

# **East Sussex County Council**

## **Statement of Accounts**

**2016/17**

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## Additional Information

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

Further information on particular aspects of the County Council's finances or those of the Ashdown Forest Trust plus any of the following publications may be obtained from:

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

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

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## Statement of Accounts

The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, Members of the Council, employees and other interested parties clear information about the Council's finances. The format of the Statement of Accounts is governed by The *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code). To make the document as useful as possible to its audience and make meaningful comparisons between authorities the Code requires:

- all Statements of Accounts to reflect a consistent presentation;
- interpretation and explanation of the Statement of Accounts to be provided; and
- the Statement of Accounts and supporting notes to be written in plain language.

This Statement of Accounts comprises various sections and statements, which are briefly explained below:

- Narrative Report - this provides information on the format of this Statement of Accounts as well as a review of the financial position of the Council for the financial year 2016/17.
- The Statement of Responsibilities – this details the responsibilities of the Council and the Chief Finance Officer (S151 Officer) concerning the Council's financial affairs and the actual Statement of Accounts.
- The Independent Auditor's Report to the Council – this is provided by the external auditors, KPMG LLP, following the completion of the annual audit.
- Annual Governance Statement – the Council is required to carry out an annual review of the effectiveness of the system of internal control and to include a status report with the Statement of Accounts. The Statement explains how the Council has complied with the Code of Corporate Governance during 2016/17. However, any significant events or developments that occur between 31 March 2017 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 Expenditure and Funding Analysis (EFA)* - shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the *Comprehensive Income and Expenditure Statement*.

~ *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 or reduce local taxation) and other reserves.

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

~ *The Cash Flow Statement* – this summarises the changes in cash and cash equivalents of the Council during the reporting period.

- The Accounting Policies Note – this note explains the basis for the recognition, measurement, and disclosure of transactions in the Accounting Statements.
- The Notes to the Accounting Statements provide supporting and explanatory information and are fundamentally important in the presentation of a true and fair view.
- The Pension Fund Accounts – the East Sussex Pension Fund is administered by the Council; however, the Pension Fund has to be completely separate from the Council's own finances. This statement is an extract from the Pension Fund Annual Report and summarises the financial position of the East Sussex Pension Fund, including all income and expenditure for 2016/17, assets and liabilities as at 31 March 2017.
- A glossary to the Statement of Accounts is also included to help to make, what is ultimately a very technical accounting document, more understandable to the reader.

## Changes to financial reporting requirements and accounting policies

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

The Code has been prepared on the basis of accounting standards and interpretations in effect for accounting periods commencing on or before 1 January 2016, and applies for accounting periods commencing on or after 1 April 2016.

The Code of Practice on Local Authority Accounting 2016/17 (the Code) highlights the following key updates/changes in accounting practice:

## Narrative Report

- Presentation of Financial Statements – reflect the new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement, and the introduction of the new Expenditure and Funding Analysis as a result of the Telling the Story review of the presentation of local authority financial statements.
- Accounting and Reporting by Pension Funds – updates to the format of the Fund Account and the Net Asset Statement to be consistent with the new Financial Reports of Pension Schemes.
- Narrative Reporting – reflects the requirements of the Accounts and Audit Regulations 2015 for English authorities in respect of the narrative statement.
- Statements Reporting Reviews of Internal Controls – reflects the changes to the Delivering Good Governance in Local Government: Framework (2016) published by CIPFA/Solace.
- Related Party Disclosures – includes an addition to the definition of a related party in relation to key management personnel.
- Dedicated Schools Grant (DSG) – includes the latest on the disclosure requirements for DSG and has been developed with the Department for Education (DfE).
- Other Accounting Themes –
  - guidance on the order of events for approval and publication of the statement of accounts for local authorities in England;
  - Landfill Allowance and Other Trading Schemes reflect the latest developments for the Carbon Reduction Commitment (CRC) Energy Efficiency;
  - Non Current Assets – is updated to provide further clarification on the recognition requirements for property, plant and equipment;
  - Employee Benefits – is updated to reflect the impact of the Telling the Story changes to the Code which no longer requires local authorities to follow the reporting requirements of the Service Reporting Code of Practice (SeRCOP) when charging individual components of the pension asset/ liability to service segments.
  - LAAP Bulletin 105 Closure of the 2016/17 Accounts and Related Matters

## Financial Report

### The 2016/17 Approved Budget

The Reconciling Policy, Performance and Resources (RPPR) process was developed to bring together business and financial planning processes to allow Members to set priorities and to direct resources towards meeting those priorities. In times of reducing financial resources there is a need for complete clarity about what the County Council's priorities are and relentless focus on maximising the impact it can make on their achievement, working as one Council across all departments and services.

The Cabinet agreed a series of proposed savings in 2016/17 of £22.4m as part of an overall budget gap for the MTFP period of £70m - £90m, and the One Council approach which had been taken to developing savings proposals using the following principles:

- Taking a collective view about our priorities and investment choices. Using strategic commissioning disciplines to direct our activities to maximise the delivery of the agreed priority outcomes of driving economic growth, keeping vulnerable people safe, helping people help themselves, and making the best use of resources. This approach enables us to be business-like and test comparative returns on investment so we can be confident we are making best use of resources. It also help ensure savings in one area do not give rise to unforeseen consequences in another area;
- Building on the existing plans that maximise efficiency, exploit technology, and make the best use of all our assets;
- Ensuring we choose the right partners, especially those who will deliver system change and best use of resources;
- Maximising East Sussex resources through strong partnership working, income generation, lobbying and exploring new ways of working;
- Removing management and support costs, wherever possible, to maximise the resources available to the front line;
- Recognising which areas offer more flexibility and the considerable areas where flexibility is limited in the short-term;
- Sustaining investment in activity that will most help manage demand;
- Mobilising and encouraging communities to help achieve their priority outcomes;
- Enabling staff, residents and communities to be creative and courageous, helping them to work through uncertainty; and
- Being open and transparent to provide clarity about priorities and consequences, specifying clearly what the County Council will do.

Applying these principles, officers have continued to try to devise a sustainable financial and performance plan for the Council which recognises the permanent reduction in the size of the public sector. As One Council, the following have been considered:

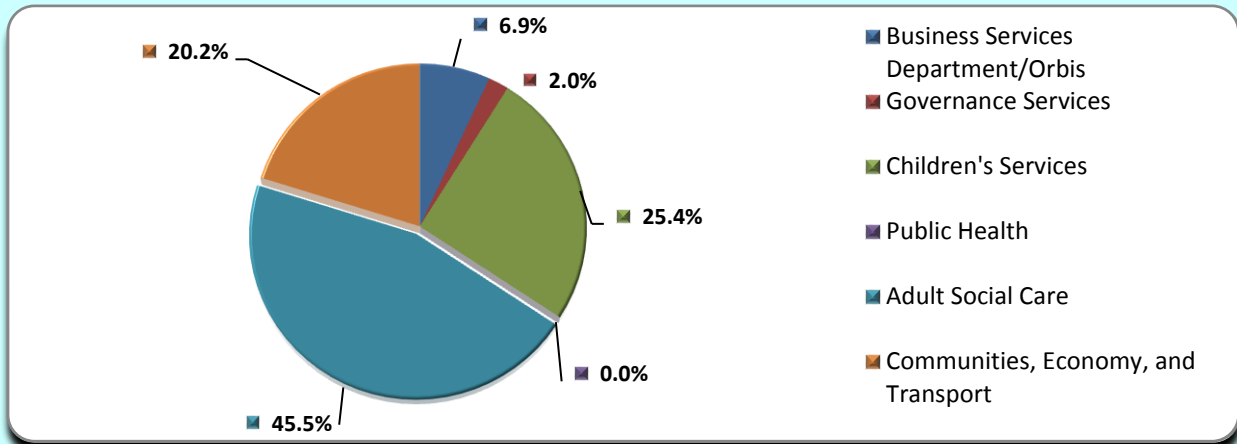
- Prevention and Demand Management – prioritised according to effectiveness;
- Ring-fenced Government grants;
- Democratic Core and Support Services;
- Demand Led Budgets to meet specified statutory minimum – including Community Care budget and Looked After Children;
- Long-term contracts – including Waste PFI, and Highways Contract; and
- The future shape of the Council.

The final revenue budget for 2016/17 was presented to Council in February 2016. Overall, the budget set for 2016/17 sought to protect our priority service areas, and identified savings from our efficiencies with marginal appropriations from balances.

# Narrative Report

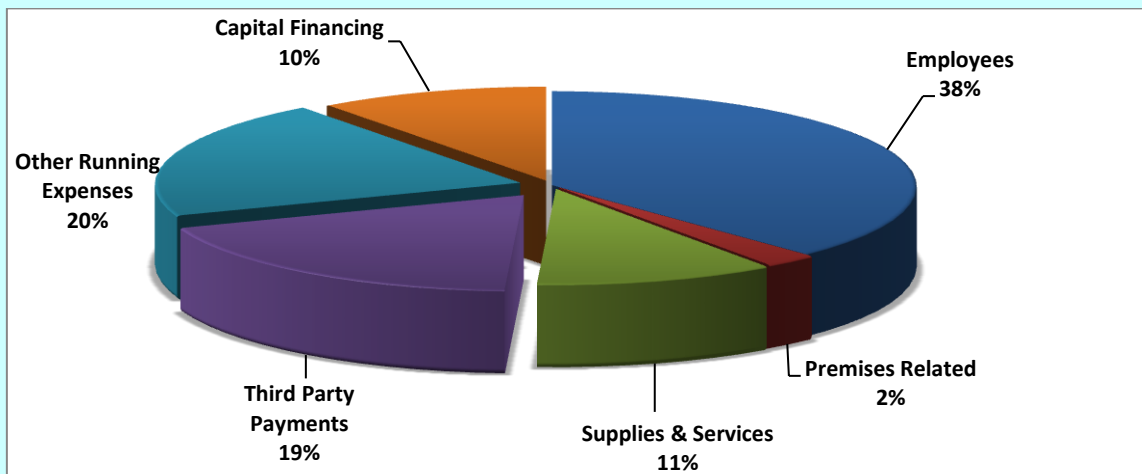
## So how much was spent on the revenue account

The Expenditure and Funding Analysis (CEFA) on page 17 show how the Council money is spent and where the money comes from. The Council expenditure is presented in the charts below.



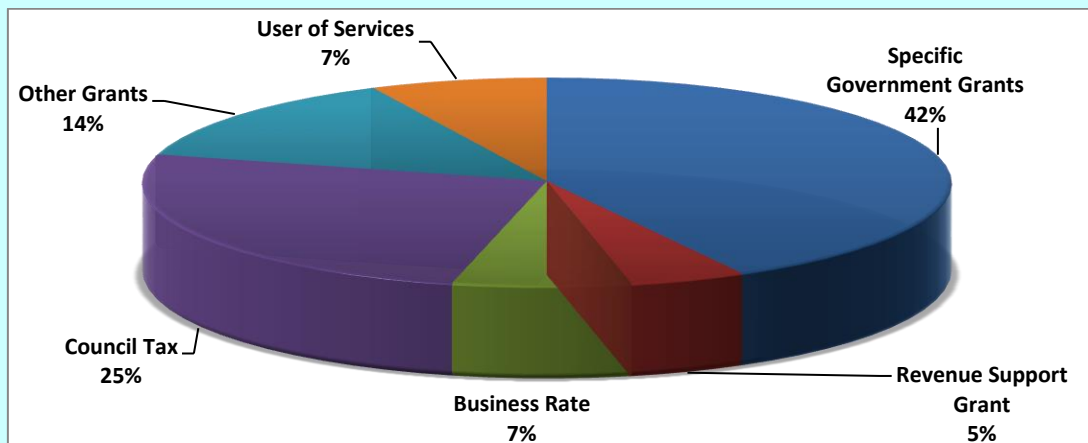
The chart below presents a full break down of how the money was spent:

## What the money was spent on



County Council services are staff intensive and employee costs account for 37.9% of the expenditure. Running expenses including costs of premises at 2.4% supplies and services at 10.6%, and third party payments account for 18.5% with other expenses at 20.4%. 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 10.3%.

## Where the money came from



The chart shows that 42% of our income came from Specific Government grants, RSG at 5%, 25% came from residents through the council tax, 14% from other grants, the Business Rates at 7%, and 7% of our income came from users of our services.

# Narrative Report

## Analysis of the Revenue Budget

The Council's careful monitoring of budgets during the year has ensured that service pressure areas have been identified early and action taken by directorates to manage potential variations within their cash limited budgets. The table below shows actual spending of £368.97m during 2016/17, based on the total cost of providing services including charges for support services, treasury management, and use of assets.

Throughout 2016/17, the Council has been mindful of the need for further reductions in future years and managed the budgets accordingly. During this period of austerity, sound financial management is essential to ensure long term success and stability.

The net service budget for the year was £307.35m (including Dedicated Schools Grant), with total actual expenditure of £310.64m, i.e. services overspend of £3.29m. There are no new material variations and as previously reported this will be managed within the unused general contingency and Treasury Management activities underspend.

The Council's general balance of £10.0m at the year end is in line with the target minimum level of 2.5% (actual 2.71%) of the net revenue budget set by the Council.

The analysis of revenue expenditure provided is for budgetary comparison purposes and does reconcile to the analysis contained in the Expenditure and Funding Analysis (EFA). The table below sets out the revenue budget for 2016/17 using the standard management reporting format and how these compare with outturn:

Departments	Current Estimate £m	Actual Outturn £m	Variation £m
Adult Social Care	163.53	166.47	(2.94)
Public Health	-	-	-
Governance Services	7.50	7.50	-
Children's Services Department	64.95	67.43	(2.48)
Business Services Department	19.03	17.34	1.69
Communities, Economy, and Transport	52.34	51.90	0.44
<b>Service Spend (incl. DSG Related)</b>	<b>307.35</b>	<b>310.64</b>	<b>(3.29)</b>
Corporate Budgets	17.87	22.68	(4.81)
Treasury Management	44.09	35.65	8.44
<b>Net Expenditure</b>	<b>369.31</b>	<b>368.97</b>	<b>0.34</b>
<b>Financed from:</b>			
	£m	£m	£m
Revenue Support Grant	45.11	45.11	-
Business Rate Top-up	26.99	26.66	(0.33)
Business Rate Retention	44.41	44.41	-
Council Tax	242.63	242.63	-
CT Adjustments for earlier years	4.59	4.58	(0.01)
Transition Grant	2.70	2.70	-
New Home Bonus Grant	2.88	2.88	-
	<b>369.31</b>	<b>368.97</b>	<b>(0.34)</b>
<b>Balances:</b>			
	£m	£m	
Opening	10.00	10.00	
Added / (withdrawn) during the year	-	-	
Closing	<b>10.00</b>	<b>10.00</b>	

## Earmarked Reserves

The financial statements also set out details of the Council's earmarked reserves, which are another essential tool to manage risk exposure and smooth the impact of major costs. 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.

## Narrative Report

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 reductions in government 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.

It is crucial to bear in mind that the reserves are the only source of financing available to fund 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 is now very limited

Details of the Council's earmarked reserves can be found on page 46, Note 9 to the Accounting Statements. Current earmarked reserves held at 31 March 2017 totalled £111.1m. Of this £12.8m relates to reserves to meet the estimated future costs of managing the Private Finance Initiative (PFI) waste facility, £24.8m relates to future funding for the capital programme from 2018/19, and £20.0m 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 reserve to manage litigation and other corporate risks not otherwise recognised.

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

### The Capital Programme

Capital expenditure represents money spent by the Council on purchasing, upgrading, and improving assets that will be of benefit to the community over many years. The approved capital budget at February 2016 for 2016-17 was £128.6m. This was further adjusted to reflect the variation at outturn (March 2016), re-profiling of budgets, and approved variations in line with financial regulations and governance (detail of which is shown at Table 1).

During the financial year the capital programme is regularly reviewed and where necessary projects are re-profiled as part of the ongoing RPPR process. The revised gross budget for the end of March 2017 was £93.3m of which £25.7m was supported by scheme specific resources giving a net budget provision of £67.6m.

#### Capital Programme gross movements during 2016-17:

	£m
<b>Budget as per February 2016</b>	<b>128.6</b>
Adjustments to reflect 2015/16 Outturn	17.9
Project re-profiling following reviews	(55.7)
Approved Variations	0.8
<b>Budget as per February 2017</b>	<b>91.6</b>
Post budget approved variations	1.7
<b>Revised Budget as per March 2017</b>	<b>93.3</b>

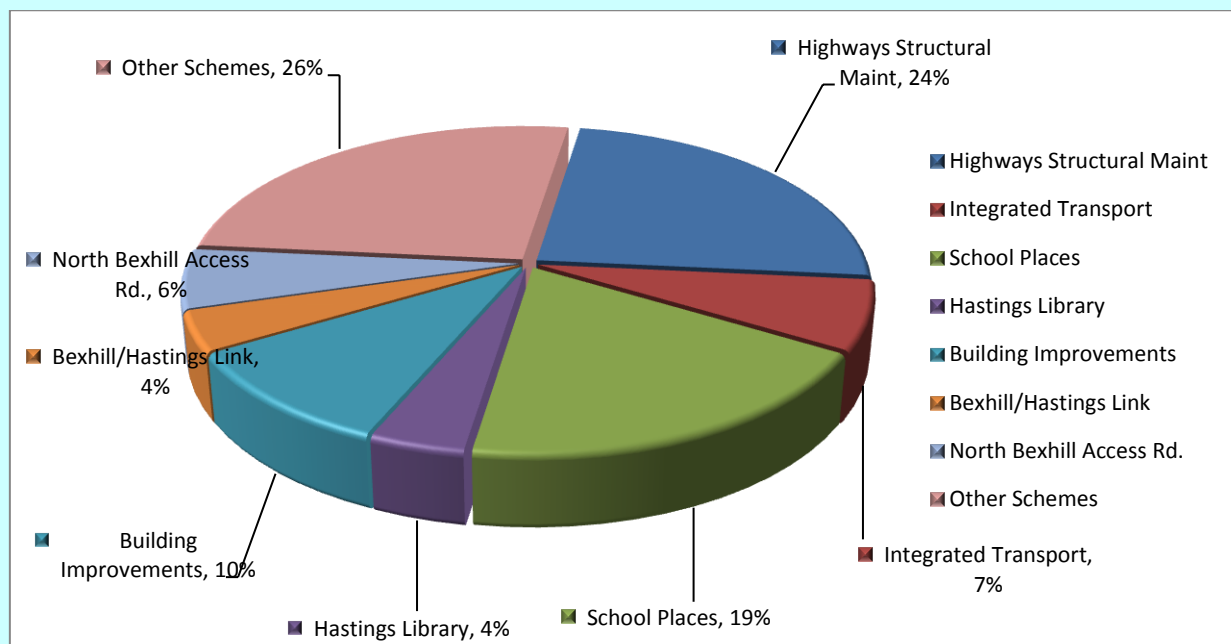
In 2016-17 the County Council spent £79.6m gross of which £23.0m was supported by scheme specific resources giving a net expenditure of £56.6m. The larger schemes that took place during the year included Schools Places, the structural maintenance of roads throughout the county, Hastings Library, the North Bexhill Access Road, and many other improvements to schools and roads.

Of the £13.7m variation to revised gross budget, £13.4m represents a number of scheme delays including; redesigning of a bridge structure on the North Bexhill Access Road, longer tender and revaluations on Building Improvements, longer consultation periods for the Agile programme, and delays in planning permission on Queensway Gateway Road. Offset by £0.5m, mainly transport schemes, being spent in advance. There was also a £0.8m underspend on a number of Schools Basic Need projects and temporary school accommodation, where the need for the contingency did not materialise.



## Narrative Report

The graph below shows a high level analysis of the 2016/17 capital expenditure.



As per the approved budget at February 2017, plus approved variations (excluding 2016-17 slippage), in 2017/18 the County Council plans to invest £102.5m in capital projects. The planned funding for this is:

	£m
Borrowing	28.5
Scheme Specific grants and contributions	31.3
Non specific grants	31.9
Capital Receipts	2.0
Revenue contributions	8.8
<b>Total resources</b>	<b>102.5</b>

### The Balance Sheet

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

At 31 March 2016	Description	At 31 March 2017
£m		£m
894,483	Non-current - including Property, Plant & Equipment	938,364
328,719	Current Assets including debtors, and short term investments	319,472
(133,154)	Current Liabilities including creditors and bank overdraft	(136,591)
(791,370)	Long Term Liabilities and provisions	(784,909)
<b>298,678</b>	<b>Net Assets</b>	<b>336,336</b>
<i>Represented by:</i>		
165,938	Usable Reserves	145,792
132,740	Unusable Reserves	190,544
<b>298,678</b>	<b>Total Reserves</b>	<b>336,336</b>

The main changes to the balance sheet in 2016/17 include the actuarial valuation of the Council's pension scheme liabilities and pension reserve on the Balance Sheet have reduced by £3.8m during the year, mainly as a result of changes to the financial assumptions used by the pension fund Actuary (Hymans-Robertson). Further details are given in Note 44. Usable reserves (see Note 25) have also reduced due to the use of the revenue grants/contributions reserves, and indexation was applied to property plant and equipment in 2016/17 as the amount calculated was materially different to the carrying value (Note 13).

## Financial Challenges in 2016/17

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

<https://democracy.eastsussex.gov.uk/ieListDocuments.aspx?CId=150&MId=2259&Ver=4>

In calculating the level of provisions, the Council exercises judgement; they are measured at the Council's best estimate of the costs required to settle the obligation at the Balance Sheet date. The level of the Council's provisions is set out in Note 24.

Communities, Economy & Transport in 2015/16 includes an expenditure of £37m relating to a revaluation loss at the Newhaven Energy Recovery Facility and a £12m charge for Broadband that has been treated as revenue funded from capital under statute; Adult Social Care includes expenditure and income of the Better Care Fund (see Note 32).

Academy Schools – seven schools have or are expected to convert to Academy status in 2017/18. The net book value of their property, plant and equipment will be written out of the Council's balance sheet at the date of conversion. The net book values at 31 March 2017 are estimated to be £33m.

## East Sussex Pension Fund

During the year to 31 March 2017, the overall net increase in the Fund is due to positive performance in equity and other markets, which was estimated to £571.1m.

In line with the accounting standard IAS19, the Council's net liability for future pension payments, as shown in the Balance Sheet, has decreased from £417.0m at the start of the year to £415.2m at 31 March 2017. Note 44 to the accounting statements provide detailed information.

Factors that affected the net liability for future pension payments this year are as follows:

- In assessing liabilities for retirement benefits at 31 March 2016, the actuary assumed a discount rate of 1.3% real (3.5% 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 2017, the actuary has advised that a rate of 0.2% real (2.6% nominal) is appropriate. The change in the real discount rate over the year has resulted in an increase in liabilities measured at today's prices of around £231.8m.
- Pensions payments are increased each April in line with pension increase orders. The actuary's assessment of the scheme liabilities as at 31 March 2017 allows for the 1% pension increase as at April 2017.
- Asset returns on the Fund in the year to 31 March 2017 were higher than expected for the Council. As noted above, the net increase in the Fund's assets due to investment performance was estimated to be £571.1m.

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 £563.2m, £358.7m and £650.7m in respect of employee members, deferred pensioners, and pensioners respectively as at 31 March 2017. There is also a liability of approximately £48.3m in respect of LGPS unfunded pensions and £50.9m in respect of Teachers' unfunded pensions. It is assumed that all unfunded pensions are payable for the remainder of the member's life.

## Treasury Management Borrowing Facilities and Investments

The strategy for 2016/17, agreed in February 2016 was set against a background of market uncertainty and a prudent approach was taken with all investments. The emphasis continues to be on security (protection of the capital sum invested) and liquidity (keeping money readily available for expenditure when needed). The strategy and limits are consistent with the capital programme and revenue budget. As will be clear from the global events, it is impossible in practical terms to eliminate all credit risk. This Council seeks to be as prudent as possible.

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

The average level of funds available for investment purposes during 2016/17 was £276m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The total amount received in short term interest for the twelve months to 31 March 2017 was £1.7m at an average rate of 0.62%.

At 31 March 2017, the majority of the Council's external debt was held as long term loans (£270.8m), and no cost effective opportunities have arisen in the twelve months to restructure the existing debt portfolio. In June 2016 the Council took advantage of attractive Public Work Loan Board (PWLB) borrowing rates and borrowed £5m, after officers had reviewed the need to borrow taking into consideration the potential increases in borrowing costs, the agreed trigger rate for borrowing, 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. The Accounts & Pensions team have set up a recording process for trigger rate monitoring and work to an agreed protocol for potential future borrowing activity to fund the current capital programme.

## **Narrative Report**

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

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

In order to utilise the flexibility, a change was made to the Minimum Revenue Provision (MRP) policy during 2016/17 to reprofile the provision and allow a base budget reduction in the amount set aside for the repayment of debt. The review of the Minimum Revenue Provision (MRP) Policy and the Treasury Management budgets resulted in a reduced charge to revenue in 2016/17 of £8.3m.

### **Accounting issues that affect Local Authority in 2016/17**

Summary of the accounting and legislative issues that affect local government accounting during the 2016/17 year include –

- The amendments to Financial Statements as a result of the Accounts and Audit Regulations 2015 and the Local Government (Accounts and Audit) Regulations.
- The IPSASB Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities;
- Amendment to Fair Value Measurement to remove the scope exclusion on the disclosures for retirement benefit plan investments measured at fair value in accordance with the Accounting and Reporting by Pension Funds.
- Amendment to the Narrative Report to reflect the new requirements in the Accounts and Audit Regulations 2015.
- Amendments to the Presentation of Financial Statements to reflect the new formats and reporting requirements for the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement and to introduce a new Expenditure and Funding Analysis as a result of the Telling the Story review of the presentation of local authority financial statements.
- An addition to the definition of a related party for the changes to IAS 24 Related Party Disclosures;
- Amendments to the Accounting and Reporting by Pension Funds.

