operation of buses and taxis where social distancing requirements meant that usual services were not sufficient (e.g., where class bubble arrangements could not be catered for in a single bus or taxi).

1.53 The grant is ring-fenced and can only be used to support provision of home to school transport routes where there is an impact from Covid-19. We were able to confirm that payments were correct, and that the Council had complied with the terms of the grant. A signed declaration was returned to the DfE.

Local Transport Capital Block Funding (Integrated Transport and Highway Maintenance Blocks) Grant, Including Traffic Signals

1.54 Payments from the Department of Transport (DfT) are made to local authorities in relation to highway maintenance and infrastructure, including traffic signals and pothole repair. The grant included five elements:

- Integrated Transport Block;
- Highways Maintenance Block needs element;
- Highways Maintenance Block incentive element;
- Pothole Fund after advance payment; and
- Traffic Signals Maintenance.

1.55 The grant was not ring-fenced but was to be used only for the purposes that a capital receipt may be used for. Internal Audit was required to confirm that the conditions had been complied with. A sample of transactions were tested to confirm that they were in compliance with the funding conditions, and a signed declaration was returned to the DfT within the required timescales.

2. Counter Fraud and Investigation Activities

Counter Fraud Activities

2.1 We are currently working with services to ensure that the relevant data extracts are uploaded for the 2022 NFI data matching exercise. The matches from the exercise will be available to review from January 2023.

2.2 The team continue to also monitor intel alerts and share information with relevant services when appropriate.

Summary of Completed Investigations

Recruitment Corruption

2.3 A concern was reported that there was a potential conflict of interest in a recent recruitment exercise that had occurred in the Adult Social Care Team. The investigation concluded that no preferential treatment had taken place and the concerns were unsubstantiated.

Bank Mandate Fraud

2.4 Internal Audit conducted an investigation following notification that ESCC had been the victim of a bank mandate fraud, totalling £206,847.53. The investigation found that, whilst ESCC had robust controls in place designed to prevent this type of fraud, the officer who had processed the change in bank mandate had not followed these procedures. Following our investigation, the officer was subject to disciplinary action which resulted in the issuing of a final written warning. Further opportunities were taken to strengthen controls and to reinforce the message to ensure correct procedures are followed at all times. It should also be noted that we have previously provided (Sept 2021) fraud awareness sessions with Business Operations staff, alerting officers to the risk of mandate fraud. We plan to provide further training on this later this year.

2.5 Although the Police (and the bank) are actively investigating this matter, we understand that this could take many months, and that the likelihood of recovering the funds is low.

Adoption South-East

2.6 A concern was raised regarding an irregularity in relation to funding that was received from the Adoption Support Fund (ASF). The member of staff who was responsible for applying to the fund, tracking funding received and completing spend confirmations, had not been following the correct procedures. As a result, spend confirmations were outstanding from 2015. This led to the service having to conduct a lengthy reconciliation exercise, which identified that funding of £200,242.60 was required to be returned to the ASF. This was not a loss to the Council as it was money that had been applied for, but not spent. However, it was found that payments had been made to six therapists without the correct application and approval process being followed, resulting in an overspend of £28,361.77.

2.7 In reviewing the arrangements in relation to this, a number of control weaknesses were identified, and these were reported to the service so that improvements could be made. The staff member retired during our investigation.

Department for Work and Pensions System Security Breach

2.8 In July 2022, the Department for Works and Pensions (DWP) informed the Council of a potential security breach of their system (Searchlight). An investigation was undertaken which resulted in the system user being issued with a formal written warning. Training was provided to all system users within the team, reminding them that they should only use the system for genuine business reasons.

3. Action Tracking

3.1 All high priority actions agreed with management as part of individual audit reviews are subject to action tracking. As at the end of quarter, 100% of high priority actions due had been implemented.