### **The Council's Stewardship, Responsibilities and Financial Management Polices**

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

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

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

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

The Annual Governance Statement, which accompanies this Statement of Accounts, covers more than just financial matters and is set out in full on pages 14 - 15.

Our financial framework relies upon the quality of the financial systems of the Council. There is a commitment continually to improve systems to ensure that budget holders receive information in the form and at the time they require and that key financial processes are managed efficiently and economically.

### **The Audit Opinion**

The 2016/17 Audit Opinion and Certificate is available on pages 12 - 13.

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

## The Responsibilities of the Chief Finance Officer – Section 151 Officer

The Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the Chartered Institute of Public Finance and Accountancy/Local Authorities (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'), is required to provide a true and fair view of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2017.

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

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

The Chief Finance Officer has also:

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

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 2017.

**Ian Gutsell**

Chief Finance Officer (Section 151 Officer)  
18 July 2017

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

We have audited the financial statements of East Sussex County Council for the year ended 31 March 2017 on pages 16 to 124. 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 2016/17.

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. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, 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 members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Financial Officer and auditor**

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial 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, and for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's and Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Statement and the Pension Fund Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2017 and of the Authority's expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017 and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement set out on pages 14 to 15 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the Narrative Statement and the content of the Pension Fund Annual Report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported 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
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or
- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

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

### **Authority's responsibilities**

The Authority is responsible for putting in place proper arrangements to secure 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**

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2016, as to whether East Sussex County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether East Sussex County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, East Sussex County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, East Sussex County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

### **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

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

Chartered Accountants  
15 Canada Square  
London  
E14 4GL

xx July 2017

## 1. Scope of responsibility

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

## 2. Purpose of the governance framework

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

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

The Local Code of Corporate Governance and the system of internal control have been in place at East Sussex County Council for the year ended 31 March 2017 and up to the date of the approval of the statement of accounts.

## 3. Review of effectiveness

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

- the work of Members through the Cabinet, Committees including Governance Committee, Standards Committee, Audit Best Value and Community Services Scrutiny Committee, Scrutiny Committees generally and the full Council;
- the work of Chief Officers and managers within the Council, who have primary responsibility for the development and maintenance of the internal control environment;
- the work of the Chief Operating Officer and the Chief Finance Officer;
- the work of the Monitoring Officer and the Statutory Officers' Group ;
- the risk management arrangements, including the maintenance and regular review of strategic risks by Chief Officers and departmental risks by management teams;
- the work of the internal audit service including their quarterly progress reports, on-going action tracking arrangements and overall annual report and opinion;
- the external auditors in their audit annual letter and annual governance report;
- the judgements of a range of external inspection and other statutory bodies including the Local Government Ombudsman, the Care Quality Commission and the Office for Standards in Education

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

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

- a Council Plan that sets out our vision for the community and the outcomes we intend to achieve;
- an established medium term planning process including the process for reconciling policy priorities with financial resources, which takes account of performance and the need to improve both customer focus and efficiency;
- a business planning and performance management framework which includes setting clear objectives and targets, both financial and otherwise;
- regular reporting of performance against the Council's key objectives, as set out in the Council Plan, to officers and Members;
- established budgeting systems, clear budget management guidance and regular reporting of financial performance against budget forecasts to officers and Members;
- financial management structures which promote ownership of financial issues within service departments;
- compliance with the Chartered Institute of Public Finance and Accountancy's Statement on the Role of the Chief Finance Officer;
- the Council's constitution which sets out clear arrangements for decision making, scrutiny, communication and the delegation of powers to officers and Members;
- codes of conduct for Members and employees which set out clear expectations for standards of behaviour;
- a clear framework for financial governance based on Procurement Standing Orders, Financial Regulations and Standard Financial Procedures;
- a risk management framework, which takes account of both strategic and operational risks and ensures that they are appropriately managed and controlled;
- Member committees with clear responsibilities for governance, audit and standards;
- established arrangements for dealing with complaints and whistle-blowing, and combating fraud and corruption;
- schemes for identifying the development needs of Members and officers, supported by appropriate training;

- strategies for communication and consultation with the people of East Sussex and our key stakeholders;
- clear guidance that promotes good governance in our partnership working;
- a range of policies and processes designed to ensure best practice and legal compliance for personnel matters, ICT security, access to information, data protection and project management.

### 5. Assurance and Significant Governance Issues

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

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

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

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

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

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

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

**Cllr Keith Glazier**  
Leader and Chairman of the Governance Committee  
18 July 2017

**Becky Shaw**  
Chief Executive  
18 July 2017



## Expenditure and Funding Analysis

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

2015/16	As Reported for Resource Management	Adjustment to arrive at the net amount chargeable to County Fund	Net Expenditure Chargeable to the County Fund	Adjustments between the Funding and Accounting Basis  (Note 8)	Net Expenditure in the Comprehen sive Income and Expenditure Statement
	£000	£000	£000	£000	£000
Adult Social Care	174,380	(19,175)	155,205	8,205	163,410
Public Health	(8)	(1,097)	(1,105)	55	(1,050)
Governance Services	3,769	3,523	7,292	332	7,624
Children's Services	115,896	(44,176)	71,720	46,844	118,564
Business Services	(1,803)	23,054	21,251	5,612	26,863
Communities, Economy & Transport	129,560	(79,485)	50,075	73,736	123,811
<b>Total</b>	<b>421,794</b>	<b>(117,356)</b>	<b>304,438</b>	<b>134,784</b>	<b>439,222</b>
Corporate Expenditure	19,490	(12,461)	7,029	(4,968)	2,062
<b>Net Cost of Services</b>	<b>441,284</b>	<b>(129,817)</b>	<b>311,467</b>	<b>129,816</b>	<b>441,284</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>					
Other Corporate Expenditure	(71,415)	153,089	81,674	(23,305)	58,368
Financing	(369,869)	-	(369,869)	(54,188)	(424,057)
<b>Total</b>	<b>(441,284)</b>	<b>153,089</b>	<b>(288,195)</b>	<b>(77,493)</b>	<b>(365,689)</b>
<b>Deficit for the Year</b>	<b>-</b>	<b>23,272</b>	<b>23,272</b>	<b>52,323</b>	<b>75,595</b>
<b>County Fund Balance at 1 April 2015</b>			<b>(8,898)</b>		
Less: Deficit for the Year			23,272		
Add: Transfer from Reserves			(24,373)		
<b>County Fund Balance at 31 March 2016</b>			<b>(9,999)</b>		

## Expenditure and Funding Analysis

2016/17	As Reported for Resource Management	Adjustment to arrive at the net amount chargeable to County Fund	Net Expenditure Chargeable to the County Fund	Adjustments between the Funding and Accounting Basis  (Note 8)	Net Expenditure in the Comprehen sive Income and Expenditure Statement
	£000	£000	£000	£000	£000
Adult Social Care	166,471	9,832	176,303	3,289	179,592
Public Health	-	2,695	2,695	30	2,725
Governance Services	7,499	279	7,778	107	7,885
Children's Services	67,435	6,287	73,722	28,936	102,658
Business Services	17,336	1,487	18,823	8,728	27,551
Communities, Economy & Transport	51,901	(1,597)	50,304	25,978	76,282
<b>Total</b>	<b>310,642</b>	<b>18,983</b>	<b>329,625</b>	<b>67,068</b>	<b>396,393</b>
Corporate Expenditure	6,818	-	6,818	(4,097)	2,721
<b>Net Cost of Services</b>	<b>317,460</b>	<b>18,983</b>	<b>336,443</b>	<b>62,971</b>	<b>399,414</b>
<b>Other Income and Expenditure from the Expenditure and Funding Analysis</b>					
Other Corporate Expenditure	51,513	(5,084)	46,429	193	46,622
Financing	(368,973)	-	(368,973)	(54,575)	(423,548)
<b>Total</b>	<b>(317,460)</b>	<b>(5,084)</b>	<b>(322,544)</b>	<b>(54,382)</b>	<b>(376,926)</b>
<b>Deficit for the Year</b>	<b>-</b>	<b>13,899</b>	<b>13,899</b>	<b>8,589</b>	<b>22,488</b>

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

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

## 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 currently be used to fund expenditure or reduce local taxation) and other 'unusable' reserves. It shows how the movements in year of the reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory County Fund balance and Schools balance movements in the year following those adjustments.

2015/16	County Fund Balance	Schools Balance	Capital Receipts Reserve	Capital Grants Unapplied	Earmarked Reserves	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	<i>Restated</i> £000	£000	£000	£000
<b>Balance at 31 March 2015 - Notes 25 and 26</b>	<b>8,898</b>	<b>15,547</b>	<b>6,081</b>	<b>41,337</b>	<b>144,344</b>	<b>216,207</b>	<b>(42,164)</b>	<b>174,043</b>
<b>Movement in Reserves during 2015/16</b>								
Total Comprehensive Income and Expenditure	(75,595)	-	-	-	-	(75,595)	200,230	124,635
Adjustments between accounting basis & funding basis under regulations - Note 8	52,323	-	(3,649)	(23,348)	-	25,326	(25,326)	-
<b>Net Increase / (Decrease) before Transfers to Earmarked Reserves</b>	<b>(23,272)</b>	<b>-</b>	<b>(3,649)</b>	<b>(23,348)</b>	<b>-</b>	<b>(50,269)</b>	<b>174,904</b>	<b>124,635</b>
Transfers to / (from) Earmarked Reserves - Note 9	24,373	(617)	-	-	(23,756)	-	-	-
<b>Increase / (Decrease) in Year</b>	<b>1,101</b>	<b>(617)</b>	<b>(3,649)</b>	<b>(23,348)</b>	<b>(23,756)</b>	<b>(50,269)</b>	<b>174,904</b>	<b>124,635</b>
<b>Balance at 31 March 2016 - Notes 25 and 26</b>	<b>9,999</b>	<b>14,930</b>	<b>2,432</b>	<b>17,989</b>	<b>120,588</b>	<b>165,938</b>	<b>132,740</b>	<b>298,678</b>

## Movement in Reserves Statement

2016/17	County Fund Balance	Schools Balance	Capital Receipts Reserve	Capital Grants Unapplied	Earmarked Reserves	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2016 - Notes 25 and 26</b>	9,999	14,930	2,432	17,989	120,588	165,938	132,740	298,678
<b>Movement in Reserves during 2016/17</b>								
Total Comprehensive Income and Expenditure	(22,488)	-	-	-	-	(22,488)	60,146	37,658
Adjustments between accounting basis & funding basis under regulations - Note 8	8,589	-	(2,382)	(3,865)	-	2,342	(2,342)	-
<b>Net Increase / (Decrease) before Transfers to Earmarked Reserves</b>	<b>(13,899)</b>	<b>-</b>	<b>(2,382)</b>	<b>(3,865)</b>	<b>-</b>	<b>(20,146)</b>	<b>57,804</b>	<b>37,658</b>
Transfers to / (from) Earmarked Reserves - Note 9	13,899	(4,474)	-	-	(9,425)	-	-	-
<b>Increase / (Decrease) in Year</b>	<b>-</b>	<b>(4,474)</b>	<b>(2,382)</b>	<b>(3,865)</b>	<b>(9,425)</b>	<b>(20,146)</b>	<b>57,804</b>	<b>37,658</b>
<b>Balance at 31 March 2017 - Notes 25 and 26</b>	<b>9,999</b>	<b>10,456</b>	<b>50</b>	<b>14,124</b>	<b>111,163</b>	<b>145,792</b>	<b>190,544</b>	<b>336,336</b>

## 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.

2015/16				2016/17		
Gross Expenditure <i>Restated</i> £000	Gross Income <i>Restated</i> £000	Net Expenditure <i>Restated</i> £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
240,797	(77,387)	163,410	Adult Social Care	249,612	(70,020)	179,592
25,292	(26,342)	(1,050)	Public Health	32,636	(29,911)	2,725
9,696	(2,072)	7,624	Governance Services	8,474	(589)	7,885
681,787	(563,223)	118,564	Children's Services	640,888	(538,230)	102,658
60,235	(33,372)	26,863	Business Services	61,372	(33,821)	27,551
172,597	(48,786)	123,811	Communities, Economy & Transport	125,338	(49,056)	76,282
2,259	(197)	2,062	Corporate Expenditure	2,857	(136)	2,721
<b>1,192,663</b>	<b>(751,379)</b>	<b>441,284</b>	<b>Cost of Services</b>	<b>1,121,177</b>	<b>(721,763)</b>	<b>399,414</b>
23,813	-	23,813	Other operating expenditure - Note 10	13,259	-	13,259
39,226	(4,671)	34,555	Financing and investment income and expenditure - Note 11	36,243	(2,880)	33,363
-	(424,057)	(424,057)	Taxation and non-specific grant income - Note 12	-	(423,548)	(423,548)
		<b>75,595</b>	<b>Deficit on Provision of Services</b>			<b>22,488</b>
		(52,704)	Surplus on revaluation of non-current assets - Note 26			(43,871)
		(147,526)	Actuarial gains on pension assets or liabilities - Note 44			(16,275)
		<b>(200,230)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(60,146)</b>
		<b>(124,635)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(37,658)</b>

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the authority (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves represents those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2016		31 March 2017	
£000		Note	£000
879,157	Property, Plant & Equipment	13	924,611
652	Heritage Assets	16	657
1,744	Investment Property	14	1,159
10,102	Intangible Assets	15	8,708
1	Long Term Investments	19	1
2,827	Long Term Debtors	21	3,228
<b>894,483</b>	<b>Long Term Assets</b>		<b>938,364</b>
256,545	Short Term Investments	19	242,137
523	Assets Held for Sale	20	3,133
5,028	Payments in Advance	21	6,321
39	Inventories		49
43,628	Short Term Debtors	21	43,497
22,956	Cash and Cash Equivalents	22	24,335
<b>328,719</b>	<b>Current Assets</b>		<b>319,472</b>
(15,424)	Income in Advance	23	(16,289)
(6,099)	Short Term Borrowing	19	(6,063)
(25,251)	Bank overdraft and Accrued balance for third parties	22	(28,511)
(3,214)	Provisions	24	(1,783)
(83,166)	Short Term Creditors	23	(83,945)
<b>(133,154)</b>	<b>Current Liabilities</b>		<b>(136,591)</b>
(416,950)	Liabilities related to defined benefit pension schemes	44	(415,151)
(13,910)	Provisions	24	(13,557)
(270,422)	Long Term Borrowing	19	(270,809)
(6,173)	Capital Grants & Contributions Receipts in Advance	37	(5,198)
(83,915)	Other Long Term Liabilities	42	(80,194)
<b>(791,370)</b>	<b>Long Term Liabilities</b>		<b>(784,909)</b>
<b>298,678</b>	<b>Net Assets</b>		<b>336,336</b>
165,938	Usable Reserves	25	145,792
132,740	Unusable Reserves	26	190,544
<b>298,678</b>	<b>Total Reserves</b>		<b>336,336</b>

I certify that this Statement of Accounts provides a true and fair view of the financial position of the Council as at 31 March 2017 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 18 July 2017

## 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.

2015/16		2016/17
£000		£000
75,595	Net deficit on the provision of services	22,488
(137,175)	Adjustments to net deficit on the provision of services for non-cash movements	(75,768)
27,882	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	40,987
(33,698)	Net cash inflow from Operating Activities - Note 27	(12,293)
32,597	Investing Activities - Note 28	10,635
(13,329)	Financing Activities - Note 29	3,539
<b>(14,430)</b>	<b>Net (increase) / decrease in net cash and cash equivalents - Note 22</b>	<b>1,881</b>
16,725	Net cash and cash equivalents at the beginning of the reporting period - Note 22	2,295
<b>2,295</b>	<b>Net cash and cash equivalents at the end of the reporting period- Note 22</b>	<b>4,176</b>

The Net Cash and cash equivalents figures above include 'Cash and cash equivalents' and 'Bank overdraft and Accrued balance for third parties'. The overall balance at 31 March 2017 is a net cash overdrawn position of £4.176m.

# Notes to the Accounting Statements

## 1. Authorisation of the Statement of Accounts

Authorisation of Statement of Accounts - These accounts were authorised for issue by Ian Gutsell, Chief Finance Officer (Section 151 Officer), and the Statement of Accounts (approved on 18 July 2017) is published with an audit opinion.

## 2. Accounting Policies

### i. General

The Chartered Institute of Public Finance and Accountancy (CIPFA) provide legally binding guidance on Local Authority Accounting. The Statement of Accounts, which includes the accounting statements for East Sussex Pension Fund, summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted for the Council's Accounting Statements is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

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

### ii. Accruals of Income and Expenditure

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

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

### iii. Revenue Recognition

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

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

### iv. Debtors and Creditors

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

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

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

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



# 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, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Termination Benefits

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

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

### Post Employment Benefits

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

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

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

## Teachers' Pensions

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

## Local Government Pensions Scheme

Most other employees can join the Local Government Pension Scheme. The Council administers the pension fund for all local authorities within the geographical area of East Sussex.

The Local Government Scheme is accounted for as a defined benefits scheme:

The liabilities of the pension scheme attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of earnings for current employees.

## Notes to the Accounting Statements

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

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

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

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

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

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

### x. Events After the Balance Sheet Date

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

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

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

### xi. Financial Instruments

#### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The

## Notes to the Accounting Statements

effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

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

- *Modification* - Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.
- *Substantially Different* - Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the County Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the County Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.
- *Early repayment of loans* - The accounting treatment for premiums and discounts arising on the early repayment of loans is largely dictated by the general principle that financial instruments are derecognised when the contracts that establish them come to an end. The amounts payable or receivable are cleared to the Comprehensive Income and Expenditure Statement upon extinguishment. In line with regulations and statutory guidance, the impact of premiums is spread over future financial years. These provisions are effected in the Movement in Reserves Statement on the County Fund Balance, after debits and credits have been made to the Comprehensive Income and Expenditure Statement. The adjustments made in the Movement in Reserves Statement are managed via the Financial Instruments Adjustment Account.

### Financial Assets

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

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

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

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

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

## Notes to the Accounting Statements

### Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following techniques:

- instruments with quoted market prices – the market price
- other instruments with fixed and determinable payments – discounted cash flow analysis
- equity shares with no quoted market prices – independent appraisal of company valuations.

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

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

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

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

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

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

### xii. Foreign Currency Transaction

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

### xiii. Government Grants and Contributions

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

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

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

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

## Notes to the Accounting Statements

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

### 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 cost.

### xvi. Inventories

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

### xvii. Investment Property

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

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

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

# Notes to the Accounting Statements

## xviii. Jointly Controlled Operations and Jointly Controlled Assets

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

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

## xix. Leases

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

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

### The Council as Lessee

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

Lease payments are apportioned between:

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

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

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

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

### The Council as Lessor

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

Lease rentals receivable are apportioned between:

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

## Notes to the Accounting Statements

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

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

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

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

### xx. Overheads and Support Services

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

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

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

#### Recognition

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

Recorded as capital expenditure are all transactions that involve the purchase of new Property, Plant and Equipment or expenditure that adds to their value. The purchase of furniture and equipment is treated as capital if it is associated with capital building works. Otherwise individual items of vehicles and equipment are treated as capital if the value is over £20,000. If the value is less than this sum we charge it to revenue. The only exception being in respect of spending by schools from Devolved Formula capital grants which in accordance with the Department for Education Conditions of Grant is all treated as capital expenditure in the accounts with no lower limit.

#### Measurement

Assets are initially measured at cost, comprising:

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

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

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

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



## Notes to the Accounting Statements

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

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

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

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

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

### Impairment

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

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

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

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

### Componentisation Policy

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

- Each part of an item of Property Plant and Equipment (PP&E) with a cost that is significant in relation to the total cost of the items is depreciated separately. Where there is more than one significant part of the same asset, which has the same useful life and depreciation method, such parts are grouped in determining the depreciation charge;
- Where a component is replaced or restored, the carrying amount of the old component is derecognised to avoid double counting and the new component reflected in the carrying amount, subject to the recognition principles of capitalising expenditure with a de minimus level of £20,000;
- All components that have a different useful economic life from the main asset are identified separately – provided the amount is above the £20,000 de minimus level, and then only if the component has a different useful life for depreciation purposes so as to result in depreciation charges that differ materially from the depreciation charges had the asset not been componentised;
- De-recognition of a component of PP&E takes place when no future economic benefits are expected from its use (i.e. its service potential is used up) and it is removed from the Balance Sheet;

## Notes to the Accounting Statements

- For example, if a new roof is significant in relation to the total value of the asset, part of the existing carrying value of the building would be derecognised and then the new roof recognised. It would then be depreciated (in the following year) over the useful economic life.
- For revalued assets (as part of the rolling programme), the individual valuation sheets produced by the external valuers would be compared to the beacon analysis. If a particular asset conforms to the components identified in the beacon, and it is significant in relation to the total value, those percentages will be applied to the carrying value. If it does not conform to the beacon, revised percentages will be obtained;
- As each asset is valued as part of the rolling programme, then this componentisation policy will eventually be applied to all assets. However if there is any enhancement expenditure in the meantime then a material component could be recognised via this route;
- On componentisation, any Revaluation Reserve balances will remain with the structure of the building. Any future revaluation gains and losses will be applied across components as appropriate.

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets and 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 assets with the exception of land and assets under construction.

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

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

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

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

### Disposals and Non-current Assets Held for Sale

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

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

## Notes to the Accounting Statements

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The written-off value of disposals is not a charge against Council tax, as the cost of non current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement. **F**

### Accounting for Schools

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

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

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

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

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

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

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

### xxii. Private Finance Initiative and Similar Contracts

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

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

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

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

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;

## Notes to the Accounting Statements

- finance cost – an interest charge (based on Internal Rate of Return of 9.85% for Peacehaven Schools and 5.97% for the Joint Integrated Waste Management Service PFI Contract) on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator, the profile of write-downs is calculated using the same principles as for a finance lease;
- lifecycle replacement costs – a proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out for the Joint Integrated Waste Management Service PFI Contract. This expenditure is recognised as revenue expenditure for Peacehaven Schools, where there are non-significant lifecycle replacements costs charged to prepayment.

### xxiii. Provisions, Contingent Liabilities and Contingent Assets

#### Provisions

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

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

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

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

#### Landfill Allowance Schemes

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

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

#### Closed Landfill Sites

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

#### Contingent Liabilities

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

## Notes to the Accounting Statements

### Contingent Assets

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

### xxiv. Reserves

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

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

### xxv. Revenue Expenditure Funded from Capital under Statute

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

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

### xxvi. Value Added Tax (VAT)

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

### xxvii. Interest Charges

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

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

### xxviii. Redemption of Debt

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

### xxix. Pension Fund

Foreign income is translated into sterling at the exchange rate at the time of the transaction.

The expenditure of the Fund includes all valid benefit claims arising during the financial year.

## Notes to the Accounting Statements

### xxx. Carbon Reduction Commitment (CRC)

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

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

### xxxii. Capital Expenditure on Assets Owned by Others

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

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

### xxxiii. Council Tax and Business Rates

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

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

### Heritage Assets

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

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

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

#### Art Collection

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

#### Equipment and other Artefacts

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

## Notes to the Accounting Statements

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

### Archaeology

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

### Heritage Assets – General

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

### xxxiv. Fair Value Measurement

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

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

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

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

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

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

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

The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) will introduce several changes in accounting policies which will be required from 1 April 2017. 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.

The following changes are not considered to have a significant impact on the Statement of Accounts -

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets (Clarification of Acceptable going concern basis reporting requirements;

## Notes to the Accounting Statements

- Changes to the narrative reporting;
- Accounting Policies – Telling the Story of Local Authority Financial Statements;
- Accounting and Reporting by Pension Funds – Investment Transaction Costs;
- Faster closure of accounts timetable;
- The Cities and Local Government Devolution Act 2016 to support delivery of the government’s policy to “devolve powers and budgets to boost local growth in England”, in particular to devolve powers over economic development, transport and social care to large cities.

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 2017 and there is therefore no impact on the 2016/17 Statement of Accounts.

### 4. Critical Judgements in applying Accounting Policies

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

- The Council anticipates that the pressures on public expenditure will continue to be severe. These pressures will be mitigated by further service area and corporate savings, and a limited use of reserves. An assessment of the ongoing pressures and means of mitigation has been made by way of the Council’s Medium Term Financial Planning process which has assessed the period to 31 March 2021. As a consequence, the Council is of the view that the level of uncertainty is not significant enough in terms of its anticipated impact to warrant an impairment of assets due to reduced levels of service provision, or a need to close facilities.
- The Council has developed certain criteria based on IAS 16 and IAS 40 in making judgements about whether a property qualifies as an investment property. Investment property is a property held to earn rentals or for capital appreciation or both. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for administrative purposes (i.e. Sackville House Lewes). If these portions could be sold separately (or leased out separately under a finance lease), the Council would account for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.
- Recognition of Government Grants and Contributions - Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments and the grants or contributions will be received. Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement. The Council has made a judgement that a grant or contribution will be classed as conditional if the terms include a repayment clause that require that the grant monies will be repaid if not used.
- Leases - The Council has examined its leases, and classified them as either operational or finance leases. In some cases the lease transaction is not always conclusive and the Council uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards incidental to ownership. In reassessing the lease the Council has estimated the implied interest rate within the lease to calculate interest and principal payments.
- The Council in its capacity as the Pension Fund Administering Authority has in place arrangements requiring the Council to make specified payments to reimburse the Pension Fund for a loss it would incur if the ‘Admission Body’ fails to make payments due under the admission into Pension Fund Scheme Agreement (Financial guarantee contracts). Three Admission Bodies have agreed to deposit a sum of money (£61,000 including interest received) with the Council ‘Administering Authority’ in order to meet a level of risk exposure arising by virtue of any premature termination, or cessation, of the Admission Agreement which has been actuarially assessed to the satisfaction of the Council ‘Administering Authority’, the Scheme Employer and the Admission Body. This agreement is in place for policy reasons, and for ensuring the Council continues to provide pension fund administration.
- The Council operates partnership working arrangements with neighbouring local authorities - the Surrey County Council and Brighton and Hove City Council under the umbrella of Orbis. The Council believes that it is not necessary to impair any non-current assets in light of these partnership working arrangements and any current proposals for changes to the way the services are to be delivered by the Council.



## Notes to the Accounting Statements

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

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

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

There are currently 6 types of schools within the County:

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

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

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

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

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

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

The table below illustrates the number and type of schools within the County split by Primary, Secondary and Special schools:

Type of School	Primary	Secondary	Special	Total
Community	53	9	-	62
Special	-	-	2	2
Voluntary Controlled	46	-	-	46
Voluntary Aided	26	2	-	28
Foundation / Trust	-	1	-	1
Academy	8	35	6	49
<b>Total</b>	<b>133</b>	<b>47</b>	<b>8</b>	<b>188</b>

- As at 31 March 2017, the Council accounts with three Money Market Funds plus a NatWest SIBA account were held for cash flow requirement reasons and are included in the cash and cash equivalents. The accounts held for cash flow purposes will continue to change dependent on the relevant movement in money market conditions and the Council's Treasury Management Strategy, i.e. relative yield, security and liquidity or changes in any relevant statutory guidance or code of practice. The Council's policy on the classification of cash and cash equivalent, and investments, is set out in the accounting policy note iv.

## Notes to the Accounting Statements

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

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

The accounting statements contain estimates and assumptions about the future or events that are otherwise uncertain, which affect the application of policies and reported amounts of assets and liabilities, income and expenses. Estimates are made taking into account historical experience, current trends, and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. This means that the Council is required to make estimates and assumptions. Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the period if the change affects only that period, or in future periods if it also affects future periods.

The items in the Council's Balance Sheet at 31 March 2017 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 2016/17 is £43.4m and the net book value of property, plant and equipment at 31 March 2017 is £924.6m.</p> <p>If the useful life of assets reduces, depreciation increases and the carrying amount of each asset falls. It is estimated that the annual depreciation charge for non-current assets would increase by £4.5m for every one year that useful lives had to be reduced.</p> <p>Indexation was applied in 2016/17 as the amount calculated was materially different to the carrying value. The net revaluation gain of the assets indexed was £23.6m.</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 in to account such factors as the current economic climate. The level of impairment charged in 2016/17 to the Surplus on Provision of Services is £14.2m and £5.0m to the Revaluation Reserve.</p>

## Notes to the Accounting Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Allowance for doubtful debts</b>	The Council makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable. Where the expectation is different from the original estimate, such difference will affect the carrying value of receivables.	An estimate of the likely uncollectability of outstanding debtors is made each year and a charge made to the Comprehensive Income and Expenditure Statement. Debtors are then carried on the Balance Sheet net of this allowance. An increase in the provision for bad debt adjustment of £0.198m was made in 2016/17, bringing the total allowance for impairment to £1.411m at 31 March 2017.
<b>Pension Liability</b>	<p>The Council recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.</p> <p>When estimating the present value of defined pension benefit obligations that represent a gross long-term liability in the Balance Sheet, and, indirectly, the period's net pension expense in the Comprehensive Income and Expenditure Statement, the actuary makes a number of critical assumptions affecting these estimates. Most notably, assumptions include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries, life expectancy, and the annual rate of compensation increase, which have a direct and potentially material impact on the amounts presented. Significant changes in these assumptions between periods can have a material effect on the financial statements. However, the assumptions interact in complex ways.</p>	<p>The value of the Pensions 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 2016/17, the Council's actuary advised that the net pension's liability has decreased from £417.0m at the start of the year to £415.2m at 31 March 2017. Note 44 to the Accounting Statements provide detailed information.</p>
<b>Provisions and Reserves</b>	<p>The recognition of provisions involves assumptions about the probability, amount, and timing of an outflow of resources embodying economic benefits. To the extent that an outflow of resources embodying economic benefits is probable and a reliable estimate can be made, a provision is recognised. The Council is required to exercise judgement in assessing whether a potential liability should be accounted for as a provision or contingent liability.</p> <p>Insurance Provision &amp; Reserve - This estimate of the potential liability is provided through an independent review undertaken according to standard actuarial techniques, (JLT Public Sector Risks) based on outstanding claims already submitted (provision) and an estimate of potential claims that have yet to be made (reserve). An increase over the forthcoming year in either the total number of claims or the estimated average settlement would each have an effect on the provision needed.</p>	In calculating the level of provisions the Council also exercises judgement; they are measured at the Council's best estimate of the costs required to settle the obligation at the Balance Sheet date. The level of the Council's provisions is set out in Note 24.
<b>Contingent liabilities</b>	The Council has had to make an informed estimate of the likely liability the Council could face if certain events happened in the future. These estimates have been made by an appropriate officer or qualified specialist where appropriate.	Details of the Council's contingent liabilities are set out in Note 45.
<b>Decommissioning landfill sites</b>	<p>The Council has 19 closed landfill sites that require restoration and aftercare. An accounting model has been developed to determine the required provision for these future costs taking into consideration the annual costs relating to leachate removal and water quality monitoring.</p> <p>The Council has a legal obligation to restore, monitor and maintain landfill sites.</p>	The Code requires that the costs have to be balanced by a provision, which meets the requirements of IAS 37. The Council has a set aside £9.7m provision (see Note 24), which it believes is appropriate based on local circumstances, including risks and major environmental initiatives being undertaken.

## Notes to the Accounting Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Business Rates</b>	<p>Since the introduction of the Business Rates Retention Scheme effective from 1st April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in 2016-17 and earlier financial years in their proportionate share.</p> <p>Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2017. The estimate has been calculated using the data provided by the five district authorities across East Sussex, using the analysis of successful appeals to date when providing the estimate of total provision up to and including 31 March 2017.</p>	<p>Business Rates appeals are charged and provided for in proportion of the precepting shares. The total provision charged to the collection fund for 2016/17 has been calculated at £0.817m.</p>
<b>Fair Value estimations</b>	<p>When the fair values of Investment Properties, Surplus Assets and Assets Held for Sale cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using the following valuation techniques:</p> <ul style="list-style-type: none"> <li>• For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date;</li> <li>• For level 3 inputs, valuations based on most recent valuations adjusted to current valuation by the use of indexation and impairment review.</li> </ul> <p>Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgment is required in establishing fair values. These judgments typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the Council's assets and liabilities.</p> <p>Where Level 1 inputs are not available, the authority employs RICS qualified valuers (Montagu Evans) to identify the most appropriate valuation techniques to determine fair value. All valuations are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with property services, and the accounts and pensions team on a regular basis regarding all valuation matters.</p>	<p>The Council uses External valuer valuations models to measure the fair value of its Investment Properties, Surplus Assets and Assets Held for Sale under IFRS13 depending on which technique it considers most appropriate.</p> <p>The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, occupancy levels, floor area repairs backlogs, beacon classifications and others.</p> <p>Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for these assets</p> <p>Information about the valuation techniques and inputs used in determining the fair value of these assets is set out in Notes 1, 13, 14, 19 and 20.</p>

### 6. Material items of income and expenses

The Council has disposed of the following property, plant and equipment from its Balance Sheet as five schools obtained academy status during 2016/17. This is included within losses on disposals of non-current assets of £13.38m (see Note 10). The assets were transferred for no consideration and the amounts are recognised as losses on disposal.

School	Type	Type of School	£000
The South Downs, Eastbourne	Academy	Special	2,425
The Lindfield, Eastbourne	Academy	Special	1,877
St Paul's, St Leonards (VC)	Academy	Primary	3,265
Hawkes Farm, Hailsham	Academy	Primary	2,918
Meeching Valley, Newhaven	Academy	Primary	1,338
Jarvis Brook, Jarvis Brook	Academy	Primary	1,505
<b>Total</b>			<b>13,328</b>

# Notes to the Accounting Statements

## Comprehensive Income and Expenditure Statement

- Communities, Economy & Transport in 2015/16 includes an expenditure of £37m relating to a revaluation loss at the Newhaven Energy Recovery Facility and a £12m charge for Broadband that has been treated as revenue funded from capital under statue (refcus);
- Adult Social Care includes expenditure and income of the Better Care Fund (see Note 32);
- Planning services (including economic and community development) includes expenditure to improve internet connectivity for homes and business in East Sussex.

## 7. Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 18 July 2017. 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 2017, the figures in the accounting statements have been adjusted in all material respects to reflect the impact of this information. The financial statements have not been adjusted for the following events that took place after 31 March 2017 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 – seven schools have or are expected to convert to Academy status in 2017/18. The net book value of their property, plant and equipment will be written out of the Council's balance sheet at the date of conversion. The net book values at 31 March 2017 are shown in the table below.

School	Type of School	Date of Conversion	£000
Ocklynge, Eastbourne	Junior	Aug 2017	4,622
Parkland Infants, Eastbourne	Primary	Sept 2017	1,817
Parkland Juniors, Eastbourne	Primary	Sept 2017	1,787
Shinewater, Eastbourne	Primary	Sept 2017	3,210
Castledown, Hastings	Primary	Sept 2017	4,211
Peacehaven, Peacehaven	Secondary	Sept 2017	17,645
<b>Total</b>			<b>33,292</b>

Christchurch Primary, Hastings is also expected to transfer academy status in May 2017 but as it a voluntary aided school it has previously been taken off of the Council's Balance Sheet.

## 8. Adjustments between accounting basis and funding basis under regulations

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

### County Fund Balance

The County Fund is the statutory fund into which all the receipts of the Council are required to 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 County Fund Balance, which is not necessarily in accordance with proper accounting practice. The County Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

### Capital Receipts Reserve

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

### Capital Grants Unapplied

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

## Notes to the Accounting Statements

2016/17	Usable Reserves		
	County Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
<b>Adjustments to the Revenue Resources</b>			
<b>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</b>			
Pensions Costs transferred to / (from) the Pensions Reserve	14,476	-	-
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	(226)	-	-
Holiday pay (transferred to the Accumulated Absences Reserve)	(347)	-	-
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):	23,038	-	(3,865)
<b>Total Adjustments to Revenue Resources</b>	<b>36,941</b>	<b>-</b>	<b>(3,865)</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(638)	638	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(11,041)	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(16,673)	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(28,352)</b>	<b>638</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	(3,020)	-
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>(3,020)</b>	<b>-</b>
<b>Total Adjustments</b>	<b>8,589</b>	<b>(2,382)</b>	<b>(3,865)</b>

2015/16	Usable Reserves		
	County Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
<b>Adjustments to the Revenue Resources</b>			
<b>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</b>			
Pensions Costs transferred to / (from) the Pensions Reserve	24,093	-	-
Council tax and NDR (transfers to or from Collection Fund Adjustment Account)	1,043	-	-
Holiday pay (transferred to the Accumulated Absences Reserve)	(97)	-	-
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):	91,620	-	(23,348)
<b>Total Adjustments to Revenue Resources</b>	<b>116,659</b>	<b>-</b>	<b>(23,348)</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(652)	652	-

## Notes to the Accounting Statements

2015/16	Usable Reserves		
	County Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(14,492)	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(49,192)	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>(64,336)</b>	<b>652</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	(4,301)	-
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>(4,301)</b>	<b>-</b>
<b>Total Adjustments</b>	<b>52,323</b>	<b>(3,649)</b>	<b>(23,348)</b>

### 9. 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 2016/17.

Earmarked Reserves	Balance at 1 April 2015	Transfers In 2015/16	Transfers Out 2015/16	Balance at 31 March 2016	Transfers In 2016/17	Transfers Out 2016/17	Balance at 31 March 2017
	£000	£000	£000	£000	£000	£000	£000
Capital Programme	27,363	50,763	(53,269)	24,857	8,500	(8,500)	24,857
Corporate Waste	34,843	-	(22,000)	12,843	-	-	12,843
Service Development	4,340	4,083	(2,802)	5,621	1,775	(1,360)	6,036
Financing	14,407	250	(2,750)	11,907	3,461	(1,379)	13,989
Infrastructure	6,798	938	(1,094)	6,643	100	(414)	6,329
Insurance	6,351	930	(708)	6,573	278	(1,024)	5,827
General Risk	2,392	-	(160)	2,232	2,333	-	4,565
Schools	2,474	239	(1,431)	1,282	387	(610)	1,059
Transformation	2,997	5,856	(2,851)	6,002	1,302	(2,144)	5,160
Public Health	12,802	1,433	(950)	13,284	-	(2,788)	10,496
<b>Sub-Total</b>	<b>114,767</b>	<b>64,492</b>	<b>(88,015)</b>	<b>91,244</b>	<b>18,136</b>	<b>(18,219)</b>	<b>91,161</b>
Revenue Grants and Contributions	29,577	29,345	(29,577)	29,344	20,002	(29,344)	20,002
<b>Total</b>	<b>144,344</b>	<b>93,837</b>	<b>(117,592)</b>	<b>120,588</b>	<b>38,138</b>	<b>(47,563)</b>	<b>111,163</b>

#### Types of Reserve

- Capital Programme reserve To provide resources which may be used for capital spending, and in recognition of the reducing forecasts of capital receipts.
- Corporate Waste reserve 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.
- Service development reserve This fund is to enable the Council to respond to the most urgent corporate service priorities along with enabling the development of services as required. The reserve includes some specific reserves:

## Notes to the Accounting Statements

- High Weald -To provide for future spending commitments in the High Weald Area of Outstanding Natural Beauty
- On street car parking
- Claverham Adult Education
- ACRES - The Adult College of Rural East Sussex consortium, comprising 5 colleges and the Council's Governance Services Department, provides adult learning services in East Sussex
- Public Health Re-Commissioning
- Roundabouts sponsorship
- Schools Intervention Support

Financing reserve	This is to enable the effective management of the medium-term financial strategy by managing cash flow across financial years; along with providing funding to invest to save and attract other sources of income. This includes previous reserves held for redundancies, waste and minerals, strategies and invests to save.
Infrastructure reserve	This fund is to enable the Council to fund infrastructure necessary to enable development across the County. This includes – <ul style="list-style-type: none"> <li>• ICT corporate system development and cross organisational developments.</li> <li>• Strategic Economic Development - To provide support for Council projects that promote economic development and an increase in businesses, including providing guarantees.</li> <li>• CBOSS - To meet the cost of developing the corporate back office systems and services.</li> </ul>
Insurance reserve	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.
General Risk reserve	To manage the potential financial consequences of risks recognised in the Council's risk management arrangements. This aims to cover risks that the Council may need to manage the potential financial consequences, some of which will be while remedial action is taken to remedy the situation e.g. short term. This has due regard to the strategic risk registers, and includes previous specific service risk reserves held for Adult Social Care service risks; extreme weather risks.
Schools reserve	Balances in respect of delegated school budgets, extended schools and virtual college.
Transformation reserve	This funds the transformation programme to change, protect and improve Council services.
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.
Revenue Grants and Contributions reserve	These are grants and contributions that have been received with no conditions attached but are yet to be applied to expenditure. The Council has earmarked these revenue grants and contributions until they are applied.

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

The Schools balances reserve holds the balances held by the Council's schools under a scheme of delegation. These reserves are held by each individual school and are used to provide education to the pupils of that school. They are not used for any other purpose. Additional information on Dedicated School Grants and Schools Balances are detailed within Note 38.

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

	Balance at 1 April 2015	Transfers In 2015/16	Transfers Out 2015/16	Balance at 31 March 2016	Transfers In 2016/17	Transfers Out 2016/17	Balance at 31 March 2017
	£000	£000	£000	£000	£000	£000	£000
<b>Balances held by Schools</b>	<b>15,547</b>	<b>133</b>	<b>(750)</b>	<b>14,930</b>	<b>26</b>	<b>(4,500)</b>	<b>10,456</b>



## Notes to the Accounting Statements

### 10. Other Operating Expenditure

	2015/16	2016/17
	£000	£000
Levies		
▪ Ashdown Forest Conservators	76	76
▪ Sussex Inshore Fisheries & Conservation Authority	301	307
▪ Environment Agency - Flood & Coastal Erosion	131	139
Losses on the disposal of non-current assets (net of receipts)	23,305	12,737
<b>Total</b>	<b>23,813</b>	<b>13,259</b>

**Note** - The 2016/17 losses on the disposal of non-current assets figure of £13.3m (gross of £0.6m receipts) includes the removal of six schools from the Balance Sheet, that have attained Academy status at a value of £13.3m (details are included in Note 6).

### 11. Financing and Investment Income and Expenditure

	2015/16	2016/17
	£000	£000
Interest payable on debt and finance leases	20,190	20,143
Net interest on pension assets and liabilities	17,399	14,581
Interest receivable	(2,311)	(1,884)
(Increase) / Decrease in Fair Value of Investment Properties	(325)	585
Surplus on Trading Undertakings	(398)	(62)
<b>Total</b>	<b>34,555</b>	<b>33,363</b>

### 12. Taxation and Non Specific Grant Income

	2015/16	2016/17
	£000	£000
Revenue Support Grant	65,114	45,107
Business Rates	70,483	71,071
Council Tax	227,221	242,631
Council Tax & Business Rates adjustment	4,554	4,581
New Home Bonus Grant	2,497	2,879
Transition Grant	-	2,704
<b>Total</b>	<b>369,869</b>	<b>368,973</b>
Share of Collection Fund (Surplus) / Deficit	(1,043)	227
Capital Grants and Contributions	55,231	54,348
<b>Total</b>	<b>424,057</b>	<b>423,548</b>

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

# Notes to the Accounting Statements

## 13. Property, Plant, and Equipment

Movements in 2016/17:	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment*
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>								
<b>At 1 April 2016</b>	<b>349,140</b>	<b>163,330</b>	<b>451,023</b>	<b>1,943</b>	<b>21,925</b>	<b>8,287</b>	<b>995,648</b>	<b>77,091</b>
Additions	17,153	2,416	31,827	-	68	9,617	61,081	829
Revaluation increases recognised in the Revaluation Reserve	18,857	5,992	-	-	6,430	-	31,279	4,222
Revaluation decreases recognised in the Revaluation Reserve	(3,639)	(873)	-	-	(458)	-	(4,970)	(565)
Revaluation increases (reversal of previous losses) recognised in the deficit on the Provision of Services	9,582	2,069	-	-	179	-	11,830	4,347
Revaluation decreases recognised in the deficit on the Provision of Services	(13,618)	(599)	-	-	(1,823)	-	(16,040)	(64)
Derecognition – disposals	(47)	-	-	-	-	-	(47)	-
Derecognition – disposals - schools	(9,071)	(4,430)	-	-	-	-	(13,501)	-
Assets reclassified within PPE	(206)	(46)	-	-	252	-	-	-
Assets reclassified (to) / from Held for Sale	(116)	-	-	-	(2,477)	-	(2,593)	-
<b>At 31 March 2017</b>	<b>368,035</b>	<b>167,859</b>	<b>482,850</b>	<b>1,943</b>	<b>24,096</b>	<b>17,904</b>	<b>1,062,687</b>	<b>85,860</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2016</b>	<b>(77)</b>	<b>(10,895)</b>	<b>(105,434)</b>	<b>-</b>	<b>(85)</b>	<b>-</b>	<b>(116,491)</b>	<b>(54)</b>
Depreciation charge	(8,797)	(13,086)	(19,148)	-	(108)	-	(41,139)	(2,828)
Depreciation written out to the Revaluation Reserve	7,437	10,028	-	-	96	-	17,561	2,819
Revaluation losses recognised in the deficit on the Provision of Services	1,422	387	-	-	12	-	1,821	63
Derecognition - Academy & Trust Schools	-	173	-	-	-	-	173	-
<b>At 31 March 2017</b>	<b>(15)</b>	<b>(13,393)</b>	<b>(124,582)</b>	<b>-</b>	<b>(86)</b>	<b>-</b>	<b>(138,076)</b>	<b>-</b>
<b>Net Book Value</b>								
<b>At 31 March 2017</b>	<b>368,020</b>	<b>154,466</b>	<b>358,268</b>	<b>1,943</b>	<b>24,010</b>	<b>17,904</b>	<b>924,611</b>	<b>85,860</b>
<b>At 31 March 2016</b>	<b>349,063</b>	<b>152,435</b>	<b>345,589</b>	<b>1,943</b>	<b>21,840</b>	<b>8,287</b>	<b>879,157</b>	<b>77,037</b>

## Notes to the Accounting Statements

Movements in 2015/16:	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment*
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>								
<b>At 1 April 2015</b>	<b>371,779</b>	<b>175,327</b>	<b>352,091</b>	<b>1,941</b>	<b>7,972</b>	<b>88,213</b>	<b>997,323</b>	<b>119,483</b>
Additions	20,217	4,929	54,783	2	143	8,001	88,075	577
Revaluation increases recognised in the Revaluation Reserve	25,602	10,116	-	-	12,322	-	48,039	3,712
Revaluation decreases recognised in the Revaluation Reserve	(7,431)	(1,688)	-	-	(2,151)	-	(11,268)	(1,128)
Revaluation increases (reversal of previous losses) recognised in the deficit on the Provision of Services	8,884	1,910	-	-	395	-	11,189	1,694
Revaluation decreases recognised in the deficit on the Provision of Services	(48,587)	(19,037)	-	-	(3,399)	-	(71,023)	(47,247)
Derecognition – disposals	(5,924)	(5,531)	(40,674)	-	(1,218)	-	(53,348)	-
Derecognition – disposals - schools	(10,189)	(4,608)	-	-	-	-	(14,797)	-
Assets reclassified within PPE	(5,261)	2,145	-	-	3,116	-	-	-
Assets reclassified (to)/from Held for Sale	(342)	(233)	-	-	2,953	-	2,378	-
Other movements in cost or valuation – assets under construction	392	-	84,823	-	1,792	(87,927)	(920)	-
<b>At 31 March 2016</b>	<b>349,140</b>	<b>163,330</b>	<b>451,023</b>	<b>1,943</b>	<b>21,925</b>	<b>8,287</b>	<b>995,648</b>	<b>77,091</b>
<b>Accumulated Depreciation and Impairment</b>								
<b>At 1 April 2015</b>	<b>(6,118)</b>	<b>(17,121)</b>	<b>(131,399)</b>	<b>-</b>	<b>(144)</b>	<b>-</b>	<b>(154,782)</b>	<b>(10,601)</b>
Depreciation charge	(9,114)	(12,258)	(14,709)	-	(392)	-	(36,473)	(4,399)
Depreciation written out to the Revaluation Reserve	6,979	8,915	-	-	34	-	15,927	2,372
Revaluation losses recognised in the deficit on the Provision of Services	7,783	6,396	-	-	423	-	14,601	12,574
Assets reclassified within PPE	38	(38)	-	-	-	-	-	-
Assets reclassified to Held for Sale	-	-	-	-	(64)	-	(64)	-
Derecognition – disposals	331	3,050	40,674	-	58	-	44,114	-
Derecognition - Academy & Trust Schools	24	161	-	-	-	-	185	-
<b>At 31 March 2016</b>	<b>(77)</b>	<b>(10,895)</b>	<b>(105,434)</b>	<b>-</b>	<b>(85)</b>	<b>-</b>	<b>(116,491)</b>	<b>(54)</b>

## Notes to the Accounting Statements

Movements in 2015/16:	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment*
<b>Net Book Value</b>								
<b>At 31 March 2016</b>	<b>349,063</b>	<b>152,435</b>	<b>345,589</b>	<b>1,943</b>	<b>21,840</b>	<b>8,287</b>	<b>879,157</b>	<b>77,037</b>
<b>At 31 March 2015</b>	<b>365,661</b>	<b>158,206</b>	<b>220,692</b>	<b>1,941</b>	<b>7,828</b>	<b>88,213</b>	<b>842,541</b>	<b>108,882</b>

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

### Capital Commitments

As at 31st March 2017, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years. The major commitments for 2017/18 and thereafter amounting to £1m or more include:

	£m
Highways	109
Broadband	8
School Places	4.8
Bexhill Link Road	4.7

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

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

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

Items of school and offices furniture, IT and other equipment are measured at historic cost as a proxy for current value. Their value is updated for capital expenditure and depreciated in line with the estimated lives of the assets. The total is £29.43m as shown in the table below.

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

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

The following statement shows the progress of the Council's programme for the revaluation of land, buildings and plant. The valuations are carried out by an external firm of valuers, Montagu Evans (a member of Chartered Surveyors and Town Planners), on behalf of the Council. The valuation dates are at 31 March each year. In addition to the valuation certificate, the valuers provide an annual Impairment Report. The Council has a three year rolling programme to ensure that carrying value of assets is not materially different to their fair values at the Balance Sheet date. In addition, an annual indexation will be applied to the remaining portfolio (based on those assets that were valued by the valuer in the year) if the values are deemed to be materially different to their carrying value. The indexation was applied in 2016/17 using different indices for each asset type.