4. Amendments to the Audit Plan

4.1 In accordance with proper professional practice, the internal audit plan for the year remains under regular review to ensure that the service continues to focus its resources in the highest priority areas based on an assessment of risk. Through discussions with management, the following reviews have been added to the audit plan so far this year:

Review	Rationale for Addition
Ukraine	Support and advice in relation to cash payments to Ukrainian guests.
Broadband Grant	Additional grant that required certification.
Covid Bus Services Support Grant 22/23	New grant that required certification.
Additional Dedicated Home to School and College Transport Grant 22/23	New grant that required certification.
Department for Levelling Up, Housing and Communities Deep Dive	The provision of support to CET who were compiling a response to DLUHC, which was carrying out a detailed review of expenditure made under grants that were disbursed through the Council.

4.2 The following audit work is currently in progress or is scheduled for quarter 3:

In Progress:

- LCS/Controcc
- Children's Data Handling
- Public Health Grant
- UK Community Renewal Fund
- Vehicle Use Follow-Up
- Contract Management
- Use of Consultants
- Climate Change
- Accounts Receivable

- IT Asset Procurement (Value for Money)
- I-Connect Application Controls (Pensions)
- Building Condition Asset Management Follow-Up
- Adult Safeguarding
- Meta Compliance IT Application Audit
- Pension Fund Cash Management

Scheduled:

- Accounts Payable
- Payroll
- Adult Social Care Reform
- MBOS Key Control Work – Phase 2
- Corporate Governance
- Health and Safety
- Waste Management
- Cyber Security
- Administration of Pension Benefit Payments
- Pension Fund Investments and Accounting
- External Funding, Grants and Loans
- Home to School Transport Follow Up
- Contract Management Group Cultural Compliance Follow-Up

5. Internal Audit Performance

5.1 In addition to the annual assessment of internal audit effectiveness against Public Sector Internal Audit Standards (PSIAS), the performance of the service is monitored on an ongoing basis against a set of agreed key performance indicators as set out in the following table:

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score (RAG)	Actual Performance
Quality	Annual Audit Plan agreed by Audit Committee	By end April	G	The Annual Plan was and approved by the Audit Committee on 29 March 2022.
	Annual Audit Report and Opinion	By end July	G	The Annual Report and Audit Opinion was approved by the Audit Committee on 8 July 2022.

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score (RAG)	Actual Performance
	Customer Satisfaction Levels	90% satisfied	G	100%
Productivity and Process Efficiency	Audit Plan – completion to draft report stage	90%	G	54.2% achieved to the end of Q2, against a Q2 target of 45%.
Compliance with Professional Standards	Public Sector Internal Audit Standards	Conforms	G	<p>January 2018 – External assessment by the South-West Audit Partnership gave an opinion of ‘Generally Conforms’ – the highest of three possible rankings.</p> <p>April 2022 – Updated self-assessment against the standards within the PSIAS underway and preparations for the full independent external assessment in progress.</p> <p>June 2022 – Internal quality review identified no major areas of non-conformance.</p>
	Relevant legislation such as the Police and Criminal Evidence Act, Criminal Procedures and Investigations Act	Conforms	G	No evidence of non-compliance identified
Outcome and degree of influence	Implementation of management actions agreed in response to audit findings	97% for high priority agreed actions	G	100%

Aspect of Service	Orbis IA Performance Indicator	Target	RAG Score (RAG)	Actual Performance
Our staff	Professionally Qualified/Accredited	80%	G	91%

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

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Report to: Audit Committee

Date of meeting: 18 November 2022

By: Chief Operating Officer

Title: Annual update on Property Investment Strategy

Purpose: To provide Audit Committee with an update on key Property work activities.

RECOMMENDATIONS

It is recommended for Audit Committee to:

- 1) note the contents of this report;
 - 2) consider, and recommend, any actions that should be taken in response to the contents of this report;
 - 3) identify any new or emerging items for consideration.
-

1 Background

- 1.1 The County Council's strategic framework for its assets is set out in the Council's [Strategic Asset Plan 2020-2025](#).
- 1.2 The Audit Committee asked for an update on the strategy to be given at the November meeting, including coverage of the following specific areas:
 - i) The current position on the possibility to acquire commercial assets for income generation.
 - ii) Property workstreams supporting the Council's climate change agenda.
 - iii) An update on the Workstyles project.