## Notes to the Accounting Statements

	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Surplus Assets	Total
	£000	£000	£000	£000
<b>Carried as at historical cost</b>	-	29,427	-	29,427
<b>Valued at fair value in:</b>				
31 March 2017	368,035	138,432	24,096	530,563
31 March 2016	-	-	-	-
31 March 2015	-	-	-	-
<b>Gross Valuation</b>	<b>368,035</b>	<b>167,859</b>	<b>24,096</b>	<b>559,990</b>

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

As at 31 March 2017 there are forty five properties classed as surplus, an increase of five from the previous year. Six properties have been newly classified as surplus, one transferred from other land and buildings and two reclassified from surplus to held for sale. The fair value hierarchy of surplus assets at 31 March are as follows:

Recurring fair value measurements using:	31 March 2017			
	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable Inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Total £000
Surplus assets (Net Book Value)	-	-	24,010	<b>24,010</b>

Recurring fair value measurements using:	31 March 2016			
	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable Inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Total £000
Surplus assets (Net Book Value)	-	-	21,925	<b>21,925</b>

The surplus assets are measured at Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to measure the fair value. The fair value has been derived on a comparable basis for income producing assets or residential properties (using rent yield or capital value per square metre) or derived through an assessment of prevailing land values for unconsented sites or a residual land appraisal. For assets offering development potential (alternative use) the valuation is based on the highest value that has a reasonable prospect of securing an appropriate planning consent. Restrictions on the sale or use of an asset affect its fair value only if market participants would also be impacted by those restrictions. Highest and best use is determined only from the perspective of market participants, even if the Council intends a different use. Alternative uses of those assets are considered if there is an alternative use that would maximise their fair value. However, the Council is not required to perform an exhaustive search for other potential uses of the assets if there is no evidence to suggest that the current use of an asset is not its highest and best use.

# Notes to the Accounting Statements

## 14. Investment Properties

The Council has offices at Sackville House, Lewes, but leases out areas of the building to external organisations. The lease arrangements are classified as investment properties as they are held solely to earn rental income. The following items of income have been accounted for in the Comprehensive Income and Expenditure Statement:

	2015/16	2016/17
	£000	£000
Rental Income from Investment Property	173	114

### Fair value measurement

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

	2015/16	2016/17
	£000	£000
<b>Balance at start of the year</b>	1,419	1,744
Gains from fair value adjustments	346	72
Losses from fair value adjustments	(21)	(657)
Net gains / (losses)	325	(585)
<b>Balance at end of the year</b>	<b>1,744</b>	<b>1,159</b>

During the year, less office space was occupied by tenants resulting in a reduction in the value of Investment Properties.

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

The fair value hierarchy at 31 March are as follows:

	31 March 2017			
Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1)	Other significant observable Inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	£000	£000	£000	£000
Office units	-	-	1,159	1,159

	31 March 2016			
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
Office units	-	-	1,744	1,744

# Notes to the Accounting Statements

## 15. Intangible Assets

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

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The carrying amount of Intangible Assets is amortised on a straight-line basis. The amortisation of £2.23m charged to revenue in 2016/17 (£1.17m in 2015/16) was charged to the ICT – Business Services cost centre.

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

	2015/16 £000	2016/17 £000
<b>Balance at start of year:</b>		
Gross carrying amounts	15,341	11,870
Accumulated amortisation	(9,798)	(1,768)
<b>Net carrying amount at start of year</b>	<b>5,543</b>	<b>10,102</b>
Purchases	4,814	839
Transfers	919	-
Amortisation for the period	(1,174)	(2,233)
<b>Net carrying amount at end of year</b>	<b>10,102</b>	<b>8,708</b>
<b>Comprising:</b>		
Gross carrying amounts	11,870	12,709
Accumulated amortisation	(1,768)	(4,001)
<b>Net carrying amount at end of year</b>	<b>10,102</b>	<b>8,708</b>

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

Description	Carrying Amount		Remaining Amortisation (Years)
	31 March 2016 £000	31 March 2017 £000	
Agile	106	295	5 - 7
Compliance Management	427	335	5 - 7
Atrium	146	144	4 - 7
Carefirst	3,520	3,021	4 - 7
Desktop Anywhere	1,255	952	4 - 5
HRMS Financials	190	159	5
ICT Service Management Tool	115	92	4 - 5
Library Management System	42	34	4 - 5
LogRhythm	21	10	6
Microsoft Enterprise Agreement	25	-	-
Microsoft Enterprise Solution	960	734	1 - 5
Microsoft ExchangeServer	128	102	4
On Line Payments	104	80	4 - 5
SEND	64	49	4 - 5
SAP Software	718	625	5 - 7
SSA/RAS	73	57	4 - 5
Web Content Management System	219	183	4 - 7
Windows Server	18	14	5

## Notes to the Accounting Statements

Description	Carrying Amount		Remaining Amortisation (Years)
	31 March 2016 £000	31 March 2017 £000	
Biztalk	33	27	6 - 7
Citrix	292	194	6
Data Centre	872	654	6
Easynet WiFi	14	16	6 - 7
Managed Service for Schools	184	126	6 - 7
People's Network	364	349	6 - 7
Printing Rationalisation	72	54	6
Protective Marketing	64	51	6 - 7
RBUSS Service	76	51	6
CAMS Software - ROW	-	19	6
Czone Platform	-	144	5
Data Matching Tool	-	32	5
Security	-	48	3
SQL Database Management Tool	-	57	3
<b>Total</b>	<b>10,102</b>	<b>8,708</b>	

- Microsoft Enterprise Agreement, which offers a predictable and affordable annual payment that is fixed and also provides the flexibility to adapt to changing and different user requirements with full access to the latest Microsoft Enterprise software products.
- SAP Software - SAP is the electronic Enterprise Resource Planning (ERP) system used by the Council for managing financial transactions and Human Resources. This broadly covers Human Resource administration and payroll transactions; financial and management accounting; and purchasing transactions ranging from paying and raising invoices to buying goods.
- ROCS – This is a software solution from Bentley systems providing an Integrated Highways Management Solution with systems covering highway maintenance and inspections, public enquires and the management of infrastructure assets. Investment in this software was part of the overall programme to improve highway services to the public, which involved adopting new ways of working to deliver a more integrated, customer oriented service.
- HRMS Financials - To improve and modernise the Council's service delivery functions.
- Desktop Anywhere – Remote access servers.
- SSA/RAS – Supported Self Assessment/Resource Allocation System to assess care need.
- Carefirst – Adult Social Care and Children's Services client information.
- Atrium – Corporate Property Asset Management system.
- Agile technology - For agile to work the technology needs to support everyone in different ways, so that employers are connected wherever they work. The agile and ICT teams are looking at portable devices, remote access to business systems, new telephone and communications systems, electronic document management, application compliance management, Microsoft premier and Windows Server

### 16. Heritage Assets

The Council has identified the following heritage assets:

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

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



## Notes to the Accounting Statements

### Reconciliation of the carrying value of Heritage Asset:

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

### Heritage Assets – Further Information

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

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

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

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

## Notes to the Accounting Statements

**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, Albert Memorial Well, Frant and Walls around Castle Precincts Car Park, Lewes.

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

### 17. Revenue Expenditure Funded from Capital Under Statute

Revenue Expenditure Funded from Capital Under Statute represents capital expenditure on assets which are not owned by the Council (e.g. adapting the homes of people with disabilities). Revenue Expenditure Funded from Capital Under Statute is written off in the year in which the expenditure is incurred. However, the financing cost, in terms of interest and Minimum Repayment Provision, is deferred over a number of years. In 2016/17, £17.64m (£39.16m in 2015/16) of the Council's capital investment related to Revenue Expenditure Funded from Capital Under Statute (Note 40), and all was written off in the year the expenditure was incurred.

### 18. Revaluation and Impairment Losses

Each year the Council revalues a proportion of its land and building assets including schools and undertakes an impairment review of the entire asset portfolio. Where land and property assets have increased in value, the revaluation gains are shown in the revaluation reserve (see Note 26) and total £49m (£64m in 2015/16). Some assets will also lose value on revaluation. In 2016/17, the Council has recognised revaluation losses of £19.2m (£68.9m in 2015/16). Of the £19.2m total, £14.2m (£57.6m 2015/16) has been charged to the Comprehensive Income and Expenditure Statement and £5.0m (£11.3m in 2015/16) to the Revaluation Reserve. The reversal of revaluation losses taken to the Comprehensive Income and Expenditure Statement in 2016/17 totalled £11.8m (£11.2m 2015/16). The net charge to the Comprehensive Income and Expenditure Statement of losses less reversals was £2.4m (£46.4m 2015/16). For any impairment losses, the recoverable amount of the assets is reduced to their value in use, which was determined by assessing how much the Council would have to pay to acquire the service potential of the assets that is actually now capable of being used

### 19. Financial Instruments

#### Categories of Financial Instruments

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

	Long Term		Current	
	31 March 2016	31 March 2017	31 March 2016	31 March 2017
	£000	£000	£000	£000
<b>Financial Assets</b>				
<b>Investments</b>				
Loans and receivables	1	1	256,545	242,137
<b>Cash and Cash Equivalents</b>	-	-	22,956	24,335
<b>Debtors</b>				
Loans and receivables	2,827	3,228	29,178	27,442
<b>Total Financial Assets</b>	<b>2,828</b>	<b>3,229</b>	<b>308,679</b>	<b>293,914</b>
<b>Financial Liabilities</b>				
<b>Borrowings</b>				
Financial liabilities at amortised cost	(270,422)	(270,809)	(6,099)	(6,063)
<b>Bank overdraft and accrued balance for third parties</b>			(25,251)	(28,511)
<b>Other Long Term Liabilities</b>				
PFI and finance lease liabilities at amortised cost	(83,852)	(80,108)	-	-

## Notes to the Accounting Statements

	Long Term		Current	
	31 March 2016	31 March 2017	31 March 2016	31 March 2017
	£000	£000	£000	£000
Financial Guarantees at amortised cost	(61)	(62)	-	-
Long Term Creditors at amortised cost	(2)	(24)	-	-
<b>Total Other Long Term Liabilities</b>	<b>(83,915)</b>	<b>(80,194)</b>	<b>-</b>	<b>-</b>

### Creditors

PFI and finance lease liabilities at amortised cost	-	-	(3,559)	(3,815)
Financial liabilities at amortised cost	-	-	(65,886)	(65,934)
<b>Total Financial Liabilities</b>	<b>(354,337)</b>	<b>(351,003)</b>	<b>(100,795)</b>	<b>(104,323)</b>

### Income, Expense, Gains and Losses

	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Total
	£000	£000	£000
<b>2015/16</b>			
Interest expense	(20,190)	-	(20,190)
<b>Total expense in Deficit on the Provision of Services</b>	<b>(20,190)</b>	<b>-</b>	<b>(20,190)</b>
Interest income	-	2,311	2,311
<b>Total income in Deficit on the Provision of Services</b>	<b>-</b>	<b>2,311</b>	<b>2,311</b>
<b>Net gain / (loss) for the year</b>	<b>(20,190)</b>	<b>2,311</b>	<b>(17,879)</b>

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

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

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

The fair values for financial liabilities and financial assets that are not measured at fair value included in levels 2 and 3 above have been arrived at using a discounted cash flow analysis with the most significant inputs being the discount rate. The fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

# Notes to the Accounting Statements

## Financial Liabilities

- For loans from the PWLB payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For non-PWLB loans payable, PWLB premature repayment rates have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- Estimated ranges of interest rates at 31 March 2017 of 2.6% to 8.6% for loans payable, based on new lending rates for equivalent loans at that date.

## Financial Assets

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

The fair value of PWLB loans at 31 March 2017 of £371.3m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date, which has been assumed as the PWLB redemption interest rates. The difference between the carrying amount and the fair value measures the additional interest that the Council will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates. However, the Council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets, termed the PWLB Certainty Interest Rate.

A supplementary measure of the fair value as a result of its PWLB commitments for fixed interest rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £240.8m would be valued at £321.4m. If the authority were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge, based on the redemption interest rates, for early redemption of £130.5m for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £371.3m.

The fair values calculated are as follows:

Financial Liabilities	31 March 2016		31 March 2017	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
PWLB Debt	(240,440)	(346,727)	(240,795)	(371,339)
Non PWLB Debt	(35,900)	(59,118)	(35,900)	(67,514)
Other Short Term Borrowing	(181)	(181)	(177)	(177)
Bank overdraft and accrued balance for third parties	(25,251)	(25,251)	(28,511)	(28,511)
PFI Liabilities	(87,412)	(122,975)	(83,924)	(124,281)
Financial Guarantees	(61)	(61)	(61)	(61)
Current Creditors	(65,885)	(65,885)	(65,934)	(65,934)
Long Term Creditors	(2)	(2)	(24)	(24)
<b>Total</b>	<b>(455,132)</b>	<b>(620,200)</b>	<b>(455,326)</b>	<b>(657,841)</b>

The fair value of the borrowings and PFI liability is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future loss, based on economic conditions at 31 March 2017, arising from a commitment to pay interest to lenders above current market rates.

## Notes to the Accounting Statements

Financial Assets	31 March 2016		31 March 2017	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Short Term Deposits	256,545	256,545	242,137	242,137
Money Market Funds	22,300	22,300	23,800	23,800
Other Cash and Cash Equivalents	656	656	535	535
Current Debtors	29,178	29,178	27,442	27,442
Long Term Debtors	2,828	2,828	3,229	3,229
<b>Total</b>	<b>311,507</b>	<b>311,507</b>	<b>297,143</b>	<b>297,143</b>

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

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

The fair value hierarchy at 31 March 2017 and 31 March 2016 are as follows:

Recurring fair value measurements using:	31 March 2017			Total £000
	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable Inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	
<b>Financial liabilities</b>				
PWLB Debt	-	(371,339)	-	(371,339)
Non PWLB Debt	-	(67,514)	-	(67,514)
Other Short Term Borrowing	-	(177)	-	(177)
Bank overdraft and accrued balance for third parties	-	(28,511)	-	(28,511)
PFI Liabilities	-	-	(124,281)	(124,281)
Financial Guarantees	-	(61)	-	(61)
Current Creditors	-	(65,934)	-	(65,934)
Long Term Creditors	-	(24)	-	(24)
<b>Total</b>	<b>-</b>	<b>(533,560)</b>	<b>(124,281)</b>	<b>(657,841)</b>
<b>Financial assets</b>				
Short Term Deposits	-	242,137	-	242,137
Money Market Funds	23,800	-	-	23,800
Other Cash and Cash Equivalents	-	535	-	535
Current Debtors	-	27,442	-	27,442
Long Term Debtors	-	3,229	-	3,229
<b>Total</b>	<b>23,800</b>	<b>273,343</b>	<b>-</b>	<b>297,143</b>

## Notes to the Accounting Statements

31 March 2016				
Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable Inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Total £000
<b>Financial liabilities</b>				
PWLB Debt	-	(346,727)	-	(346,727)
Non PWLB Debt	-	(59,118)	-	(59,118)
Other Short Term Borrowing	-	(181)	-	(181)
Bank overdraft and accrued balance for third parties	-	(25,251)	-	(25,251)
PFI Liabilities	-	-	(122,975)	(122,975)
Financial Guarantees	-	(61)	-	(61)
Current Creditors	-	(65,885)	-	(65,885)
Long Term Creditors	-	(2)	-	(2)
<b>Total</b>	<b>-</b>	<b>(497,225)</b>	<b>(122,975)</b>	<b>(620,200)</b>
<b>Recurring fair value measurements using:</b>				
Recurring fair value measurements using:	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable Inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Total £000
<b>Financial assets</b>				
Short Term Deposits	-	256,545	-	256,545
Money Market Funds	22,300	-	-	22,300
Other Cash and Cash Equivalents	-	656	-	656
Current Debtors	-	29,178	-	29,178
Long Term Debtors	-	2,828	-	2,828
<b>Total</b>	<b>22,300</b>	<b>289,207</b>	<b>-</b>	<b>311,507</b>

### 20. Assets Held for Sale

	2015/16 £000	2016/17 £000
<b>Balance outstanding at start of year</b>	4,105	523
Assets newly classified as held for sale	183	2,593
Additions	26	42
Revaluation losses recognised in Provision of Services	(1,182)	(25)
Assets declassified as held for sale	(2,498)	-
Assets sold	(111)	-
<b>Balance outstanding at year end</b>	<b>523</b>	<b>3,133</b>

Assets Held for Sale are valued at fair value which takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. During 2016/17, no held for sale properties were sold and three properties were newly classified as held for sale.

# Notes to the Accounting Statements

## 21. Current & Long Term Debtors and Payments in Advance

	31 March 2016	31 March 2017
	£000	£000
<b>Current Debtors</b>		
Central Government Bodies	3,399	5,770
Other Local Authorities	18,597	16,273
NHS Bodies	42	1,495
Other Entities and Individuals	21,590	19,959
<b>Total</b>	<b>43,628</b>	<b>43,497</b>
<b>Long Term Debtors</b>		
Higher Education Institution	1,036	992
South East Local Enterprise Partnership (Selep)	1,600	2,100
Other Entities and Individuals	191	136
<b>Total</b>	<b>2,827</b>	<b>3,228</b>

### Allowance for debts impairment

The Council makes allowance for impairment of debts based on an assessment of the recoverability of receivables. An increase in the provision for bad debt adjustment of £0.198m was made in 2016/17, bringing the total allowance for impairment to £1.411m at 31 March 2017. These amounts are netted off the figures shown for other entities and individuals above. Management specifically review all debts, and evaluate the adequacy of the allowance for impairment of receivables. However, most categories of the Council's debtors are not subject to substantial fluctuation and past experience is used within material limits to judge the percentages of each type of debt that will not eventually be recovered.

In addition, there are allowances for impairment in respect of Council Tax & Business Rates debtors which are assessed by the District Councils in their role as Council Tax collection authorities. At 31 March 2017 the Council's share of these allowances amounts to £7.657m (£6.894m at 31 March 2016) out of its share of Council Tax & Business Rates debts totalling £17.884m (£16.195m at 31 March 2016).

### Payments In Advance

	31 March 2016 £000	31 March 2017 £000
Leasing	80	-
Other Local Authorities	6	8
Other Entities & Individuals	4,942	6,313
<b>Total</b>	<b>5,028</b>	<b>6,321</b>

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

	31 March 2016 £000	31 March 2017 £000	Movement £000
Cash in hand	140	127	(13)
Short-term deposits	22,816	24,208	1,392
<b>Total Cash and Cash Equivalents</b>	<b>22,956</b>	<b>24,335</b>	<b>1,379</b>
Imputed cash adjustment for pooled budget re the purchase of integrated community equipment	(467)	(807)	(340)
Bank overdraft	(5,968)	(5,122)	846
Accrued balance at bank and for third parties	(18,816)	(22,582)	(3,766)
<b>Total bank overdraft and accrued balance for third parties</b>	<b>(25,251)</b>	<b>(28,511)</b>	<b>(3,260)</b>
<b>Net cash and cash equivalent balances / (overdrawn)</b>	<b>(2,295)</b>	<b>(4,176)</b>	<b>(1,881)</b>

## Notes to the Accounting Statements

Note 32 sets out some details of the arrangements under which the Council 'hosts' the finances of pooled arrangements for Pooled Budgets (with Clinical Commissioning Boards). These arrangements relate to a number of different organisations and it is necessary to allocate their balance sheets between the different participants. The result of adjusting the balances for debtors, creditors, etc. is to create an imbalance, which represents the difference between the cash actually held by the Council and the share of the arrangements' cash, which is eventually allocable to the Council. This difference is recorded above as 'imputed cash'.

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

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

	31 March 2016	31 March 2017
	£000	£000
East Sussex Fire Authority	(18,721)	(22,450)
Trust Funds	(95)	(132)
<b>Accrued balance at bank and for third parties</b>	<b>(18,816)</b>	<b>(22,582)</b>

The pooled bank balances at 31 March 2017 include £7.9m (£9.8m at 31 March 2016) relating to bank accounts operated by schools under local management arrangements.

### 23. Creditors and Income in Advance

#### Creditors

	31 March 2016	31 March 2017
	£000	£000
Central Government Bodies	6,670	6,820
Other Local Authorities	9,576	9,095
NHS Bodies	2,735	4,106
Other Entities and Individuals	64,185	63,924
<b>Total</b>	<b>83,166</b>	<b>83,945</b>

#### Income in Advance

	31 March 2016	31 March 2017
	£000	£000
Other Local Authorities	2,788	3,408
NHS Bodies	5,282	3,780
Other Entities and Individuals	7,354	9,101
<b>Total</b>	<b>15,424</b>	<b>16,289</b>

### 24. 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 2016	Additional provisions	Amounts used	31 March 2017
	£000	£000	£000	£000
<b>Long Term Provisions</b>				
Insurance claims	3,870	-	(176)	3,694
Section 117 liabilities	729	-	(59)	670
Closed Landfill Sites	9,311	-	(118)	9,193
<b>Total</b>	<b>13,910</b>	<b>-</b>	<b>(353)</b>	<b>13,557</b>



## Notes to the Accounting Statements

Short Term Provisions	31 March	Additional	Amounts	31 March
	2016	provisions	used	2017
	£000	£000	£000	£000
Adult Social Care Provision	850	-	(850)	-
Services Redundancies	457	-	(415)	42
Municipal Mutual Insurance (MMI)	554	-	(383)	171
Highways Contract	-	263	-	263
NNDR Appeals	863	-	(46)	817
Closed Landfill Sites	490	-	-	490
<b>Total</b>	<b>3,214</b>	<b>263</b>	<b>(1,694)</b>	<b>1,783</b>
<b>Total Provisions</b>	<b>17,124</b>	<b>263</b>	<b>(2,047)</b>	<b>15,340</b>

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.

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

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

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.

Adult Social Care provision represents amounts set aside to meet potential service provider future liabilities.

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

The NNDR appeals provision represents amounts set aside to meet potential future liabilities for Business Rates Appeals. Local Authorities are liable for successful appeals against business rates charged to businesses in 2012-13 and earlier financial years in their proportionate share. Therefore, a provision has been recognised as a best estimate of the amount that businesses have been overcharged up to 31 March 2017.

### 25. Usable Reserves

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

- County Fund & School Balances - The County Fund and School balances shows the resources available to meet future running costs. See Note 9 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 9 for a breakdown of General Fund earmarked reserves.
- Capital Receipts Reserve – see note below.
- Capital Grant & Contributions Unapplied Account – see note below.

	31 March 2016	31 March 2017
	£000	£000
Usable Capital Receipts Reserve	2,432	50
Capital Grants & Contributions Unapplied	17,989	14,124
Earmarked Reserves	91,244	91,161
Earmarked Reserves – Revenue Grant & Contribution	29,344	20,002
County Fund balances	9,999	9,999
School Balances	14,930	10,456
<b>Total Usable Reserves</b>	<b>165,938</b>	<b>145,792</b>

## Notes to the Accounting Statements

### 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.

	2015/16 £000	2016/17 £000
<b>Balance at 1 April</b>	<b>6,081</b>	<b>2,432</b>
Amounts receivable during the year	652	638
Amounts applied to finance new capital investment	<u>(4,301)</u>	<u>(3,020)</u>
Net Transfer to / (from) the Capital Receipts Reserve	<u>(3,649)</u>	<u>(2,382)</u>
<b>Balance at 31 March</b>	<b>2,432</b>	<b>50</b>

### Capital Grants and Contributions Unapplied Account

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

	2015/16 £000	2016/17 £000
<b>Balance at 1 April</b>	<b>41,337</b>	<b>17,989</b>
Amounts receivable during the year	50,243	52,306
Amounts applied to finance new capital investment	<u>(73,591)</u>	<u>(56,171)</u>
Net Transfer to / (from) the Capital Unapplied Account	<u>(23,348)</u>	<u>(3,865)</u>
<b>Balance at 31 March</b>	<b>17,989</b>	<b>14,124</b>

## 26. Unusable Reserves

	31 March 2016 £000	31 March 2017 £000
Revaluation Reserve	187,437	220,838
Capital Adjustment Account	363,432	385,463
Financial Instruments Adjustment Account	(23)	(23)
Collection Fund Adjustment Account	4,876	5,102
Accumulated Absences Account	(6,032)	(5,685)
Pensions Reserve	(416,950)	(415,151)
<b>Total Unusable Reserves</b>	<b>132,740</b>	<b>190,544</b>

### Revaluation Reserve

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

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

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

## Notes to the Accounting Statements

	2015/16	2016/17	
	£000	£000	£000
<b>Balance at 1 April</b>	<b>152,212</b>		<b>187,437</b>
Upward revaluation of assets	63,974	48,841	
Downward revaluation of assets and impairment losses not charged to the Deficit on the Provision of Services	(11,270)	(4,970)	
Surplus on revaluation of non-current assets not posted to the Deficit on the Provision of Services	52,704		43,871
Difference between fair value depreciation and historical cost depreciation	(7,032)	(6,992)	
Accumulated gains on assets sold or scrapped	(10,448)	(3,478)	
Amount written off to the Capital Adjustment Account	(17,479)		(10,470)
<b>Balance at 31 March</b>	<b>187,437</b>		<b>220,838</b>

### Capital Adjustment Account

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

Note 8 provide details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2015/16	2016/17	
	£000	£000	£000
<b>Balance at 1 April</b>	<b>346,240</b>		<b>363,432</b>
<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>			
Charges for depreciation and impairment of non-current assets	(36,473)	(41,139)	
Revaluation losses on non-current assets	(56,422)	(14,218)	
Revaluation losses on assets held for sale	(1,182)	(25)	
Revaluation loss reversals on non-current assets	11,189	11,830	
Amortisation of intangible assets	(1,174)	(2,233)	
Revenue expenditure funded from capital under statute	(39,156)	(17,641)	
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	(23,957)	(13,376)	
	<b>(147,175)</b>		<b>(76,802)</b>
Adjusting amounts written out of the Revaluation Reserve	17,479		10,470
Net written out amount of the cost of non-current assets consumed in the year	<b>(129,696)</b>		<b>(66,332)</b>
<b>Capital financing applied in the year</b>			
Use of the Capital Receipts Reserve to finance new capital expenditure	4,301	3,020	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	78,578	58,214	
Statutory provision for the financing of capital investment charged against the General Fund balance	14,492	11,041	
Capital expenditure charged against County Fund balances	49,192	16,673	
	<b>146,563</b>		<b>88,948</b>

## Notes to the Accounting Statements

Movements in the market value of Investment Properties credited or debited to the Comprehensive Income and Expenditure Statement

	2015/16	2016/17	
	£000	£000	£000
	325		(585)
<b>Balance at 31 March</b>	<b>363,432</b>	<b>385,463</b>	

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the County Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the County Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2017 will be charged to the County Fund over a specific period.

#### Balance at 1 April

Proportion of premiums incurred in previous financial years to be charged against the County Fund Balance in accordance with statutory requirements

#### Balance at 31 March

	2015/15	2016/17
	£000	£000
	(23)	(23)
	-	-
	(23)	(23)

### Pensions Reserve

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

#### Balance at 1 April

Remeasurement of the net defined liability

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

Employer's pension contributions charged to General Fund Balance

#### Balance at 31 March

	2015/16	2016/17
	£000	£000
	(540,383)	(416,950)
	147,526	16,275
	(58,023)	(48,232)
	33,930	33,756
	(416,950)	(415,151)

### 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.

## Notes to the Accounting Statements

	2015/16 £000	2016/17 £000
<b>Balance at 1 April</b>	<b>5,919</b>	<b>4,876</b>
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(886)	116
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	(157)	110
Net movement in the Collection Fund Adjustment Account	(1,043)	226
<b>Balance at 31 March</b>	<b>4,876</b>	<b>5,102</b>

### Accumulated Absences Account

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

	2015/16 £000	2016/17 £000
<b>Balance at 1 April</b>	<b>(6,129)</b>	<b>(6,032)</b>
Settlement or cancellation of accrual made at the end of the preceding year	6,129	6,032
Amounts accrued at the end of the current year	(6,032)	(5,685)
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	97	347
<b>Balance at 31 March</b>	<b>(6,032)</b>	<b>(5,685)</b>

## 27. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2015/16 £000	2016/17 £000
<b>Net Deficit on the Provision of Services</b>	<b>75,595</b>	<b>22,488</b>
<b><u>Adjustment for non-cash movements</u></b>		
Depreciation	(36,473)	(41,139)
Impairment and downward revaluations	(57,604)	(14,243)
Reversal of previous years revaluation losses	11,189	11,830
Amortisation of Intangible Assets	(1,174)	(2,233)
Financial Guarantee Adjustments	-	(1)
(Increase) / Decrease in Interest Creditors	(57)	31
(Increase) / Decrease in Creditors	7,430	(2,411)
Increase / (Decrease) in Interest Debtors	(30)	(408)
Increase / (Decrease) in Debtors	(11,184)	(551)
Increase / (Decrease) in Inventories	(16)	10
Movement in Pension Liability	(24,093)	(14,476)
Contributions (to) / from Provisions	(1,532)	1,784
Carrying amount of non-current assets sold or derecognised	(23,956)	(13,376)
Upward / (Downward) revaluation in Investment Property Values	325	(585)

## Notes to the Accounting Statements

### **Adjustment for items that are investing or financing activities**

Capital grants and contributions credited to provision of services	55,230	54,349
Net adjustments from the sale of short term investments	(28,000)	(14,000)
Proceeds from the sale of PPE, Investment Property and Intangible assets	652	638
<b>Net Cash inflow from Operating Activities</b>	<b>(33,698)</b>	<b>(12,293)</b>

2015/16 £000	2016/17 £000
55,230	54,349
(28,000)	(14,000)
652	638
<b>(33,698)</b>	<b>(12,293)</b>

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

Interest receivable	(2,311)	(1,884)
Opening debtor	(575)	(545)
Closing debtor	545	138
<b>Cash flow interest received</b>	<b>(2,341)</b>	<b>(2,291)</b>

2015/16 £000	2016/17 £000
(2,311)	(1,884)
(575)	(545)
545	138
<b>(2,341)</b>	<b>(2,291)</b>

Interest payable	20,190	20,143
Opening creditor	(1,248)	(1,305)
Closing creditor	1,305	1,274
<b>Cash flow interest paid</b>	<b>20,247</b>	<b>20,112</b>

2015/16 £000	2016/17 £000
20,190	20,143
(1,248)	(1,305)
1,305	1,274
<b>20,247</b>	<b>20,112</b>

### 28. Cash Flow Statement – Investing Activities

Additions of Property, Plant & Equipment (PPE)	88,075	61,080
Additions of Intangible Assets & Assets Held for Sale	4,839	885
Opening Capital Creditors	7,548	8,387
Closing Capital Creditors	(8,387)	(6,550)
Long Term loans granted	-	701
Proceeds from the sale of PPE	(652)	(638)
Other capital cash receipts	(2,757)	(300)
Capital Grants Received	(56,069)	(52,930)
<b>Net cash outflow from investing activities</b>	<b>32,597</b>	<b>10,635</b>

2015/16 £000	2016/17 £000
88,075	61,080
4,839	885
7,548	8,387
(8,387)	(6,550)
-	701
(652)	(638)
(2,757)	(300)
(56,069)	(52,930)
<b>32,597</b>	<b>10,635</b>

### 29. Cash Flow Statement – Financing Activities

Cash receipts of short and long term borrowing	(20,000)	(5,000)
Appropriation to the Collection Fund Adjustment Account	(731)	182
Repayments of short and long term borrowing	3,955	4,612
Payments for the reduction of long term PFI Liabilities	3,447	3,745
<b>Net cash outflow from financing activities</b>	<b>(13,329)</b>	<b>3,539</b>

2015/16 £000	2016/17 £000
(20,000)	(5,000)
(731)	182
3,955	4,612
3,447	3,745
<b>(13,329)</b>	<b>3,539</b>

# Notes to the Accounting Statements

## 30. Expenditure and Funding Analysis

The Expenditure and Funding Analysis demonstrates how the funding available to the Council for the year 2016/17 has been used to provide services and this note provides a reconciliation of the main adjustments to net expenditure chargeable to the County Fund balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

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

Adjustments from County Fund to arrive at the CIES amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
<b>2016/17</b>				
Adult Social Care	2,198	1,055	36	3,289
Public Health	-	30	-	30
Governance Services	-	109	(2)	107
Children's Services	27,220	2,080	(364)	28,936
Business Services	8,334	389	5	8,728
Communities, Economy & Transport	25,674	326	(22)	25,978
<b>Total</b>	<b>63,426</b>	<b>3,989</b>	<b>(347)</b>	<b>67,068</b>
Corporate Expenditure	-	(4,097)	-	(4,097)
<b>Net Cost of Services</b>	<b>63,426</b>	<b>(108)</b>	<b>(347)</b>	<b>62,971</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>(68,740)</b>	<b>14,584</b>	<b>(226)</b>	<b>(54,382)</b>
<b>Difference between County Fund deficit and CIES deficit in provision of services</b>	<b>(5,314)</b>	<b>14,476</b>	<b>(573)</b>	<b>8,588</b>

Adjustments from County Fund to arrive at the CIES amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
<b>2015/16</b>				
Adult Social Care	5,234	2,972	(1)	8,205
Public Health	-	63	(8)	55
Governance Services	-	334	(3)	332
Children's Services	40,845	6,056	(57)	46,844
Business Services	4,518	1,103	(9)	5,612
Communities, Economy & Transport	72,622	1,133	(19)	73,736
<b>Total</b>	<b>123,219</b>	<b>11,661</b>	<b>(96)</b>	<b>134,784</b>
Corporate Expenditure	-	(4,968)	-	(4,968)
<b>Net Cost of Services</b>	<b>123,219</b>	<b>6,693</b>	<b>(96)</b>	<b>129,816</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>(95,934)</b>	<b>17,399</b>	<b>1,042</b>	<b>(77,493)</b>
<b>Difference between County Fund deficit and CIES deficit in provision of services</b>	<b>27,285</b>	<b>24,092</b>	<b>946</b>	<b>52,323</b>

### Adjustments for Capital Purposes

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

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

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

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

## Notes to the Accounting Statements

### 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 NDR 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:

	2015/16 £000	2016/17 £000
Adult Social Care	77,387	70,020
Public Health	26,342	29,911
Governance Services	2,072	589
Children's Services	563,223	538,230
Business Services	33,372	33,821
Communities, Economy & Transport	48,786	49,056
Corporate Expenditure	197	136
<b>Total Income analysed on a segmental basis</b>	<b>751,379</b>	<b>721,763</b>

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

	2015/16 £000	2016/17 £000
<b>Expenditure</b>		
Employee benefits expenses	346,951	327,157
Other service expenses	484,446	474,630
Support service recharges	296,402	288,974
Depreciation, amortisation, impairment	83,739	46,370
Interest payments	20,352	20,289
Precepts and levies	508	522
Loss on the disposal of assets	23,305	12,737
<b>Total Expenditure</b>	<b>1,255,703</b>	<b>1,170,679</b>
<b>Income</b>		
Fees, charges and other service income	(66,442)	(67,869)
Interest and investment income	(2,362)	(1,930)
Support service recharges income	(314,904)	(296,128)
Income from council tax & non domestic rates	(368,826)	(369,200)
Government grants and contributions	(427,574)	(413,064)
<b>Total Income</b>	<b>(1,180,108)</b>	<b>(1,148,191)</b>
<b>Deficit on the Provision of Services</b>	<b>75,595</b>	<b>22,488</b>



## Notes to the Accounting Statements

### 31. Trading Operations

The Council has trading units where the service manager is required to operate in a commercial environment and balance the budget by generating income from other parts of the Council or other organisations. These services include catering, transport and services under the 1970 Act (for example, School Library Service, Music Tuition, Parking, Legal, Street Lighting and some Financial Services). Trading operations are incorporated into the Comprehensive Income and Expenditure Statement under Other Operating Expenditure (see Note 11). Some areas are an integral part of one of the Council's services to the public whilst others are support services to the Council. The scale of these operations is small in relation to the Council's total expenditure.

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

In 2016/17 the Council participated in partnership schemes involving pooled budget arrangements under Section 75 of the National Health Service Act 2006 with the following partners: Eastbourne, Hailsham & Seaford CCG, Hastings & Rother CCG, and High Weald Lewes Havens CCG.

- The Integrated Community Equipment Service started in September 2004 comprises the Council as host agency, Eastbourne, Hailsham and Seaford CCG, Hastings and Rother CCG and High Weald Lewes Havens CCG.
- The Better Care Fund (BCF) started in April 2015. For 2016/17 the Council had two Section 75 agreements. One comprises the Council, as host agency; Eastbourne, Hailsham and Seaford CCG, and Hastings and Rother CCG. The other comprises the Council, as host agency and High Weald Lewes Havens CCG.

BCF planning was required for the whole of East Sussex and was signed off by the East Sussex Health and Wellbeing Board. The figures presented below combine the two Section 75 agreements. The substance of this Better Care Fund arrangement is not one of a pooled budget. Individual members have continued to contract with individual providers without reference to other members and using their own sources of funding. In substance these are neither joint operations nor lead commissioner transactions and not a vehicle for joint commissioning. The CCGs and ESCC will continue to work towards greater integration and joint commissioning of services in future years and the accounting for the Better Care Fund will therefore be reviewed each year.

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

Arrangement	2015/16			2016/17		
	Expenditure	Income	ESCC Contribution	Expenditure	Income	ESCC Contribution
	£000	£000	£000	£000	£000	£000
Integrated Community Equipment	4,255	(4,255)	(2,128)	4,980	(4,980)	(2,490)
Better Care Fund	42,214	(42,214)	(5,663)	43,499	(43,499)	(6,698)
<b>Total</b>	<b>46,469</b>	<b>(46,469)</b>	<b>(7,791)</b>	<b>48,479</b>	<b>(48,479)</b>	<b>(9,188)</b>

#### Note

The Mental Health Community Forensic scheme, which started in April 2010 and has not formally ceased, 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 2016/17 was £356,524.

## Notes to the Accounting Statements

### Orbis Joint Operating Budget

Orbis is a partnership between Surrey and East Sussex County Councils that aims to provide seamless and resilient business services to the public sector, creating a compelling alternative to other providers. This decision is built on the successful collaboration between Surrey and East Sussex County Councils, established through a joint procurement function in 2012, and the provision of transactional shared services since April 2013.

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

	<b>2016/17</b> <b>£000</b>
Funding provided to the pooled budget	
- Surrey County Council	(35,004)
- East Sussex County Council	(15,038)
	(50,042)
Expenditure met from the pooled budget	50,042
Net surplus on the pooled budget	-

### 33. Members' Allowances

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

	<b>2015/16</b> <b>£000</b>	<b>2016/17</b> <b>£000</b>
Salaries - basic allowances	540	547
National Insurance & Pension	115	119
Special responsibility allowances	202	205
Expenses	37	35
<b>Total</b>	<b>894</b>	<b>906</b>

The table below shows the actual amounts paid to individual members in the 2016/17 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.

#### Amounts paid to individual members in 2016/17

Member	Members Basic Allowance	Special Responsibility Allowance	Travel by Car	Fares and Subsistence
	£	£	£	£
Cllr Trevor Webb	11,191	4,976	-	11
Cllr Keith Glazier	11,191	24,864	3,327	447
Cllr Kathryn Field	11,191	6,215	1,726	3
Cllr Godfrey Daniel	11,191	6,215	1,318	15
Cllr Stephen Shing	11,191	-	445	-
Cllr Philip Scott	11,191	-	29	-
Cllr David Tutt	11,191	12,430	180	-
Cllr Rupert Simmons	11,191	14,919	1,858	13
Cllr William Bentley	11,191	14,919	1,496	50
Cllr Christopher Dowling	11,191	14,919	1,056	15
Cllr Anthony Barnes	11,191	-	-	-
Cllr Francis Whetstone	11,191	-	-	-
Cllr Sylvia Tidy	11,191	14,919	1,618	10

## Notes to the Accounting Statements

Member			Members Basic Allowance	Special Responsibility Allowance	Travel by Car	Fares and Subsistence
Cllr	Barry	Taylor	11,191	-	-	-
Cllr	Philip	Howson	11,191	1,232	421	-
Cllr	Ruth	O'Keeffe	11,191	-	-	-
Cllr	David	Elkin	11,191	17,404	2,925	506
Cllr	Rosalyn	St Pierre	11,191	-	686	257
Cllr	Richard	Stogdon	11,191	6,215	1,877	381
Cllr	Carl	Maynard	11,191	14,919	1,695	19
Cllr	Michael	Ensor	11,191	11,755	-	-
Cllr	Nicholas	Bennett	11,191	14,919	2,587	69
Cllr	Peter	Pragnell	11,191	5,103	-	-
Cllr	Colin	Belsey	11,191	6,870	1,796	50
Cllr	Carolyn	Lambert	11,191	-	-	-
Cllr	Patrick	Rodohan	11,191	-	-	-
Cllr	Daniel	Shing	11,191	-	39	-
Cllr	Michael	Wincott	11,191	-	-	-
Cllr	John	Ungar	11,191	-	-	15
Cllr	Kim	Forward	11,191	-	86	-
Cllr	Alan	Shuttleworth	11,191	-	464	-
Cllr	Robert	Standley	11,191	-	864	-
Cllr	Michael	Phillips	11,191	-	-	-
Cllr	Henry	Sheppard	11,191	-	89	-
Cllr	Michael	Blanch	11,191	6,215	772	2
Cllr	Steven	Wallis	11,191	-	73	-
Cllr	Charles	Clark	11,191	-	-	-
Cllr	Franklin	Carstairs	11,191	-	-	-
Cllr	Michael	Pursglove	11,191	-	833	-
Cllr	Roy	Galley	11,191	-	754	-
Cllr	Angharad	Davies	11,191	5,547	1,816	1
Cllr	Claire	Dowling	11,191	-	263	-
Cllr	Peter	Charlton	11,191	-	9	35
Cllr	Stuart	Earl	11,191	-	293	-
Cllr	Carla	Butler	11,191	-	-	-
Cllr	Laurence	Keeley	11,191	-	549	21
Cllr	Ian	Buchanan	11,191	-	-	-
Cllr	Tania	Charman	11,191	-	-	-
Cllr	Judith	Rogers	10,108	-	-	-
<b>Total</b>			<b>547,276</b>	<b>204,555</b>	<b>31,944</b>	<b>1,920</b>

# Notes to the Accounting Statements

## 34. Officers' Remuneration

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

### Senior Employees Remuneration 2016/17

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

#### Notes:

1. Pension Contributions based on salary before salary sacrifice of £140,809.
2. NHS Pension Scheme not LGPS.
3. Pension Contributions based on salary before salary sacrifice of £53,459. Ceased to be an employee of the Council on 30 September 2016.
4. Interim Chief Finance Officer from September 2016. Invoices the Council for services via CIPFA-Penna.

### Senior Employees Remuneration 2015/16

Notes	Salary, Fees and Allowances	Bonuses	Expenses Allowances (incl. Benefit in Kind)	Compensation for Loss of Office	Employer's Pension Contributions	Total	
	£	£	£	£	£	£	
Chief Executive - Becky Shaw	186,936	-	-	-	37,948	224,884	
Chief Operating Officer	135,868	-	-	-	27,581	163,449	
Director of Adult Social Care & Health	139,415	6,889	3,938	-	29,700	179,941	
Director of Children's Services	135,661	-	198	-	27,539	163,399	
Director of Communities, Economy & Transport.	1	136,499	-	2,954	-	28,301	167,754
Acting Director of Public Health	2	104,108	-	-	-	14,887	118,995
Assistant Chief Executive		91,137	-	-	-	18,501	109,638
Chief Finance Officer	3	105,775	-	-	-	21,489	127,265

#### Notes:

1. Director of Communities, Economy & Transport - Pension Contributions were based on salary (before salary sacrifice) of £139,415.
2. Acting Director of Public Health - NHS Pension Scheme not LGPS.
3. Chief Finance Officer - Pension Contributions were based on salary (before salary sacrifice) of £105,859.

## Notes to the Accounting Statements

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

Remuneration band	2015/16 Number of employees			2016/17 Number of employees		
	Non Schools	Schools	Total	Non Schools	Schools	Total
£50,000-£54,999	79	72	151	69	68	137
£55,000-£59,999	21	44	65	22	34	56
£60,000-£64,999	40	31	71	42	33	75
£65,000-£69,999	8	15	23	8	15	23
£70,000-£74,999	5	11	16	5	11	16
£75,000-£79,999	2	4	6	4	3	7
£80,000-£84,999	3	1	4	3	1	4
£85,000-£89,999	3	3	6	2	4	6
£90,000-£94,999	4	1	5	2	1	3
£95,000-£99,999	1	1	2	2	1	3
£100,000-£104,999	1	1	2	1	-	1
£105,000-£109,999	3	1	4	2	-	2
£110,000-£114,999	-	-	-	-	-	-
£115,000-£119,999	-	-	-	-	-	-
£120,000-£124,999	-	-	-	-	-	-
£125,000-£129,999	-	-	-	-	-	-
£130,000-£134,999	-	-	-	-	-	-
£135,000-£139,999	3	-	3	-	-	-
£140,000-£144,999	-	-	-	3	-	3
£145,000-£149,999	-	-	-	-	-	-
£150,000-£154,999	1	-	1	1	-	1
£155,000-£159,999	-	-	-	1	-	1
£160,000-£164,999	-	-	-	-	-	-
£165,000-£169,999	-	-	-	-	-	-
£170,000-£174,999	-	-	-	-	-	-
£175,000-£179,999	-	-	-	-	-	-
£180,000-£184,999	-	-	-	-	-	-
£185,000-£189,999	1	-	1	1	-	1

## Notes to the Accounting Statements

### 35. Termination Benefits & Exit Packages

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

The Council terminated the contracts of 287 employees during 2016/17, incurring costs of £2.76m (188 terminations at a cost of £2.05m in 2015/16). An analysis of the numbers and amounts broken down by pay band and split between compulsory redundancies and other departures for both 2016/17 and 2015/16 are shown in the tables below.

Exit Packages 2016/17						
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	108	679	140	781	248	1,460
£20,000 to £39,999	12	339	17	419	29	758
£40,000 to £59,999	3	162	5	223	8	385
£60,000 to £79,999	1	63	-	-	1	63
£80,000 to £99,999	1	95	-	-	1	95
£100,000 to £149,999	-	-	-	-	-	-
£150,000 to £199,999	-	-	-	-	-	-
£200,000 to £249,999	-	-	-	-	-	-
<b>Total</b>	<b>125</b>	<b>1,338</b>	<b>162</b>	<b>1,423</b>	<b>287</b>	<b>2,761</b>

The total cost of £2.76m in the table above is the amount that has been charged to the Comprehensive Income and Expenditure Statement in 2016/17. There were no provision amounts for exit packages charged to the Comprehensive Income and Expenditure Statement in 2016/17.

Exit Packages 2015/16						
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	51	258	105	755	156	1,013
£20,000 to £39,999	8	223	18	496	26	719
£40,000 to £59,999	-	-	5	240	5	240
£60,000 to £79,999	-	-	1	77	1	77
£80,000 to £99,999	-	-	-	-	-	-
£100,000 to £149,999	-	-	-	-	-	-
£150,000 to £199,999	-	-	-	-	-	-
£200,000 to £249,999	-	-	-	-	-	-
<b>Total</b>	<b>59</b>	<b>481</b>	<b>129</b>	<b>1,568</b>	<b>188</b>	<b>2,049</b>

## Notes to the Accounting Statements

### 36. External Audit Costs

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

	2015/16 £000	2016/17 £000
Fees payable to with regard to external audit services carried out by the appointed auditor for the year	84	84
Fees payable for Tax Advisory	4	5
Fees payable for the certification of grant claims and returns	7	6
<b>Total</b>	<b>95</b>	<b>95</b>

### 37. Grant Income

The Council credited the following grants, contributions, and donations to the Comprehensive Income and Expenditure Statement in 2016/17:

	2015/16		2016/17	
	£000	£000	£000	£000
<b>Credited to Taxation and Non Specific Grant Income</b>				
Council Tax		230,889		247,330
Business Rates		70,326		71,181
Revenue Support Grant:				
General	65,114		45,107	
New Homes Bonus	2,497		2,878	
Transition	-		2,704	
		67,611		50,689
Capital grants and contributions recognised		55,231		54,348
<b>Total</b>		<b>424,057</b>		<b>423,548</b>
<b>Grants Credited to Services</b>				
Dedicated Schools		235,571		226,260
Young Peoples Learning Agency & Sixth Forms		4,071		4,226
Private Finance Initiative		4,755		4,755
Pupil Premium		11,574		10,588
Public Health		25,907		28,697
Education Services		4,920		4,225
Universal Infant Free School Meals		4,089		3,955
Social Care		7,504		-
Disabled Facilities		3,107		5,582
Other		9,744		11,228
<b>Total</b>		<b>311,242</b>		<b>299,516</b>

**Notes** – Details of the Dedicated Schools Grant figure are included in Note 38 below. Council Tax and Business Rates figures include share of Collection fund surplus or deficits.

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

	31 March 2016 £000	31 March 2017 £000
<b>Current Liabilities – Receipts in Advance</b>		
Revenue Grants & Contributions	49	-
<b>Long Term Liabilities – Receipts in Advance</b>		
Capital Grants & Contributions	6,173	5,198

# Notes to the Accounting Statements

## 38. Dedicated Schools Grant

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

Details of the deployment of DSG receivable for 2016/17 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2016/17 before Academy recoupment			336,522
Academy figure recouped for 2016/17			(110,054)
<b>Total DSG after Academy recoupment for 2016/17</b>			<b>226,468</b>
Plus: Brought Forward from 2015/16			4,035
Less: Carry forward to 2017/18 agreed in advance			(953)
<b>Agreed initial budgeted distribution in 2016/17</b>	<b>64,225</b>	<b>165,325</b>	<b>229,550</b>
In year adjustments	48	-	48
<b>Final budgeted distribution for 2016/17</b>	<b>64,273</b>	<b>165,325</b>	<b>229,598</b>
Less: Actual central expenditure	(62,037)		(62,037)
Less: Actual ISB deployed to schools		(165,325)	(165,325)
Plus Local authority contribution for 2016/17	-	-	-
<b>Carry forward to 2017/18</b>	<b>2,236</b>	<b>-</b>	<b>2,236</b>

## School Reserve

The total value of the Individual Schools Budget (the budget which is delegated to schools) for 2016/17 was £165.3m. Schools carried forward (reserve) a net total of £10.4m (6.3%) at the end of the financial year at 31 March 2017, which was a decrease of £4.5m compared to 31 March 2016. Table below shows the numbers and value of schools with surplus and deficits.

		Primary	Secondary	Special	Total
<b>All schools with surpluses</b>					
Number of schools	<b>No.</b>	117	9	2	128
Total surplus	£000	8,236	2,533	285	11,054
<b>All schools with deficits</b>					
Number of schools	<b>No.</b>	9	2	-	11
Total deficit	£000	(212)	(357)	-	(569)
<b>Carry forward</b>	<b>£000</b>	<b>8,024</b>	<b>2,176</b>	<b>285</b>	<b>10,485</b>
Less Capital Loan to Schools	£000	(36)	-	-	(36)
<b>Net carry forward</b>	<b>£000</b>	<b>7,988</b>	<b>2,176</b>	<b>285</b>	<b>10,449</b>

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



### 39. Related Parties

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

#### Central Government

Central government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework, within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from government departments are set out in the subjective analysis in Note 30 on reporting for resources allocation decisions, and further details are shown in Note 37. Grant receipts in advance at 31 March 2017 are shown in Note 37.