2 Supporting Information

Surplus Assets

- 2.1 The Council has adopted a blended approach and has decided to focus on exploring whether properties can generate income when assets become surplus to operational requirements as well as considering capital receipts from disposals.
- 2.2 For example, Sackville House, Lewes is a site where 95% of the office has been let to generate a commercial income. Much effort has been spent to make the property more desirable while limiting the amount of funds that are spent on addressing maintenance and appearance issues. Altering the marketing strategy and creating spaces that appeal to new tenants help not only to generate rent but to reduce the Council's outgoings including non-domestic rates and maintenance costs.
- 2.3 Other examples of non-operational assets include Warwick House, Seaford and the former Egerton Children's Centre, Bexhill which have been let to different NHS trusts

to generate income and reduce holding costs. These agreements meet many of the Council's joint and partnership working objectives and help provide essential services for the people of East Sussex. Children's Services (CSD) properties on educational sites have also found new uses via private nurseries or, have been brought into bolster school accommodation.

- 2.4 Even more peripheral sites have seen a focus to help nullify costs and support services. East Sussex County Council (ESCC) have agreed terms with Education Training Consortium (ETC) Sussex, a charity endorsed by Adult Social Care (ASC), to utilise the former Day Centre which has otherwise limited potential use. In this case rent has been waived for an initial period to allow the charity to settle into the area. It can later be reviewed and placed at a more representative market rate. These agreements not only support local charities to support and complement ESCC frontline services but allow ESCC's standing service charges and business rates to be met via external funds.
- 2.5 Despite the above examples, disposals also remain an option for surplus assets. However, there are numerous challenges when seeking planning consents to maximise value or longer marketing campaigns. Vacant sites may end up being retained for longer than preferably desired which can lead to enhanced site security costs, managing intrusions and complaints from local people. Despite this, ESCC Property team also have a strong track record with disposing (freehold sale) of premises no longer fit for purpose or surplus to ESCC's requirements. For example, at the former Grove School, Hastings, the ESCC Property team oversaw the successful vacation and management of the former school site, concluding all associated s.77 and external funding compliance to ultimately generate a capital receipt of £7.9m for the authority.
- 2.6 More generally, managing all surplus assets is not without issues as even the occupied premises take a level of resource to market and regularise occupations. Further to this, tenants seek a level of service which requires both a building management and maintenance influence which involve costs and time. This can be difficult given current resourcing within the team particularly when the team has struggled to recruit in several roles.

Investment Acquisitions

- 2.7 The County Council concluded in 2021 not to follow the route of purchasing commercial assets to produce rental commercial income. The primary reason, at that time and which continues to be relevant today, was the significant uncertainty about some sectors of the commercial property markets following the pandemic. The commercial investment market was badly affected with uncertainty in the short and medium-term, with impacts on rents, yield returns and commercial tenants' ability to pay rents. Some improvement was seen in 2021 and early 2022. However, the war in Ukraine has affected a number of areas in the economy with increased inflation and cost of living impact. This has created some uncertainty in the commercial property markets currently in 2022. There is some robustness in limited commercial sectors, e.g. warehouses and industrial units, while sectors such as primary and secondary offices and retail high streets are having increased high void rates and yield performance has deteriorated. With many property owners noting a reduction in office demand, we have seen office premises turn to residential through permitted development (Ocean House). There may become a point where demand increases or remains stable, and the natural lack of supply drives up prices in this area meaning that a further review of this position may be warranted in due course.
- 2.8 As a reminder, the legislation context for local authorities acquiring commercial assets for income is set out in the Local Government Act 2003 and the Localism Act

2011. This legislation sought to encourage local authorities to adopt more commercial approaches. It is important to note that prior to the pandemic, some local authorities had acquired commercial assets within their localities, whilst others had invested in geographical areas which presented potential high rental income growth outside of their administration area. The majority of newly acquired commercial assets purchased by local authorities are partially, or fully funded by the Public Works Loans Board (PWLb).