#### Members and Chief Officers

Members of the Council have direct control over the Council's financial and operating policies. None of the Chief Officers and Members had any interests in any related party transactions during the year. The Register of Members' Interests is held at County Hall, Lewes, and is open to public inspection. The total of members' allowances paid in 2016/17 is shown in Note 33.

#### Other Public Bodies

During 2016/17, the Pension Fund had an average balance of £4.8m deposited with the Council, and received £28,000 interest for these deposits. The Council charged the Fund £1.3m for expenses incurred in administering the Fund.

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

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

The Council acts as sole trustee for the Ashdown Forest Trust (see Note 48), for the balances held by the Council at 31 March 2017.

The High Weald Unit of the Economy, Transport and Environment Department rented part of the Woodland Enterprises Centre from Woodland Enterprises Ltd (see Note 49) at an annual rent of £13,872 (£13,872 2015/16). There were no long term debts to the company at 31 March 2017.

# Notes to the Accounting Statements

## 40. Capital Expenditure and Capital Financing

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

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

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

	2015/16 £000	2016/17 £000
<b>Opening Capital Financing Requirement</b>	<b>361,385</b>	<b>344,135</b>
Property, Plant and Equipment	88,075	61,081
Intangible assets	4,814	839
Assets Held for Sale	26	42
Heritage assets	-	3
Revenue Expenditure Funded from Capital under Statute	39,156	17,641
<b>Total capital investment</b>	<b>132,071</b>	<b>79,606</b>
Capital receipts	(4,301)	(3,020)
Government grants and contributions	(78,578)	(58,213)
Revenue financing	(49,192)	(16,673)
<b>Total financing other than from loans</b>	<b>(132,071)</b>	<b>(77,906)</b>
Long Term capital debtors	(2,758)	400
<b>Net investment financed from loans</b>		
Minimum Revenue Provision (MRP) for the repayment of loans	(14,492)	(11,041)
<b>Closing Capital Financing Requirement</b>	<b>344,135</b>	<b>335,194</b>

### Explanation of movements in year

Decrease in underlying need to borrow, that is not supported by government financial assistance	(17,250)	(8,941)
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# Notes to the Accounting Statements

## 41. Leases

### Authority as Lessee

**Finance Leases** - As at 31 March 2017, the Council has no assets classed as finance leases.

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

The future minimum lease payments payable in future years are:

	31 March 2016	31 March 2017
	£000	£000
Not later than one year	2,989	3,048
Later than one year and not later than five years	9,577	10,433
Later than five years	17,702	12,869
<b>Total</b>	<b>30,268</b>	<b>26,350</b>

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

	2015/16	2016/17
	£000	£000
Vehicles	184	96
Schools	900	721
Land and Buildings	2,339	2,604
<b>Total</b>	<b>3,423</b>	<b>3,421</b>

Other payments for the renting and hiring of facilities in 2016/17 was £0.060m (£0.062m 2015/16).

### Authority as Lessor

**Finance Leases** - As at 31 March 2017, 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 2016	31 March 2017
	£000	£000
Not later than one year	1,531	1,560
Later than one year and not later than five years	518	194
Later than five years	13	108
<b>Total</b>	<b>2,062</b>	<b>1,862</b>

The total income received from leasing, renting and hiring of facilities in 2016/17 was £1.803m (£2.268m 2015/16).

# Notes to the Accounting Statements

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

Other Long Term Liabilities in the Balance Sheet consist of:

	31 March 2016 £000	31 March 2017 £000
Long Term PFI Liabilities	83,852	80,108
Financial Guarantees	61	62
Long Term Creditors	2	24
<b>Total</b>	<b>83,915</b>	<b>80,194</b>

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

Peacehaven Schools PFI	Telscombe Cliffs £000	Meridian £000	Peacehaven Secondary £000	Peacehaven Heights £000	Total £000
<b>1 April 2016</b>	<b>6,971</b>	<b>220</b>	<b>15,555</b>	<b>4,317</b>	<b>27,063</b>
Additions	750	-	60	20	830
Revaluations	(221)	17	1,725	389	1,910
Depreciation	(236)	(8)	(527)	(228)	(999)
<b>31 March 2017</b>	<b>7,264</b>	<b>229</b>	<b>16,813</b>	<b>4,498</b>	<b>28,804</b>

Waste PFI	Hollingdean WTS & MRF £000	Crowborough HWRS £000	Maresfield WTS & HWRS £000	Whitesmith Composting Facility £000	Newhaven Energy Recovery Facility £000	Pebsham HWRS £000	Total £000
<b>1 April 2016</b>	<b>6,980</b>	<b>-</b>	<b>2,448</b>	<b>8,984</b>	<b>31,541</b>	<b>21</b>	<b>49,974</b>
Revaluations	477	-	145	6,433	1,855	1	8,911
Depreciation	(317)	-	(89)	(290)	(1,133)	(1)	(1,830)
<b>31 March 2017</b>	<b>7,140</b>	<b>-</b>	<b>2,504</b>	<b>15,127</b>	<b>32,263</b>	<b>21</b>	<b>57,055</b>

**Note** - Land values are excluded from the schools and waste PFI accounting models with the exception of the Whitesmith Composting Facility.

### Details of payments to be made under PFI contracts

#### Waste PFI

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

	Reimburse ment of capital expenditure	Interest	Service Charge	Contingent Rent	Total
	£000	£000	£000	£000	£000
Within 1 year: 2017/18	2,981	3,983	16,626	2,849	26,439
Within 2 to 5 years: 2018/19 to 2021/22	9,526	14,409	71,079	9,463	104,477
Within 6 to 10 years: 2022/23 to 2026/27	22,221	13,933	99,706	22,509	158,369
Within 11 to 15 years: 2027/28 to 2031/32	30,031	7,097	113,074	29,270	179,472
Within 16 years: to 2032/33	7,147	393	24,433	6,794	38,767
<b>Total</b>	<b>71,906</b>	<b>39,815</b>	<b>324,918</b>	<b>70,885</b>	<b>507,524</b>

## Notes to the Accounting Statements

### Peacehaven Schools PFI

The Council has a contract with Peacehaven Schools Ltd (PSL) under the Private Finance initiative to provide a new secondary school and replace or refurbish four primary schools in Peacehaven and Telscombe Cliffs. The first school became operational in January 2000. Based on actual inflation to 31 March 2017, and assuming a 3.0% inflation rate for the remaining life of the contract, the payments to be made are set out below:

	Reimbursement of capital expenditure	Interest	Service Charge	Contingent Rent	Total
	£000	£000	£000	£000	£000
Within 1 year: 2017/18	834	1,184	1,600	713	4,331
Within 2 to 5 years: 2018/19 to 2021/22	4,243	3,828	6,895	3,286	18,252
Within 6 to 10 years: 2022/23 to 2026/27	6,941	1,968	8,631	4,517	22,057
<b>Total</b>	<b>12,018</b>	<b>6,980</b>	<b>17,126</b>	<b>8,516</b>	<b>44,640</b>

All operational PFI contracts are now accounted for in a manner that is consistent with the adaptation of IFRIC 12 Service Concession Arrangements contained in the government's Financial Reporting Manual. The original recognition of these fixed assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets. The deferred liability as at 31 March 2017 is £83.9m (£71.9m for Waste PFI, and £12.0m for Peacehaven Schools PFI), and as at 31 March 2016 was £87.4m (£74.7m for Waste PFI, and £12.7m for Peacehaven Schools PFI).

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

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

	Waste PFI	Schools PFI	Total	Included in Short Term Creditors	Included in Long term Liabilities
	£000	£000	£000	£000	£000
<b>Balance outstanding at 1 April 2016</b>	<b>74,717</b>	<b>12,695</b>	<b>87,412</b>	<b>3,560</b>	<b>83,852</b>
Lease principal repayment	(2,811)	(677)	(3,488)	256	(3,744)
<b>Balance outstanding at 31 March 2017</b>	<b>71,906</b>	<b>12,018</b>	<b>83,924</b>	<b>3,816</b>	<b>80,108</b>

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

#### Teachers' Pension Scheme

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

In 2016/17, the Council incurred a total of £13.8m payable to Teachers Pensions in respect of teacher's pension costs, which represents 16.48% of teacher's pensionable pay. In addition the Council is responsible for all pension payments related to added years it has awarded, together with the related increase which amounted to £2.8m. These figures compare to an amount of £13.8m payable in 2015/16 (14.1% of pensionable pay) and £2.7m for added years pensions payable to former teachers.

This is a defined benefit scheme, and although it is unfunded, Teachers Pensions uses a notional fund as the basis for calculating the employer's contribution rate. However, it is not possible to identify the Council's share of the underlying liabilities of the scheme for its own employees. For the purposes of these accounts, it is therefore accounted for as a defined contribution scheme. The Council is responsible for the costs of the additional benefits awarded upon early retirement, and these benefits are fully accrued in the liability included in the balance sheet.

## Notes to the Accounting Statements

As at March 2017, the Council owed £1.75m to Teachers Pensions for the employer's and employee's contribution to the Teachers Pensions Scheme (£1.89m at March 2016). The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 44.

### NHS Pensions Scheme

During 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 2016/17, the Council incurred a total of £0.139m payable to the NHS Pension Scheme in respect of former NHS staff retirement benefits, and there was £0.02m contributions remaining payable at the year end. These figures compare to an amount of £0.137m payable in 2015/16.

## 44. Defined Benefits Pension Schemes

### Participation in Pension Schemes

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

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

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

### 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**

	2015/16 £000	2016/17 £000
	40,297	32,906
	327	745
	17,399	14,581
	<b>58,023</b>	<b>48,232</b>
	16,841	(175,698)
	-	(21,166)
	(142,436)	231,824
	(21,931)	(51,235)
	<b>(89,503)</b>	<b>31,957</b>
	123,433	1,799
	<b>33,930</b>	<b>33,756</b>

## Notes to the Accounting Statements

### 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:

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Present Value of the define benefit obligations: Local Government Pension Scheme	(1,263,248)	(1,338,145)	(1,580,330)	(1,469,360)	(1,671,821)
Fair value of plan assets in the Local Government Pension Scheme	905,659	912,849	1,039,947	1,052,410	1,256,670
<b>Deficit in the scheme: Local Government Pension Scheme</b>	<b>(357,589)</b>	<b>(425,296)</b>	<b>(540,383)</b>	<b>(416,950)</b>	<b>(415,151)</b>

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £1,671.8m (£1,469.4m in 2015/16) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £415.1m (£416.9m in 2015/16).

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 2017 is £33.7m (£40.6m in 2015/16).

Based on the current benefit structure of the Local Government Pension Scheme (LGPS), and using the roll forward model, the actuarial estimate of the present value of funded liabilities as at 31 March 2017 is employee members £563.1m (£621.9m at 31 March 2016), deferred pensioners £358.7m (£245.8m) and pensioners £650.7m (£518.3m). There is also a liability of approximately £48.3m (£38.9m) in respect of LGPS unfunded pensions and £50.9m (£44.3m) in respect of Teachers' unfunded pensions. It is assumed that all unfunded pensions are payable for the remainder of the member's life.

### Assets and Liabilities in Relation to Post-employment Benefits

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

	2015/16 £000	2016/17 £000
<b>Opening balance at 1 April:</b>	<b>1,580,330</b>	<b>1,469,360</b>
Current Service Cost	40,297	32,906
Interest Cost	50,615	51,249
Contributions by scheme participants	8,752	8,582
Re-measurement (gains) and losses:		
• Actuarial gains/losses arising from changes in demographic assumptions	-	(21,166)
• Actuarial gains/losses arising from changes in financial assumptions	(142,436)	231,824
• Other	(21,931)	(51,235)
Past Service Cost	327	745
Losses/(gains) on curtailment	-	-
Liabilities assumed on entity combinations	-	-
Benefits paid	(41,300)	(45,301)
Unfunded Benefits paid	(5,294)	(5,143)
<b>Closing balance at 31 March</b>	<b>1,469,360</b>	<b>1,671,821</b>

## Notes to the Accounting Statements

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

	2015/16 £000	2016/17 £000
<b>Opening fair value of scheme asset at 1 April:</b>	<b>1,039,947</b>	<b>1,052,410</b>
Interest Income	33,216	36,668
Re-measurement gain/(loss):		
• The return on plan assets, excluding the amount included in the net interest expense	(16,841)	175,698
• Other	5,294	5,143
The effect of changes in foreign exchange rates	-	-
Contributions from employer	28,636	28,613
Contributions from employees into the scheme	8,752	8,582
Benefits paid	(41,300)	(45,301)
Unfunded benefits paid	(5,294)	(5,143)
<b>Closing fair value of scheme assets at 31 March</b>	<b>1,052,410</b>	<b>1,256,670</b>

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

The actual return on scheme assets in the year was £14.58m (2015/16: £16.38m).

### Local Government Pension Scheme assets comprised:

	Fair value of scheme assets 2015/16 £000	%	Fair value of scheme assets 2016/17 £000	%
<b>Cash and cash equivalents</b>	<b>35,027</b>	<b>3</b>	<b>49,341</b>	<b>4</b>
<b>Equity instruments:</b>				
<b>By industry type</b>				
• Consumer	19,317	2	23,415	2
• Manufacturing	12,580	1	12,390	1
• Energy and utilities	2,749	-	2,112	-
• Financial institutions	31,099	3	38,008	3
• Health and care	13,333	1	21,521	2
• Information technology	16,013	2	17,908	1
• Other	5,301	1	6,765	1
<b>Sub-total equity</b>	<b>100,392</b>	<b>10</b>	<b>122,119</b>	<b>10</b>
<b>Bonds:</b>				
<b>By sector</b>				
• Government	19,146	2	34,821	3
• Other	19,588	2	2,241	-
<b>Sub-total bonds</b>	<b>38,734</b>	<b>4</b>	<b>37,062</b>	<b>3</b>
<b>Private equity:</b>				
All	62,842	6	71,913	6
Overseas				
<b>Sub-total private equity</b>	<b>62,842</b>	<b>6</b>	<b>71,913</b>	<b>6</b>
<b>Other investment funds:</b>				
• UK Property	124,653	12	120,501	10
• Overseas Property				
<b>Sub-total other investment funds</b>	<b>124,653</b>	<b>12</b>	<b>120,501</b>	<b>10</b>
<b>Investment funds and unit trusts:</b>				
• Equities	545,537	52	692,114	55
• Bonds	122,195	12	144,972	12
• Hedge Funds	1,141	-	1,262	-
• Commodities	517	-	1,861	-



## Notes to the Accounting Statements

- Infrastructure
- Other

### Sub-total Investment funds and unit trusts

### Derivatives:

- Foreign exchange

### Total assets

Fair value of scheme assets 2015/16 £000	%	Fair value of scheme assets 2016/17 £000	%
17,771	2	13,891	-
3,601	-	1,369	-
<b>690,762</b>	<b>65</b>	<b>855,469</b>	<b>67</b>
-	-	<b>265</b>	-
<b>1,052,410</b>	<b>100</b>	<b>1,256,670</b>	<b>100</b>

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The County Council Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, based on the calculations in the latest full valuation of the scheme as at 31 March 2013 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

	2015/16	2016/17
Men	22.2	22.1
Women	24.4	24.4
Men	24.2	23.8
Women	26.7	26.3
Rate of increase in salaries	4.2%	2.8%
Rate of inflation/increase in pensions	2.2%	2.4%
Rate for discounting scheme liabilities	3.5%	2.6%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme i.e., on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

#### Change in assumptions at 31 March 2017:

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

Impact on the Defined Benefit Obligation in the Scheme	
Approximate increase to Employer	Approximate monetary amount
%	£000
0.5	151,327
1	19,140
8	130,329

At 31 March 2017, the Council owed £3.09m (£3.13m 31 March 2016) 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 2013, can be found on pages 95 to 124.

## 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 2014. In summary, these are;

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

The Fund has agreed a strategy with its Actuary to achieve a funding level of 100% over the next 21 years. The funding level for the Fund is monitored on a regular basis. The next triennial valuation is due to be completed on 31 March 2016.

The 2013 actuarial valuation took account of the changes made under the Public Service Pensions Act 2013. In particular, the Local Government Pension Scheme Regulations 2013 introduced a new career average revalued earnings scheme from 1 April 2014. Benefits accrued under the provisions set out in the previous LGPS Regulations are protected, i.e. the accrual of benefits under the new career average revalued earnings structure applies for post 1 April 2014 service only.

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 2017 are set out in the Rates and Adjustments certificate. For further details on the approach adopted to set contribution rates for the Employer, please refer to the 2013 actuarial valuation report dated 28 March 2014.

The estimate of the Employer's contributions for the period to 31 March 2017 will be approximately £28,363m. The weighted average duration of the defined benefit obligation for scheme members as at the date of the 2013 valuation was 17.9 years.

## 45. Contingent Liabilities

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

## 46. Contingent Assets

A Global Litigation Order to the High Court seeking the issue of an invoice for VAT and compound interest on universal postage services provided by the Royal Mail from 1973 to date, this is for a sum in excess of £1.9 million. A provisional date of 7 July 2017 has been given.

A claim of compound interest from HMRC, which has been lodged at the High Court for a sum in excess of £300,000. The Court of Appeal held 'yes' but HMRC has appealed to the Supreme Court (and 'Littlewoods' has cross-appealed) with the case listed for hearing on 3-6 July 2017.

## 47. Nature and extent of risks arising from Financial Instruments

### Key Risks

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

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

### Overall Procedures for Managing Risk

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

- by formally adopting the requirements of the Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations;

## Notes to the Accounting Statements

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

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

The annual Treasury Management Strategy which incorporates the prudential indicators was approved by Full Council on 9 February 2016 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2016/17 was set at £422 million. This is the maximum limit of external borrowings or other long term liabilities;
- The Operational Boundary was expected to be £402 million. This is the expected level of debt and other long term liabilities during the year;
- The maximum amounts of fixed and variable rate interest rate exposure were set at 100% and 15% based on the Council's net debt;
- The maximum and minimum exposures to the maturity structure of debt are shown under the Refinancing and Maturity Risk section of this note.

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

### Credit risk

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

The Council's Treasury Management is kept under constant review and due to the exceptional risks of the international financial crisis the strategy was amended a number of times between 2008/09 and 2016/17. Whilst the credit crisis in international markets has raised the overall possibility of default, the Council maintains strict credit criteria for investment counterparties. The credit criteria in respect of financial assets held by the Council at 31 March 2017 are detailed below.

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

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

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

## Notes to the Accounting Statements

- 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

<b>Yellow</b>	<b>Purple</b>	<b>Blue</b>	<b>Orange</b>	<b>Red</b>	<b>Green</b>	<b>No Colour</b>
<i>Up to 2yrs</i>	<i>Up to 2yrs</i>	<i>Up to 1yr</i>	<i>Up to 1yr</i>	<i>Up to 6 mths</i>	<i>Up to 100 days</i>	<i>Not used</i>

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

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

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £242.0m and cash deposits of £24.2m 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 2017 that this was likely to crystallise.

No breaches of the Council's counterparty criteria occurred during the reporting period. In October 2008, the Icelandic banking sector defaulted on its obligations but the Council had no funds invested in this sector. All the Council's deposits are made through the London Money Markets. As at 31 March 2017, the Council's investments and cash deposits included £256.2m with UK banks and £10.0m with Svenska Handelsbanken, a Swedish bank. The Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The following analysis summarises the Council's maximum exposure to credit risk from customers, based on experience of default and adjusted to reflect current market conditions. The Council does not generally allow credit for its customers, however £11.1m in 2016/17 (£9.5m 2015/16) is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	<b>31 March 2016</b>	<b>31 March 2017</b>
	<b>£000</b>	<b>£000</b>
Less than three months	7,193	7,878
Three to five months	277	1,235
Five months to one year	489	421
More than one year	1,575	1,542
<b>Total</b>	<b>9,534</b>	<b>11,076</b>

### Liquidity risk

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

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

The maturity analysis of financial assets is as follows:

	<b>31 March 2016</b>	<b>31 March 2017</b>
	<b>£000</b>	<b>£000</b>
Less than one year (current assets)	308,679	293,914
Between one and two years	2,828	3,229
<b>Total</b>	<b>311,507</b>	<b>297,143</b>

## Refinancing and Maturity Risk

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

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

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

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

	Approved Minimum Limit	Approved Maximum Limit	31 March 2016	31 March 2017
	%	%	£000	£000
Less than one year (current liabilities)	0%	25%	100,796	104,323
Between one and two years	0%	40%	17,266	18,382
Between two and five years	0%	60%	39,460	39,376
Between five and ten years	0%	80%	52,601	55,450
More than ten years	0%	80%	245,009	237,795
<b>Total</b>			<b>455,132</b>	<b>455,326</b>

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

## Market risk

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

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

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

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

## Notes to the Accounting Statements

If all interest rates had been 1% higher (with all other variables held constant) the financial effect in 2016/17 would be:

	£000
Increase in interest payable on variable rate borrowings (none held)	-
Increase in interest receivable on variable rate investments	242
Impact on Comprehensive Income and Expenditure	<u>242</u>

The approximate impact of a 1% fall in interest rates would be as above, but with the movements being reversed. This figure of £0.24 million (£0.23 million in 2015/16) represents the immediate impact on the Council investments that are on variable rate, but ignores the impact of short-term fixed rate investments. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at Amortised Cost.

The Council has a 19% interest in Woodland Enterprises, a company limited by guarantee, which was set up to create prosperity in woodland and wood industries through sustainable development. The net assets value of the company at 31 March 2017 was £14,623. The legal liability of the County Council is limited to £1. As no amount has been invested in this company, since it is limited by guarantee, and investments are carried at cost, the Council has not recognised any amount as an investment in this company.

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

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

### 48. Trust Funds

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

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

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

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

	2016/17			Closing Balance £000
	Opening Balance £000	Income £000	Expenditure £000	
<b>Sole trustee funds</b>				
Music Trust	617	-	(24)	593
Robertsbridge Youth Centre	106	1	-	107
Lewes Educational Charity	43	16	-	59
How Scholarship	5	-	-	5
Wright Legacy	2	-	-	2
<b>Total sole trustee funds</b>	<b>773</b>	<b>17</b>	<b>(24)</b>	<b>766</b>
Ashdown Forest Trust	1,359	70	(73)	1,356
General trust funds	64	-	(4)	60
Comforts funds	89	8	(28)	69
<b>Total trust funds</b>	<b>2,285</b>	<b>95</b>	<b>(129)</b>	<b>2,251</b>

### 49. Closed Landfill Sites

A former or closed landfill site is an area that has previously been used to dispose of rubbish from the construction industry, commercial businesses and households. The closed site will have ceased accepting rubbish and will be under restoration. When a landfill site is originally granted planning permission, the future land use is sometimes agreed as part of the planning application. If not, the site will usually be restored so that it can be used for either recreational purposes or agriculture such as grazing.

To ensure closed landfill sites are safe, they are regularly monitored. The Council currently monitors 19 closed landfill sites of which most are over 30 years old and closed in the 1980's. The Council is responsible for aftercare costs as there is a potential risk from leachate (toxic water) and escaped gases such as methane, carbon dioxide and other gases which may be flammable. In accordance with Environment Agency legislation, the Council has made a provision for a past event of up to 60 years for future aftercare costs for each site. The provision is the best estimate of the expenditure required to settle the obligation. Over the remaining aftercare life for each site, the Council will charge aftercare costs to the provision and so reduce the liability. At 31 March 2017, the liability had reduced to £9.68m (£9.80m at 31 March 2016).

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 31), has recognised the land value in the Balance Sheet. Four of the sites are located on land included elsewhere in the Council's Balance Sheet and the remaining four sites are valued separately as Property, Plant & Equipment at £2.0m at 31 March 2017 (£2.0m at 31 March 2016).

## Introduction

The Local Government Pension Scheme (LGPS) is a statutory pension scheme, whose rules are governed by Parliament in accordance with the Public Services Pensions Act 2013. The rules of the scheme are provided in the Local Government Pension Scheme Regulations that came into force from 1 April 2014 and provide the statutory basis within which the Scheme can operate. Separate transitional regulations provide the link between the old and new scheme provisions.

Although a national pension scheme, mainly set up for the benefit of local government employees, the LGPS is in fact administered locally. The LGPS is open to all non teaching employees of the County Council, District and Borough Councils and Unitary Authorities in East Sussex, as well as Colleges of Further Education, Academies, Town and Parish Councils and a small number of charitable organisations who have applied to be treated as “admission bodies”. In addition, the LGPS allows employees of private contractors to participate in the Scheme where they are providing a service or assets in connection with the functions of a scheme employer, in accordance with the specific requirements of the LGPS Regulations. The scheme is not open to teachers or fire fighters, as these groups of employees have separate pension schemes.

East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund on behalf of all the participating employers of the Fund in East Sussex, and in turn the past and present contributing members, and their dependents.

The Fund receives contributions from both employees and employers, as well as income from its investments. All of these elements put together then meet the cost of paying pensions, as well as the other benefits of the pension scheme. As part of its responsibilities as the administering authority the County Council is responsible for setting investment policy and reviewing the performance of the Fund’s external investment managers.

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

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

A major responsibility of the County Council as the administering authority is to undertake a valuation of the Pension Fund’s assets and liabilities (triennial valuation). The main purpose of this exercise is to assess the size of the Fund’s current and future liabilities against the Fund’s assets, and then set the employer contribution to the Fund for each participating employer for the following three year period. The most recent actuarial valuation of the Fund was carried out as at 31 March 2016. In addition to the triennial valuation of the Pension Fund, the County Council also receives requests each year from scheme employers to obtain appraisal reports from the Fund actuary, to enable them to comply with requirements of the Financial Reporting Standards FRS102 or IAS19. The provision of these reports, however, falls outside of the functions of the County Council as an administering authority.