- 2.9 The National Audit Office undertook a formal review in February 2020 in respect of Local Authority Investment in Commercial Properties. It found that several local authorities were exposed to significant financial and reputational risks. It showed that the commercial assets they had acquired would be badly impacted if there was a downturn in the economy. In November 2020, the PWLB consulted stakeholders about a proposed new approach for access to local authority loans for commercial asset acquisitions.
- 2.10 The National Audit Office report revised criteria for securing loans from the PWLB, including revised loan rates and increasing the breadth of information required within the business cases. The emphasis is now on wider regeneration benefits and housing outcomes. The PWLB remit has therefore been amended so a business case for a local authority to acquire commercial assets purely for rental income will be significantly harder to achieve.
- 2.11 At the current time there are no proposals to acquire commercial assets for rental income for the following reasons:
- i) There is uncertainty in the commercial property market on rental levels, voids and yield performance.
 - ii) There are other pressures on the Council's capital programme for investment in a wide range of projects and infrastructure
 - iii) Access to external funding e.g., the PWLB is more difficult and there would be an impact on the Council's Treasury Management policy.
- 2.12 The Council will continue to acquire assets/land for its operational delivery in relation to basic school need requirements and highway projects such as for Exceat Bridge.

Use of the Corporate Estate - Maximising the use of our assets

- 2.13 In a post-covid world, ESCC acted quickly to implement a 'Workstyles' programme where teams locally agree how many days a week their staff access the workplace via team agreements. ESCC have consequentially seen physical attendance to corporate premises reduce to around 1-2 days a week. With less pressure on these assets, it has enabled us to make adjustments to offices to both support the new hybrid ways of working (via additional booth spaces for example) and to reduce property usage. For example, the new Hastings office base will have approximately 40% less space than Ocean House which aligns with the asset rationalisation workstream in the Council's Asset Management Plan. We are also considering utilisation levels and potential adjustments across the rest of our estate, including at sites such as County Hall. These types of adjustments reduce carbon emissions, maintenance costs and general property outgoings (rent and business rates etc).
- 2.14 Such a seismic shift in working practices is not without tweaking, as changes and limitations become identified over time. Therefore, we acknowledge this area is still a work in progress and requires full engagement with services. To aid with the understanding of the individual team's approaches, a workstyles survey was

launched in October 2022 and its findings will help shape further refinements to this model.

Property Adjustments to Reduce Carbon

- 2.15 The County Council's Climate Emergency Action Plan 2020-22 sets out how the organisation intends to reduce its carbon emissions. It sets out the scale of the carbon footprint, describes the Council's carbon budget and includes a set of actions. In 2021-22 Cabinet agreed a further £9.9m to support the work to enable the Council to become carbon neutral.
- 2.16 The ESCC Property team work collaboratively with other Council colleagues to ensure its carbon emissions are reduced through energy efficient use of its assets and targeted capital investment. Property workstreams are tracked and monitored at the Climate Emergency and Capital Boards on a regular basis.
- 2.17 The following are some of the measures that the Council has delivered:
- i) Installed energy efficiency measures in ESCC buildings and street lighting using part of the additional £9.9m budget agreed by Cabinet and using the £1.025m Salix invest-to-save fund and County Council maintenance budgets. The Salix fund, for example, has been used with nearly 300 projects worth £3.8m, generating annual savings of over £850,000. Ten assets will benefit from LED investment in 2022/2023.
 - ii) Installed 1.4MW of renewable energy generation on buildings, with 26 on schools and 12 non-school sites which, in addition to reducing energy bills, generated a total income from the Renewable Heat Incentive and Feed In-Tariff of c. £8,000 in 2021-22. Over 1,077 solar panels were fitted in 2021/2022 as Phase 1, and Phase 2 will include a further capital investment for ten additional assets in 2022/2023.
 - iii) Whole building decarbonisation projects have been delivered at Ninfield School and Herstmonceux School in autumn 2022 using part external funding.
 - iv) Electricity for buildings and street lighting that is supplied from renewable sources, independently certified through the Renewable Energy Guarantees of Origin scheme (REGOs) has been purchased. This started in April 2020 and will continue, subject to availability and price. It applies to corporate sites and has been offered to schools. It should be noted that the purchase of green electricity is not counted towards the Council's carbon reduction target. It is not considered to be good practice, as it does not increase the investment in renewable energy generation.
 - v) The Council made a bid to the Department of Business, Energy and Industrial Strategy for Phase 3b decarbonisation funding for £1.3 million to part fund 6 full decarbonisation projects.

Community Assets

- 2.18 ESCC have many property assets supporting community use. Both the operational and non-operational portfolio allows for some of the main links to occur with community assets. This may take the form of adjacent locations such as Greenwich House in Peacehaven where ESCC neighbour with Peacehaven Town Council and share some aspects of maintenance and services. Others are direct operational

assets owned by the Council where they supply a single community use such as Hollington Community Centre or former libraries which now offer fully established community run facilities (Pevensey Bay, Willingdon and Ore Library etc). Premises such as the former Tilling Green School in Rye has now a long-established track record in providing charitable and community facilities in what is a surplus County Council asset.

- 2.19 There are also many operational sites with a primary purpose such as libraries, youth centres and children centres which support their main focus while having the opportunity to encourage ad-hoc community use. Opportunities are also explored where existing premises can support not only the current community uses (which may take place outside of operating hours) but can also meet the need for additional service requirements within the existing portfolio. Strong links with the community sector are developed and maintained and agreements are regularly issued to allow occupancy in Council buildings which help support community and charity groups throughout the County.

Use of Assets for Local Growth and Development

- 2.20 ESCC also has good working relationships with the Borough and District Councils across the County. There have been routine meetings as well as weekly exchanges via Strategic Property Asset Collaboration in East Sussex (SPACES) which aims to encourage joint working, asset sharing and acquisitions / disposals to support development hubs and local growth where targeted by Local Councils. Many of the resulting projects have created spaces utilised for housing or commercial premises which have created much needed housing or employment hubs. It may be possible to further look at our portfolio and see what extent it can support smaller pop-up businesses as well as larger schemes such as housing provision in the local area. We will continue to ensure strong links with our colleagues in Communities, Economy and Transport (CET) to acknowledge the key projects and aims where new investment and infrastructure can support additional growth in areas seeking change. Property assisted recently with the creation of the new Newhaven port access road, which is a clear example of the Council utilising its funding and land to generate new employment opportunities and investment hubs.

3 Conclusion and reasons for recommendations

- 3.1 Audit Committee are asked to note the contents of this report, consider and recommend any actions that should be taken in response to the contents and identify any new or emerging items for consideration.

Ros Parker
Chief Operating Officer

Contact Officer: Nigel Brown
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Audit Committee – Work Programme

List of Suggested Potential Future Work Topics		
Issue	Detail	Meeting Date
Audit Committee Working Groups		
Working Group Title	Subject area	Meeting Dates
Modernising Back Office Systems (MBOS) Sub Group	Oversight of the MBOS programme	22 Nov 2022
Training and Development		
Title of Training/Briefing	Detail	Date
Strategic Risk Management Deep Dive	Deep dive into the Strategic Risk Management framework to explore the processes and governance using Risk 12 Cyber Attack as an example. The session will be facilitated by Khy Perryman, Information Security & Governance Manager and Matt Scott, Chief Digital Information Officer	31 Mar 2023

Future Committee Agenda Items		Author
31 March 2023		
External Audit Plan 2022/23	This report sets out in detail the work to be carried out by the Council's External Auditors on the Council's accounts for the financial year 2022/23.	Ian Gutsell, Chief Finance Officer & External Auditors