It is important to note that ultimate responsibility for both the administration of the Pension Fund and the investment of all monies associated with the Fund remains with the County Council. The County Council has in place an established annual employers’ pension forum, to update and involve all the participating employers of the East Sussex Pension Fund, which is always well attended.

Currently within the East Sussex Pension Fund there are 127 participating employers. A full list of participating employers is given at Note 29.



## Fund Account for the year ended 31 March 2017

2015/16			2016/17	
£000	£000		£000	£000
		<b>Dealings with members, employers and others directly involved in the fund</b>		
		Contributions	7	
(92,259)		From Employers		(93,918)
<u>(27,904)</u>		From Members		<u>(27,900)</u>
	(120,163)			(121,818)
	<u>(3,656)</u>	Transfers in from other pension funds	8	<u>(8,554)</u>
	(123,819)			(130,372)
	118,469	Benefits	9	120,776
	<u>4,940</u>	Payments to and on account of leavers	10	<u>3,626</u>
	123,409			124,402
	<b>(410)</b>	<b>Net (additions)/withdrawals from dealings with members</b>		<b>(5,970)</b>
	<b>13,465</b>	<b>Management expenses</b>	11	13,591
		<b>Returns on investments</b>		
	(42,096)	Investment income	12	(43,060)
	506	Taxes on income	13a	391
	3,719	Profit and losses on disposal of investments and changes in the market value of investments	14a	<u>(536,030)</u>
	<b>(37,871)</b>	<b>Net return on investments</b>		<b>(578,699)</b>
	<b>(24,816)</b>	<b>Net increase in fund during the year</b>		<b>(571,078)</b>
	<u>(2,746,549)</u>	Add opening net assets of the scheme		<u>(2,771,365)</u>
	<b>(2,771,365)</b>	<b>Closing net assets of the scheme</b>		<b>(3,342,443)</b>

## Net Assets Statement for the year ended 31 March 2017

31 March 2016 £000		Notes	31 March 2017 £000
2,684,489	Investment assets	14	3,198,119
3,031	Other Investment balances	21	4,161
(1,519)	Investment liabilities	22	(1,680)
79,131	Cash deposits	14	134,212
<b>2,765,132</b>	<b>Total net investments</b>		<b>3,334,812</b>
10,936	Current assets	21	10,703
(4,703)	Current liabilities	22	(3,072)
<b>2,771,365</b>	<b>Net assets of the fund available to fund benefits at the year end.</b>		<b>3,342,443</b>

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

### Treasurers Certificate

I certify that the accounts of the East Sussex Pension Fund provide a true and fair view of the Pension Fund at 31 March 2017 and of the movements for the year then ended.

### Ian Gutsell

Chief Finance Officer (Section 151 Officer)

Business Services Department

18 July 2017

# Notes to the East Sussex Pension Fund Accounts

## 1: Description of fund

The East Sussex Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by East Sussex County Council. The County Council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, references should be made to the East Sussex Pension Fund Annual Report 2016/17 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

### a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

### b) Membership

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

Organisations participating in the East Sussex Pension Fund include:

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

There are 127 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2016	31 March 2017
Number of employers with active members	109	127
<b>Number of employees</b>		
County Council	8,789	8,252
Other employees	14,578	15,315
<b>Total</b>	<b>23,367</b>	<b>23,567</b>
<b>Number of pensioners</b>		
County Council	7,987	8,402
Other employers	9,955	10,410
<b>Total</b>	<b>17,942</b>	<b>18,812</b>
<b>Deferred pensioners</b>		
County Council	13,062	13,685
Other employers	14,282	15,168
<b>Total</b>	<b>27,344</b>	<b>28,853</b>

### c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 6.7% to 44.5% of pensionable pay.

## Notes to the East Sussex Pension Fund Accounts

### d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

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

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is 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 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector.

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

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

## 3: Summary of significant accounting policies

### Fund account – revenue recognition

#### a) Contribution income

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

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

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

#### b) Transfers to and from other schemes

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

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

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

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

#### c) Investment income

##### i. Interest income

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

##### ii. Dividend income

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

iii. Distributions from pooled funds

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

iv. Movement in the net market value of investments

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

### Fund account – expense items

**d) Benefits payable**

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

**e) Taxation**

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

**f) Management expenses**

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

**Administrative expenses**

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

**Oversight and governance costs**

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

**Investment management expenses**

All investment management expenses are accounted for an accruals basis.

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

Where an investment manager's fee has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2016/17, £1.6m of fees is based on such estimates (2015/16: £1.0m).

### Net assets statement

**g) Financial assets**

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

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

**h) Foreign currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

### i) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes (see Note 15).

### j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

### k) Financial liabilities

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

### l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

### m) Additional voluntary contributions

East Sussex Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

### n) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

## 4: Critical judgements in applying accounting policies

### Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using International Private Equity and Venture Capital Valuation Guidelines 2012. The value of unquoted private equities at 31 March 2017 was £191.3 million (£167.4 million at 31 March 2016).

### 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.

# Notes to the East Sussex Pension Fund Accounts

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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net assets statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits</b>	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2016 Valuation the actuary advised that: <ul style="list-style-type: none"> <li>A 0.2% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £101 million (3%).</li> <li>A 0.2% increase in benefit increases and CARE revaluation would increase the value of liabilities by approximately £91 million (3%).</li> <li>A change in methodology from peaked to non-peaked longevity would increase the liability by approximately £94 million (3%).</li> </ul>
<b>Debtors</b>	At 31 March 2017, the fund had a balance of sundry debtors of £1.2 million. The fund makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable.	Where the expectation is different from the original estimate, such difference will affect the carrying value of receivables.
<b>Private equity</b>	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £191.3 million. There is a risk that this investment may be under or overstated in the accounts depending on use of estimates applied in the valuation models by the fund managers.

## 6: Events after the balance sheet date

There have been no events since 31 March 2016, and up to the date when these accounts were authorised that require any adjustments to these accounts.

## 7: Contributions Receivable

	2015/16 £000	2016/17 £000
<b>By category</b>		
Employee's contributions	27,904	27,900
Employer's contributions		
Normal contributions	86,306	87,505
Deficit recovery contributions	5,085	5,030
Augmentation contributions	868	1,383
<b>Total</b>	<b>120,163</b>	<b>121,818</b>
<b>By authority</b>		
Scheduled bodies	71,816	74,461
Admitted bodies	5,230	4,098
Administrative Authority	43,117	43,259
<b>Total</b>	<b>120,163</b>	<b>121,818</b>

# Notes to the East Sussex Pension Fund Accounts

## 8: Transfers in from other pension funds

	2015/16	2016/17
	£000	£000
Group transfers	-	-
Individual transfers	3,656	8,554
<b>Total</b>	<b>3,656</b>	<b>8,554</b>

## 9: Benefits payable

	2015/16	2016/17
	£000	£000
<b>By category</b>		
Pensions	98,309	101,092
Commutation and lump sum retirement benefits	17,025	17,007
Lump sum death benefits	3,135	2,677
<b>Total</b>	<b>118,469</b>	<b>120,776</b>
<b>By authority</b>		
Scheduled bodies	67,780	68,685
Admitted bodies	3,384	3,134
Administrative Authority	47,305	48,957
<b>Total</b>	<b>118,469</b>	<b>120,776</b>

## 10: Payments to and on account of leavers

	2015/16	2016/17
	£000	£000
Refunds to members leaving service	231	343
Group transfers	759	520
Individual transfers	3,950	2,763
<b>Total</b>	<b>4,940</b>	<b>3,626</b>

## 11: Management expenses

	2015/16	2016/17
	£000	£000
Administrative costs	1,065	1,037
Investment management expenses	11,659	11,811
Oversight and governance costs	741	743
<b>Total</b>	<b>13,465</b>	<b>13,591</b>

### 11a: Investment management expenses

	2015/16	2016/17
	£000	£000
Management fees	11,026	11,444
Custody fees	151	68
Transaction costs*	482	299
<b>Total</b>	<b>11,659</b>	<b>11,811</b>

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

During the year, the Pension Fund incurred management fees which were deducted at source for 2016/17 of £2.7m (£2.4m in 2015/16) on its private equity investments, fees of £0.6m (£0.7m in 2015/16) on its infrastructure investments and fees of £0.7m (£0.4m in 2015/16) 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

	2015/16	2016/17
	£000	£000
Income from equities	10,528	6,656
Income from bonds	2,453	2,559
Private equity income	18	147
Pooled property investments	8,772	10,287
Pooled investments - unit trusts and other managed funds	19,885	22,963
Interest on cash deposits	418	382
Class Actions	22	66
<b>Total</b>	<b>42,096</b>	<b>43,060</b>

### 13: Other fund account disclosures

#### 13a: Taxes on income

	2015/16	2016/17
	£000	£000
Withholding tax – equities	(303)	(179)
Withholding tax – pooled	(203)	(212)
<b>Total</b>	<b>(506)</b>	<b>(391)</b>

#### 13b: External audit costs

	2015/16	2016/17
	£000	£000
Payable in respect of external audit	27	27
Payable in respect of other services	-	-
<b>Total</b>	<b>27</b>	<b>27</b>

### 14: Investments

	2015/16	2016/17
	£000	£000
<b>Investment assets</b>		
Bonds	429,154	478,518
Equities	290,442	341,077
Pooled Investments	1,420,022	1,820,986
Pooled property investments	322,775	321,767
Private equity/infrastructure	216,898	227,497
Commodities	3,613	4,930
Multi Asset	1,585	3,344
<b>Derivative contracts:</b>		
Forward Currency Contracts	1,656	712
	<b>2,686,145</b>	<b>3,198,831</b>
Cash deposits with Custodian	79,131	134,212
Other Investment balances (Note 21)	1,375	3,449
<b>Total investment assets</b>	<b>2,766,651</b>	<b>3,336,492</b>
Investment Liabilities (Note 22)	(1,510)	(1,669)
<b>Derivative contracts:</b>		
Forward Currency Contracts	(9)	(11)
<b>Total Investment Liabilities</b>	<b>(1,519)</b>	<b>(1,680)</b>
<b>Net investment assets</b>	<b>2,765,132</b>	<b>3,334,812</b>

## Notes to the East Sussex Pension Fund Accounts

### 14a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2017
	£000	£000	£000	£000	£000
Bonds	429,154	42,918	(60,764)	67,210	478,518
Equities	290,442	84,564	(107,578)	73,649	341,077
Pooled investments	1,420,022	26,862	(5,670)	379,772	1,820,986
Pooled property investments	322,775	18,831	(21,089)	1,250	321,767
Private equity/infrastructure	216,898	21,915	(35,954)	24,638	227,497
Commodities	3,613	3,878	(3,109)	549	4,930
Multi Asset	1,585	5,617	-	(3,858)	3,344
	<b>2,684,489</b>	<b>204,585</b>	<b>(234,164)</b>	<b>543,209</b>	<b>3,198,119</b>
<b>Derivative contracts</b>					
■ Forward currency contracts	1,647	47,914	(39,295)	(9,565)	701
	<b>2,686,136</b>	<b>252,499</b>	<b>(273,459)</b>	<b>533,644</b>	<b>3,198,820</b>
<b>Other investment balances:</b>					
■ Cash deposits	79,131			2,386	134,212
■ Other Investment Balances	1,375				3,449
■ Investment Liabilities	(1,510)				(1,669)
<b>Net investment assets</b>	<b>2,765,132</b>			<b>536,030</b>	<b>3,334,812</b>

	Market value 1 April 2015	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 2016
	£000	£000	£000	£000	£000
Bonds	426,154	20,366	(21,358)	3,992	429,154
Equities	692,429	317,630	(685,770)	(33,847)	290,442
Pooled investments	1,033,431	388,907	(2,495)	179	1,420,022
Pooled property investments	287,569	19,969	(8,819)	24,056	322,775
Private equity/infrastructure	215,199	27,246	(38,732)	13,185	216,898
Commodities	6,842	3,080	(5,788)	(521)	3,613
Multi Asset	5,798	2,449	(1,338)	(5,324)	1,585
	<b>2,667,422</b>	<b>779,647</b>	<b>(764,300)</b>	<b>1,720</b>	<b>2,684,489</b>
<b>Derivative contracts</b>					
■ Forward currency contracts	(1,306)	15,692	(6,728)	(6,011)	1,647
	<b>2,666,116</b>	<b>795,339</b>	<b>(771,028)</b>	<b>(4,291)</b>	<b>2,686,136</b>
<b>Other investment balances:</b>					
■ Cash deposits	81,220			572	79,131
■ Other Investment Balances	3,551				1,375
■ Investment Liabilities	(10,973)				(1,510)
<b>Net investment assets</b>	<b>2,739,914</b>			<b>(3,719)</b>	<b>2,765,132</b>

## Notes to the East Sussex Pension Fund Accounts

### 14b: Analysis of investments

	2015/16	2016/17
	£000	£000
<b>Bonds</b>		
<b>UK</b>		
Corporate quoted	191,721	200,893
Public sector quoted	198,883	271,704
<b>Overseas</b>		
Public sector quoted	38,550	5,921
	<b>429,154</b>	<b>478,518</b>
<b>Equities</b>		
<b>UK</b>		
Quoted	45,010	51,161
Unquoted	8,500	3,627
<b>Overseas</b>		
Quoted	236,932	286,289
	<b>290,442</b>	<b>341,077</b>
<b>Pooled funds - additional analysis</b>		
<b>UK</b>		
Unit trusts	549,263	647,124
<b>Overseas</b>		
Unit trusts	870,759	1,173,862
	<b>1,420,022</b>	<b>1,820,986</b>
Pooled property investments	322,775	321,767
Private equity/infrastructure	216,898	227,497
Commodities	3,613	4,930
Multi Asset	1,585	3,344
Derivatives	1,656	712
	<b>546,527</b>	<b>558,250</b>
Cash deposits	79,131	134,212
Other investment balances (Note 21)	1,375	3,449
	<b>80,506</b>	<b>137,661</b>
<b>Total investment assets</b>	<b>2,766,651</b>	<b>3,336,492</b>
Investment Liabilities (Note 22)	(1,510)	(1,669)
Derivatives	(9)	(11)
<b>Total Investment Liabilities</b>	<b>(1,519)</b>	<b>(1,680)</b>
<b>Net investment assets</b>	<b>2,765,132</b>	<b>3,334,812</b>

## Notes to the East Sussex Pension Fund Accounts

### 14c: Investments analysed by fund manager

	Market value 31 March 2016		Market value 31 March 2017	
	£000	%	£000	%
Prudential M&G	111,779	4.0%	128,577	3.9%
East Sussex Pension Fund Cash	54,563	2.0%	53,220	1.6%
UBS Infrastructure Fund	20,726	0.7%	22,850	0.7%
Prudential Infracapital	28,728	1.0%	13,952	0.4%
Legal & General	822,218	29.8%	1,050,300	31.4%
M&G UK Financing Fund	8,500	0.3%	5,234	0.2%
Schroders Property	325,867	11.8%	327,945	9.8%
Harbourvest Strategies	79,284	2.9%	89,752	2.7%
Adams St Partners	88,603	3.2%	101,559	3.0%
M&G Absolute Return Bonds	67,434	2.4%	72,335	2.2%
Ruffer LLP	240,264	8.7%	292,582	8.8%
Newton Investment Management	253,240	9.2%	285,931	8.6%
Longview Partners	180,739	6.5%	233,171	7.0%
State Street Global Advisers	483,187	17.5%	657,404	19.7%
	<b>2,765,132</b>		<b>3,334,812</b>	

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

Security	Market Value 31 March 2016	% of total fund	Market value 31 March 2017	% of total fund
	£000		£000	
State Street Fundamental Index	483,244	17.5%	657,404	19.7%
L&G UK Equity Index	260,786	9.4%	319,171	9.6%
L&G North America Equity Index	230,151	8.3%	310,596	9.3%
Newton Real Return (Pooled Fund)	253,601	9.2%	285,931	8.6%
L&G Over 5 year Index Gilt Linked	147,197	5.3%	179,595	5.4%

### 14d: Stock lending

The East Sussex Pension Fund has not operated a stock lending programme since 13<sup>th</sup> October 2008.

## 15: Analysis of derivatives

### Objectives and policies for holding derivatives

Derivatives can be used to hedge liabilities or hedge exposures to reduce risk in the fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the fund and the various investment managers.

#### a) Futures

The scheme's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio without disturbing the underlying assets.

#### b) Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the fund's quoted equity portfolio is in overseas stock markets. The fund can participate in forward currency contracts in order to reduce the volatility associated with fluctuating currency rates.

#### c) Options

The fund wants to benefit from the potentially greater returns available from investing in equities but wishes to minimise the risk of loss of value through adverse equity price movements. The fund buys equity option contracts that protect it from falls in value in the main markets in which the scheme invests.

## Notes to the East Sussex Pension Fund Accounts

### Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	Liability value
		000		000	£000	£000
Up to 2 months	GBP	1,361	JPY	(187,692)	14	-
Up to 2 months	GBP	555	USD	(691)	3	-
Greater than 2 months	GBP	4,491	EUR	(5,174)	57	-
Greater than 2 months	GBP	36,624	JPY	(5,089,710)	67	(11)
Greater than 2 months	GBP	21,609	USD	(26,353)	571	-
					712	(11)

### Net forward currency contracts at 31 March 2017

#### Prior year comparative

Open forward currency contracts at 31 March 2016	1,656	(9)
<b>Net forward currency contracts at 31 March 2015</b>	<b>1,647</b>	

### 16: Fair value – basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market-quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not Required	Not Required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not Required	Not Required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not Required	Not Required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not Required	Not Required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not Required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not Required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not Required
Pooled investments	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not Required

## Notes to the East Sussex Pension Fund Accounts

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2017 £000	Value on increase £000	Value on decrease £000
Equities	18%	19,352	22,835	15,869
Pooled property investments	14%	321,767	366,814	276,720
Private Equity/Infrastructure	28%	227,497	291,196	163,798
<b>Total</b>		<b>568,616</b>	<b>680,846</b>	<b>456,386</b>

### 16a: Fair value hierarchy

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

#### Level 1

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

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

#### Level 2

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

#### Level 3

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

## Notes to the East Sussex Pension Fund Accounts

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 2017	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	2,448,904	184,760	568,616	3,202,280
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(1,680)	-	(1,680)
<b>Net investment assets</b>	<b>2,448,904</b>	<b>183,080</b>	<b>568,616</b>	<b>3,200,600</b>

	Quoted market price	Using observable inputs	With Significant unobservable inputs	Total
Values at 31 March 2016	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	1,837,623	281,259	568,638	2,687,520
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	99,759	(101,278)	-	(1,519)
<b>Net investment assets</b>	<b>1,937,382</b>	<b>179,981</b>	<b>568,638</b>	<b>2,686,001</b>

### 16b: Transfers between levels 1 and 2

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

### 16c: Reconciliation of fair value measurements within level 3

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

# Notes to the East Sussex Pension Fund Accounts

## 17: Financial instruments

### 17a: Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (including cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2016			31 March 2017		
Market value Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Market value Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
<b>Financial Assets</b>					
429,154	-	-	478,518	-	-
290,442	-	-	341,077	-	-
1,420,022	-	-	1,820,986	-	-
322,775	-	-	321,767	-	-
216,898	-	-	227,497	-	-
3,613	-	-	4,930	-	-
1,585	-	-	3,344	-	-
1,656	-	-	712	-	-
-	79,131	-	-	134,212	-
-	-	-	-	399	-
1,375	-	-	3,449	-	-
-	10,936	-	-	10,304	-
<b>2,687,520</b>	<b>90,067</b>	-	<b>3,202,280</b>	<b>144,915</b>	-
<b>Financial liabilities</b>					
(9)	-	-	(11)	-	-
(1,510)	-	-	(1,669)	-	-
-	-	(4,703)	-	-	(3,072)
<b>(1,519)</b>	-	<b>(4,703)</b>	<b>(1,680)</b>	-	<b>(3,072)</b>
<b>2,686,001</b>	<b>90,067</b>	<b>(4,703)</b>	<b>3,200,600</b>	<b>144,915</b>	<b>(3,072)</b>

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

	31 March 2016 £000	31 March 2017 £000
<b>Financial assets</b>		
Fair value through profit and loss	1,620	543,255
Loans and receivables	673	2,340
<b>Financial liabilities</b>		
Fair value through profit and loss	(6,012)	(9,565)
<b>Total</b>	<b>(3,719)</b>	<b>536,030</b>

## 18: Nature and extent of risks arising from financial instruments

### Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The fund manages these investment risks as part of its overall pension fund risk management programme.

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



## a) Market risk

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

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

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

The fund manages these risks in two ways:

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

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

### Other price risk

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

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

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

### Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period:

Asset Type	Potential Market Movements (+/-)
Index Linked	9%
Other Bonds	9%
UK equities	16%
Global equities	18%
Absolute Return	13%
Pooled property investments	14%
Private Equity	29%
Infrastructure funds	20%

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

## 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 2017 £000	Value on increase £000	Value on decrease £000
Index Linked	179,611	195,776	163,446
Other Bonds	200,893	218,972	182,812
UK equities	358,102	415,398	300,806
Global equities	1,396,045	1,647,334	1,144,758
Absolute Return	514,204	581,050	447,358
Pooled property investments	321,767	366,814	276,720
Private Equity	190,695	245,996	135,394
Infrastructure funds	36,802	44,162	29,442
Net derivative assets	701	701	701
<b>Total assets available to pay benefits</b>	<b>3,198,820</b>	<b>3,716,203</b>	<b>2,681,437</b>

Asset Type	Values at 31 March 2016 £000	Value on increase £000	Value on decrease £000
Index Linked	147,197	158,973	135,421
Other Bonds	179,213	195,342	163,084
UK equities	394,039	461,026	327,052
Global equities	953,271	1,143,925	762,617
Pooled property investments	325,731	374,591	276,871
Private Equity	167,888	216,575	119,201
Infrastructure funds	49,454	59,345	39,563
Absolute Return	491,108	554,952	427,264
Net derivative assets	1,647	1,647	1,647
<b>Total assets available to pay benefits</b>	<b>2,709,548</b>	<b>3,166,376</b>	<b>2,252,720</b>

### Interest rate risk

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

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

The fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	As at 31 March 2016 £000	As at 31 March 2017 £000
Cash with Custodian	79,131	134,212
Cash balances	(369)	399
Fixed interest securities	191,721	200,893
<b>Total</b>	<b>270,483</b>	<b>335,504</b>

### 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.

## Notes to the East Sussex Pension Fund Accounts

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:

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

<b>Asset type</b>	<b>Carrying amount as at 31 March 2016</b>	<b>Potential movement on 1 % change in interest rates</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	79,131	-	79,131	79,131
Cash balances	(369)	-	(369)	(369)
Fixed interest securities	191,721	1,917	193,638	189,804
<b>Total change in assets available</b>	<b>270,483</b>	<b>1,917</b>	<b>272,400</b>	<b>268,566</b>

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

<b>Income Source</b>	<b>Amount receivable as at 31 March 2016</b>	<b>Potential movement on 1 % change in interest rates</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash deposits/cash and cash equivalents	418	788	1,206	(370)
Fixed interest securities	1,641	-	1,641	1,641
<b>Total change in assets available</b>	<b>2,059</b>	<b>788</b>	<b>2,847</b>	<b>1,271</b>

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

### Currency risk

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

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

## Notes to the East Sussex Pension Fund Accounts

The following table summarises the fund's currency exposure as at 31 March 2017 and as at the previous period end:

<b>Currency exposure - asset type</b>	<b>Asset value as at 31 March 2016 £000</b>	<b>Asset value as at 31 March 2017 £000</b>
Overseas index linked	38,550	5,921
Overseas quoted securities	236,931	286,289
Overseas unit trusts	870,760	1,173,862
<b>Total overseas assets</b>	<b>1,146,241</b>	<b>1,466,072</b>

### Currency risk – sensitivity analysis

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

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

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

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

<b>Currency exposure - asset type</b>	<b>Values at 31 March 2016 £000</b>	<b>Potential Market movement £000</b>	<b>Value on increase £000</b>	<b>Value on decrease £000</b>
Overseas Index Linked	38,550	5,012	43,562	33,538
Overseas quoted securities	236,931	30,801	267,732	206,130
Overseas unit trusts	870,760	113,199	983,959	757,561
<b>Total change in assets available</b>	<b>1,146,241</b>	<b>149,012</b>	<b>1,295,253</b>	<b>997,229</b>

### b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimise credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

The fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits in recent years.

## Notes to the East Sussex Pension Fund Accounts

Summary	Asset value as at 31 March 2016 £000	Asset value as at 31 March 2017 £000
<b>Money market funds</b>		
NTGI Global Cash Fund	65,450	78,993
<b>Short term bills and notes</b>		
UK Treasury bills	11,588	50,033
<b>Bank deposit accounts</b>		
Non NT cash accounts	-	-
<b>Bank current accounts</b>		
NT custody cash accounts	2,093	5,186
<b>Total overseas assets</b>	<b>79,131</b>	<b>134,212</b>

### c) Liquidity risk

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

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

All financial liabilities at 31 March 2017 are due within one year.