External Audit Plan for East Sussex Pension Fund 2022/23	To consider and comment upon the External Audit Plan for the East Sussex Pension Fund for the financial year 2022/23.	Ian Gutsell, Chief Finance Officer & External Auditors
Independent external assessment of Internal Audit	Report presenting the results of an external assessment of the Internal Audit team	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Internal Audit Strategy and Plan	Consideration of the Internal Audit Strategy and Plan for 2023/24	Russell Banks, Chief Internal Auditor/ Nigel Chilcott, Audit Manager
Internal Audit Progress Report	Internal Audit Progress report – Quarter 3, 2022/23 (01/07/22 – 31/12/22)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Strategic risk monitoring report – Quarters 2 and 3, 2022/23 (01/10/22 – 31/12/22)	Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Managing Back Office Systems (MBOS) Update	Update from the MBOS Sub-Group.	Graham Forsdyke, Programme Lead, Ros Parker, Chief Operating Officer
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Governance and Democracy Officer

7 July 2023		
Assessment of the Corporate Governance Framework and Annual Governance Statement for 2022/23	Sets out an assessment of the effectiveness of the Council's governance arrangements and includes an improvement plan for the coming year, and the annual governance statement (AGS) which will form part of the statement of accounts.	Philip Baker, Assistant Chief Executive
Internal Audit Services Annual Report and Opinion 2022/23	An overall opinion on the Council's framework of internal control, summarises the main audit findings and performance against key indicators (includes Internal Audit Progress reports – Quarter 4, 2022/23, (01/01/23 – 31/03/23).	Nigel Chilcott, Audit Manager / Russell Banks, Chief Internal Auditor
Annual Audit Letter	To consider the Annual Audit letter and fee update from the External Auditor	Ian Gutsell, Chief Finance Officer
Counter Fraud Annual Report	Annual report on Counter Fraud work	Simon White, Audit Manager – Counter Fraud / Russell Banks, Chief Internal Auditor
Strategic Risk Monitoring	Strategic risk monitoring report – Quarter 4, 2021/22 (01/01/23 – 31/03/23)	Ros Parker, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Governance and Democracy Officer
29 September 2023		
Review of Annual Governance Report & 2022/23 Statement of Accounts	Report of the external auditors following their audit of the Council's statutory accounts. It allows the committee to review the issues raised and assess the management response.	External Auditors/ Ian Gutsell, Chief Finance Officer

Review of Annual Pension Fund Governance Report & 2022/23 Statement of Accounts	Report of the external auditors following their audit of the Pension Fund. It allows the committee to review the issues raised and assess the management response.	External Auditors/ Ian Gutsell, Chief Finance Officer
Internal Audit Progress Report	Internal Audit Progress report – Quarter 1, 2023/24 (01/04/23 – 30/06/23)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Financial Management Code	Report of the Financial Management Code	Rachel Jarvis, Head of Finance / Ian Gutsell, Chief Finance Officer
Strategic Risk Management	Strategic risk monitoring report – Quarter 1, 2023/24 (01/04/23 – 30/06/23)	Ros Parker, Chief Operating Officer / Ian Gutsell, Chief Finance Officer
Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Governance and Democracy Officer
24 November 2023		
Treasury Management	To consider a report on the review of Treasury Management performance for 2021/22 and for outturn for the first six months of 2022/3, including the economic factors affecting performance, the Prudential Indicators and compliance with the limits set within the Treasury Management Strategy before it is presented to Cabinet.	Ian Gutsell, Chief Finance Officer
Internal Audit Progress Report	Internal Audit Progress report – Quarter 2, 2023/4 (01/07/22 – 30/09/22)	Nigel Chilcott, Audit Manager/Russell Banks, Chief Internal Auditor
Property Asset Disposal and Investment Strategy	Consideration of an annual report on the implementation of the Property Asset Disposal and Investment Strategy.	Nigel Brown, AD Property

Committee Work Programme	Discussion of the future reports, agenda items and other work to be undertaken by the Committee.	Governance and Democracy Officer
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