### Refinancing risk

The key risk is that the fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

## 19: Funding arrangements

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

### East Sussex Pension Fund ("the Fund")

#### Actuarial Statement for 2016/17

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

#### Description of Funding Policy

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

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

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

## Funding Position as at the last formal funding valuation

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

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

## Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

### Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

### Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	4.3%
Benefit increase assumption (CPI)	2.5%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.4 years
Future Pensioners*	23.8 years	26.3 years

\*Figures assume members aged 45 as at the 2016 valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from East Sussex County Council, the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

## 20: Actuarial present value of promised retirement benefits

### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the East Sussex Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

# Notes to the East Sussex Pension Fund Accounts

## Present value of Promised Retirement Benefits

Year ended	31 March 2016	31 March 2017
Active members (£m)	1,858	1,717
Deferred pensions (£m)	645	930
Pensioners (£m)	1,269	1,612
<b>Total</b>	<b>3,772</b>	<b>4,258</b>

The promised retirement benefits at 31 March 2017 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

## Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £535m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £65m.

## Financial assumptions

Year ended	31 Mar 2016 % p.a.	31 Mar 2017 % p.a.
Pension Increase Rate	2.2%	2.4%
Salary Increase rate	4.2%	2.8%
Discount Rate	3.5%	2.6%

## Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.1 years	24.4 years
Future Pensioners*	23.8 years	26.3 years

\*Future pensioners are assumed to be aged 45 at the latest formal valuation as at 31 March 2016.

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

## Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

## Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% increase in pensions increase rate	8%	332
0.5% increase in salary increase rate	2%	87
0.5% decrease in discount rate	10%	426

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

## Notes to the East Sussex Pension Fund Accounts

### 21: Current assets

	31 March 2016	31 March 2017
	£000	£000
<b>Other Investment Balances</b>		
Sales inc Currency	1,656	2,554
Investment Income Due	861	1,178
Recoverable Taxes	497	411
Managers Fee Rebate	17	18
<b>Total</b>	<b>3,031</b>	<b>4,161</b>

	31 March 2016	31 March 2017
	£000	£000
<b>Current Assets</b>		
Contributions receivable from employers and employees	9,845	9,126
Sundry Debtors	1,091	1,178
Cash	-	399
<b>Total</b>	<b>10,936</b>	<b>10,703</b>

### 22: Current liabilities

	31 March 2016	31 March 2017
	£000	£000
<b>Investment Liabilities</b>		
Purchases including currency	(9)	(11)
Managers Fees	(1,510)	(1,669)
<b>Total</b>	<b>(1,519)</b>	<b>(1,680)</b>

	31 March 2016	31 March 2017
	£000	£000
<b>Current Liabilities</b>		
Pension Payments (inc Lump Sums)	(1,415)	(454)
Cash	(369)	-
Professional Fees	(84)	(65)
Administration Recharge	(1,038)	(1,314)
Sundry Creditors	(1,797)	(1,239)
<b>Total</b>	<b>(4,703)</b>	<b>(3,072)</b>

### 23: Additional voluntary contributions

	Market value 31 March 2016	Market value 31 March 2017
	£000	£000
Prudential	14,893	15,772

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2016/17 some members of the pension scheme paid voluntary contributions and transfers in of £2.053m (£1.666m 2015/16) to Prudential to buy extra pension benefits when they retire. £2.353m was disinvested from the AVC provider in 2016/17 (£2.430m 2015/16). 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.

	2015/16	2016/17
	£000	£000
East Sussex County Council	5,292	4,979
Brighton & Hove City Council	2,495	2,306
Eastbourne Borough Council	368	349
Magistrates	250	239
Wealden District Council	174	188
Hastings Borough Council	180	180
Rother District Council	123	117
Lewes District Council	74	79
South East Water	82	70
Mid-Sussex District Council	66	55
Brighton University	24	26
East Sussex Fire Authority	20	17
LPFA	17	17
Capita Hartshead	15	15
Mears Group PLC	12	12
Brighton and Hove City College	9	10
London Borough of Camden	7	7
London Borough of Southwark	6	6
The Eastbourne Academy	5	6
West Midlands Pension Fund	5	5
Torfaen Borough Council	3	3
West Sussex County Council	3	3
Eastbourne Homes	2	2
Varndean College	2	2
London Borough of Ealing	2	2
Sussex Downs College	1	1
Newhaven Town Council	1	1
Wealden Leisure Ltd	47	-
London Borough of Lewisham	6	-
Valuation Tribunal Service	4	-
University of Sussex	4	-
Plumpton College	2	-
<b>Total</b>	<b>9,301</b>	<b>8,697</b>

### 25: Related party transactions

#### East Sussex County Council

The East Sussex Pension Fund is administered by East Sussex County Council. Consequently there is a strong relationship between the council and the pension fund.

Each member of the Pension Committee is required to declare their interests at each meeting.

The Treasurer of the Pension Fund and members of the County Council and the Pension Committee have no material transactions with the Pension Fund.

The Council incurred costs in administering the fund and charged £1.3m to the fund in 2016/17 (£1.0m in 2015/16). The Council's contribution to the fund was £43.3m in 2016/17 (£43.1m in 2015/16). All amounts due to the fund were paid in the year. At 31 March 2017 the Pension Fund bank account was in credit by £0.399m. The average invested throughout the year was £4.8m (£4.6 in 2015/16) and earned interest of £0.028m in 2016/17 (£0.033m in 2015/16).

# Notes to the East Sussex Pension Fund Accounts

## 25a: Key management personnel

The Chief financial officer of East Sussex County Council holds the key position in the financial management of the East Sussex Pension Fund.

	31 March 2016	31 March 2017
	£000	£000
Short-term benefits	17	10
Post-employment benefits	3	1
Other long-term benefits	-	-
Termination benefits	-	9
<b>Total</b>	<b>20</b>	<b>20</b>

## 26: Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2017 totalled £82.0m (31 March 2016: £87.3m).

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 2017 the unfunded commitment was £78.4m for private equity, and £3.6m for infrastructure. The commitments are paid over the investment timeframe of the underlying partnerships. As these partnerships mature they are due to distribute capital back to investors. Commitments are made in US Dollars or Euros and the figures presented here are based on relevant Sterling exchange rates as at 31 March 2017.

Sussex Careers Limited – a Community Admission Body in the Fund until 12 November 2008, supplied careers advisory services on behalf of both East Sussex County Council and Brighton & Hove City Council. Sussex Careers is now in the process of being wound up, and its assets will be distributed to its creditors, including the Fund which is the major creditor. These are not sufficient to meet their deficit of approximately £3.6 million. The Fund is engaged in active dialogue with the liquidators for Sussex Careers Limited.

## 27: Contingent assets

Seventeen admitted body employers in the Fund hold insurance bonds to guard against the possibility of their being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. In addition to these bonds, pension's obligations in respect of 9 other admitted bodies are covered by:

- 8 guarantees by local authorities participating in the Fund;
- 2 Parent company guarantee;
- 2 deposits held by East Sussex County Council

At 31 March 2017 the Fund has invested £285.4 million in private equity funds managed by Adams Street and HarbourVest. The Fund has also invested £14.4 million in the M&G UK Companies Financing fund and £59.4 million in the infrastructure funds managed by UBS and M&G.

Following Rulings given by the European Court of Justice, along with a number of other local authority pension funds, the East Sussex Pension Fund is pursuing the recovery of tax paid on certain dividends. If successful this may be of material benefit to the Fund. The amount which may be recoverable is not currently quantifiable.

## 28: Impairment losses

During 2016/17 the fund has not recognised any impairment losses.

## 29: East Sussex Pension Fund – Active Participating Employers

Employer	Contribution Rate					
	2017/18		2018/19		2019/20	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
<b>Scheduled Bodies - Major Authorities</b>						
Brighton and Hove City Council	17.1	3860	17.1	4635	17.1	5448
East Sussex County Council	17.1	5523	17.1	6369	17.1	7254
East Sussex Fire and Rescue Service	17.0	181	17.0	213	17.0	247
Eastbourne Borough Council	16.9	547	16.9	599	16.9	654
Hastings Borough Council	17.3	489	17.3	540	17.3	594
Lewes District Council	18.0	442	18.0	495	18.0	551
Rother District Council	17.3	506	17.3	550	17.3	596
University of Brighton	16.8	704	16.8	722	16.8	741
Wealden District Council	17.2	536	17.2	594	17.2	655

## Notes to the East Sussex Pension Fund Accounts

Employer	Contribution Rate					
	2017/18		2018/19		2019/20	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
<b>Other Scheduled Bodies</b>						
Arlington Parish Council	21.6	-	22.1	-	22.6	-
Battle Town Council	17.4	4	17.4	5	17.4	6
Berwick Parish Council	21.6	-	22.1	-	22.6	-
Chailey Parish Council	21.6	-	22.1	-	22.6	-
Chiddingly Parish Council	21.6	-	22.1	-	22.6	-
Conservators of Ashdown Forest	17.4	13	17.4	15	17.4	17
Crowborough Town Council	17.4	11	17.4	12	17.4	14
Ewhurst Parish Council	21.6	-	22.1	-	22.6	-
Fletching Parish Council	21.6	-	22.1	-	22.6	-
Forest Row Parish Council	17.4	3	17.4	3	17.4	4
Hadlow Down Parish Council	21.6	-	22.1	-	22.6	-
Hailsham Town Council	17.4	13	17.4	15	17.4	17
Hartfield Parish Council	21.6	-	22.1	-	22.6	-
Heathfield & Waldron Parish Council	17.4	4	17.4	5	17.4	5
Hurst Green Parish Council	21.6	-	22.1	-	22.6	-
Icklesham Parish Council	21.6	-	22.1	-	22.6	-
Lewes Town Council	17.4	14	17.4	16	17.4	19
Maresfield Parish Council	17.4	1	17.4	1	17.4	1
Newhaven Town Council	17.4	5	17.4	6	17.4	6
Newick Parish Council	21.6	-	22.1	-	22.6	-
Peacehaven Town Council	17.4	8	17.4	9	17.4	10
Pett Parish Council	21.6	-	22.1	-	22.6	-
Plumpton Parish Council	21.6	-	22.1	-	22.6	-
Polegate Town Council	21.6	-	22.1	-	22.6	-
Ringmer Parish Council	21.6	-	22.1	-	22.6	-
Rye Town Council	17.4	2	17.4	2	17.4	2
Salehurst & Robertsbridge Parish Council	21.6	-	22.1	-	22.6	-
Seaford Town Council	17.4	6	17.4	7	17.4	8
Sussex Inshore Fisheries & Conservation Authority	21.6	-	22.1	-	22.6	-
Telscombe Town Council	17.4	4	17.4	4	17.4	5
Uckfield Town Council	17.4	13	17.4	15	17.4	17
Wartling Parish Council	21.6	-	22.1	-	22.6	-
Westham Parish Council	17.4	1	17.4	2	17.4	2
Willingdon and Jevington Parish Council	17.4	2	17.4	2	17.4	2
Wivelsfield Parish Council	17.4	1	17.4	1	17.4	2
<b>Academy Schools</b>						
ARK Schools Hastings	20.1	-	20.6	-	21.1	-
Aurora Academies Trust	20.9	-	20.9	-	20.9	-
Beacon Academy	22.5	-	23.0	-	23.5	-
Bexhill Academy	23.4	-	23.4	-	23.4	-
BHCC - Bilingual Primary School	15.1	-	15.6	-	16.1	-
Breakwater Academy	17.5	-	17.5	-	17.5	-
Burfield Academy	21.5	-	21.0	-	20.5	-
Cavendish Academy	21.0	-	21.0	-	21.0	-
City Academy Whitehawk	22.1	-	22.6	-	22.8	-
Diocese of Chichester Academy Trust	25.9	-	25.4	-	24.9	-
Eastbourne Academy	20.9	-	21.4	-	21.7	-
Falmer (Brighton Aldridge Community Academy)	19.5	-	20.0	-	20.5	-
Gildredge House Free School	20.1	-	20.1	-	20.1	-
Glyne Academy	22.9	-	22.4	-	21.9	-
Hailsham Academy	19.7	-	20.2	-	20.5	-
Hastings Academies Trust	20.1	-	20.5	-	20.5	-

## Notes to the East Sussex Pension Fund Accounts

Employer	Contribution Rate					
	2017/18		2018/19		2019/20	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
Hawkes Farm Academy	16.9	-	16.9	-	16.9	-
High Cliff Academy	21.5	-	21.0	-	20.5	-
Jarvis Brook Academy	15.0	-	15.0	-	15.0	-
Kings Church of England Free School	15.7	-	16.2	-	16.7	-
Ore Village Primary Academy	18.7	-	19.0	-	19.0	-
Pebsham Academy	19.0	-	19.5	-	20.0	-
Phoenix Academy	20.6	-	20.9	-	20.9	-
Portslade Aldridge Community Academy	20.4	-	20.4	-	20.4	-
Ratton Academy	21.6	-	21.6	-	21.6	-
Ringmer Academy	20.3	-	20.8	-	21.3	-
Rye Multi Academy Trust	22.5	-	22.0	-	21.5	-
SABDEN Multi Academy Trust	25.1	-	24.6	-	24.1	-
Seaford Academy	21.9	-	21.6	-	21.6	-
Seahaven Academy	21.0	-	21.5	-	22.0	-
Sir Henry Fermor Academy	15.3	-	15.3	-	15.3	-
Torfield & Saxon Mount Academy Trust	22.1	-	22.6	-	23.1	-
UTC@Harbourside	21.5	-	21.0	-	20.5	-
White House Academy	17.0	-	17.5	-	18.0	-
William Parker Academy	20.1	-	20.6	-	21.1	-
<b>Colleges</b>						
Bexhill College	16.6	23	16.6	30	16.6	38
Brighton, Hove & Sussex Sixth Form College	17.2	21	17.2	29	17.2	38
City College, Brighton Pool	-	-	-	-	-	-
Plumpton College	16.7	44	16.7	58	16.7	73
Sussex Coast College	16.8	63	16.8	79	16.8	96
Sussex Downs College	17.4	3	17.4	38	17.4	75
Varndean Sixth Form College	17.5	12	17.5	19	17.5	25
<b>Admission Bodies (Open)</b>						
East Sussex Energy, Infrastructure & Development Ltd	21.9	-	23.4	-	24.5	2
Eastbourne Homes Ltd	20.2	-	21.8	-	23.5	-
Hastings Business Operations Limited (HBOL)	23.6	-	27.1	-	27.6	4
<b>Admission Bodies (Closed)</b>						
Brighton and Hove CAB	28.7	-	28.7	-	28.7	-
Brighton Dome & Festival Limited	44.5	16	44.5	36	44.5	57
Care Quality Commission	41.6	59	41.6	143	41.6	231
De La Warr Pavilion Charitable Trust	43.7	61	43.7	132	43.7	207
Optivo	39.2	554	39.2	879	39.2	1221
Sussex Archaeological Society	38.6	57	38.6	82	38.6	108
Sussex County Sports Partnership	21.0	-	21.0	-	21.0	-
Sussex Housing & Care	35.9	133	35.9	101	35.9	67
<b>Other Admission Bodies</b>						
Accent Catering	-	-	-	-	-	-
Amey	-	-	-	-	-	-
BHCC - Wealden Leisure Ltd	21.2	-	21.2	-	21.2	-
Care Outlook Ltd	35.0	-	35.0	-	35.0	-
Churchill Services	18.0	-	18.0	-	18.0	-
Civica ICT - William Parker	14.3	-	14.3	-	14.3	-
Eastbourne Homes - SEILL	21.9	-	21.9	-	21.9	-
Eastbourne Leisure Trust	25.8	17	25.8	18	25.8	18
EBC - Towner	11.5	-	11.5	-	11.5	-
Eden Foodservices	-	-	-	-	-	-
ESCC - Care at Home	-	-	-	-	-	-
ESCC - John O'Connor	-	-	-	-	-	-

## Notes to the East Sussex Pension Fund Accounts

Employer	Contribution Rate					
	2017/18		2018/19		2019/20	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
ESCC - NSL Ltd	-	-	-	-	-	-
Halcrow Group Ltd	23.6	-	23.6	-	23.6	-
Hardings Catering Ltd	-	-	-	-	-	-
Mears Ltd	26.3	14	26.3	14	26.3	15
MyTime	13.8	-	13.8	-	13.8	-
Sopra Steria Ltd	31.9	-	31.9	-	31.9	-
Sussex Community Development Association Ltd (SCDA)	26.4	-	26.4	-	26.4	-
Telent Technology Services Limited	24.9	-	24.9	-	24.9	-
Wave Leisure - Newhaven Fort	18.0	-	18.0	-	18.0	-
Wave Leisure Trust Ltd	9.0	-	9.0	-	9.0	-
WDC - ISS Ltd	-	-	-	-	-	-
WDC - Kier	-	-	-	-	-	-
WDC - Wealden Leisure Ltd	27.1	86	27.1	89	27.1	91
Wealden Leisure Ltd - Portslade Sports Centre	12.3	-	12.3	-	12.3	-
White Rock	6.7	-	6.7	-	6.7	-

### 30: Investment Performance

The County Council uses an independent Investment performance measurement service, provided by Pensions & Investment Research Consultants Ltd (PIRC) which measures the performance of the Fund compared with 44 other local authority pension funds. Pension Fund investment is a long term business so as well as showing the annual performance of the Fund, comparison to peers over longer periods is also detailed below.

#### Performance relative to the Fund's strategic benchmark

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
<b>Fund</b>	<b>20.3</b>	<b>12.0</b>	<b>11.0</b>	<b>7.0</b>
<b>Benchmark</b>	<b>18.9</b>	<b>10.1</b>	<b>9.4</b>	<b>6.0</b>
<b>Relative</b>	<b>1.4</b>	<b>2.0</b>	<b>1.6</b>	<b>0.9</b>

#### Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
<b>Fund</b>	<b>20.3</b>	<b>12.0</b>	<b>11.0</b>	<b>7.0</b>
<b>Local Authority Average</b>	<b>21.4</b>	<b>11.2</b>	<b>10.8</b>	<b>7.0</b>
<b>Relative</b>	<b>(0.9)</b>	<b>0.7</b>	<b>0.2</b>	<b>0.0</b>

The Fund underperformed the (weighted) average local authority fund over the year by 0.9% (1.4% outperformance 2015/16), ranking the East Sussex Fund in the 49<sup>th</sup> percentile (17<sup>th</sup> 2015/16) in the local authority universe. Over three years the fund outperformed by 0.7% (0.9% outperformance 2015/16) and was placed in the 28<sup>th</sup> percentile (18<sup>th</sup> 2015/16). Over five years the fund outperformed by 0.2% (0.2% outperformance 2015/16) and was placed in the 37<sup>th</sup> percentile (43<sup>rd</sup> 2015/16). Over ten years the fund years the fund performed in line (0.1% outperformance 2015/16) and was placed in the 43<sup>rd</sup> percentile (36<sup>th</sup> 2015/16).

Relative performance is calculated on a geometric basis as follows:

$$\left( \frac{1 + \text{Fund Performance}}{1 + \text{Benchmark Performance}} \right) - 1$$

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**

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 new Business Rates Retention scheme, Councils will retain a 50% share of all and any additional business rates they get above a determined baseline. This potentially provides a direct local incentive to encourage growth within local boundaries.

## **Capital / Capital Expenditure / Capital Receipts**

Capital expenditure pays for the acquisition of assets or the enhancement (rather than maintenance) of existing assets. It is financed mainly from borrowing, and charged to revenue over a number of years. We plan for capital expenditure over several years in the published capital programme. The term 'capital receipts' covers income from the sale of assets, together with grants and contributions received specifically for financing the capital programme. Capital receipts can only be used for capital purposes, and not to support the revenue budget.

## **Cash Equivalents**

These are investments, which amount to short term deposits.

## **Community Assets**

These are assets, which the County Council intends to hold in perpetuity and have no determinable finite useful life.

## **Community Schools**

In a community school, the local education authority owns the land and buildings, but the governing body is responsible for running the school. The local education funds the school, employs the staff, provides support services and determines and administers the admissions policy. The pupils have to follow the national curriculum.

## **Contingent Assets and Liabilities**

A statement of a possible gain or loss to the Council, which is contingent upon the outcome of an event, which is not known for certain when the accounts are drawn up.

## **Corporate and Democratic Core (CDC)**

Corporate and Democratic Core is defined as the two divisions of Democratic Representation and Management and Corporate Management.

## **Corporate Management**

Corporate management concerns those activities and costs that provide the infrastructure that allows services to be provided, whether by the Council or not, and the information that is required for public accountability. Activities that relate to the provision of services, even indirectly, are overheads on those services. There are no subdivisions recommended for corporate management.

## **County Fund**

The main revenue fund of the County Council into which is paid income from the council tax precept, grants and charges for services and from which is met the cost of providing services.

## **Creditors**

Amounts owed by the County Council but not paid at the date of the Balance Sheet.

## **Currencies**

Japanese Yen (JPY), British Pound (GBP), Canadian Dollar (CAD), Swiss Franc (CHF), European Euro (EUR), Swedish Kroner (SEK) and United States Dollar (USD).

## **Curtailments**

This heading covers the additional cost arising from the early payment of pension benefits when an employee is made redundant. The full estimated discounted cost is charged immediately to the Comprehensive Income and Expenditure Statement, under the heading of 'non-distributed costs', but this is offset by a transfer from the Pensions Reserve.

## **Debtors**

Amounts owed to the County Council but unpaid at the date of the Balance Sheet.

## **Defined Benefit and Contribution Pension Schemes**

Pension schemes generally fall into one of these two categories. Defined Benefit schemes are those such as the Local Government Pension Scheme, where the benefits to employees are based on their final salaries, and where employers' contributions have to be adjusted to match estimates of future liabilities. Defined Contribution schemes are those where the employer's liability is restricted to the amount that they contribute. As the Teachers' Pension Scheme is administered nationally, it is treated in local authority accounts as a Defined Contribution scheme, but is actually a defined benefits scheme.

## **Democratic Representation and Management**

This includes all aspects of members' activities in that capacity, including corporate, programme and service policy making and more general activities relating to governance and the representation of local interests. To give authorities maximum flexibility in reflecting their own constitutional arrangements, there are no recommended subdivisions of service.

## **Depreciation**

A charge to services in the Comprehensive Income & Expenditure Account, assessed as the amounts by which the value of property, plant and equipment are consumed during the year, calculated from the estimated life expectancy and any residual value.

## **External Audit**

The independent examination of the activities and accounts of Local Authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Authority has made proper arrangements to secure value for money in its use of resources. The auditor KPMG was appointed by the Public Sector Audit Appointments Ltd to carry out an audit of the Council's accounts.

## **Equities**

Ordinary shares issued by companies.

## **Fair value**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. The concept of fair value is used in many accounting standards including the IFRS covering acquisition, valuation of assets, and financial instruments, but it is not limited to these.

## **Foundation Schools**

In foundation schools, the land and buildings are owned by a governing body, who are also responsible for running the school. The local education authority funds the school. The governing body employs the staff and buys in and administers most of the support services. The pupils have to follow the national curriculum. The admissions policy is determined and administered by the governing body, in consultation with the local education authority.

## **Heritage Assets**

Heritage assets are assets that are held by the Council principally for their contribution to knowledge or culture. The heritage assets held by the Council are the collections of assets and artefacts either exhibited or stored in the local authority museum.

## **Impairment**

Impairment to assets may be physical in nature, such as damage by fire, or caused by a general or specific reduction in prices during the financial year.

## **Infrastructure**

This term covers capital investment on assets such as roads and rights of way.

## **Intangible Assets**

This term includes such items as development expenditure or goodwill, but for local authorities it actually only covers licences for the use of computer software.

## **IFRS**

International Financial Reporting Standards

## **Leasing**

A method of obtaining the use of assets: a rental charge is paid for a specified period, but under operating lease conditions the asset remains the property of the lessor and the County Council has no rights to purchase. Finance leases transfer substantially all the risks and rewards of ownership.

## **Levies**

A contribution which the County Council is required to make towards the costs of the Environment Agency (for flood defence), the Ashdown Forest Conservators and Sussex Sea Fisheries.

## **Liabilities**

These are amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the Balance Sheet date.

## **Local Council Tax Support (LCTS)**

As part of the major changes to the Welfare Benefits system, from 1st April 2013, Council Tax Benefit ended and was replaced by a new scheme called Localised Support for Council Tax or Council Tax Support. Both systems are means tested which means that they compare your income and capital against an assessment of your needs. The new scheme largely is decided by each Council rather than nationally by Central Government.

## **Minimum Revenue Provision**

An amount, prescribed by Government, to be set aside from revenue for the redemption of debt.

## **Net Book Value (NBV)**

The amount at which fixed assets are included in the Balance Sheet. The NBV is the historical cost or current value less any accumulated depreciation.

## **Net Worth**

The total of all assets less the total of all liabilities. It helps to determine the value of an entity and is also known as Total Net Assets or Total Equity.

## **Non-Distributed Costs**

These are costs which the County Council has to bear, but which do not support any statutory services. This includes three elements of the pension cost (Past Service Cost, Settlements, and Curtailments) which are defined elsewhere, and the costs of properties, which have been declared surplus and are awaiting disposal.

## **Non-Domestic Rates**

A charge on commercial and industrial buildings fixed by the Government and reallocated to local authorities.

## **Post Balance Sheet Events**

A statement of the financial implications of an event taking place after the Balance Sheet date, which has a material effect on the County Council's financial position at the balance sheet date.

## **Prior Period Adjustments**

Material adjustments that is applicable to prior years and which arise from changes in accounting policy or the correction of material errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

## **Private Equity**

Investments into new and developing companies and enterprises, which are not publicly traded on a recognised stock exchange.



### **Private Finance Initiative (PFI)**

A long-term contractual public-private partnership, under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to agreed standards of performance.

### **Property, Plant and Equipment (PP&E)**

Property, plant and equipment covers all assets with physical substance (tangible assets) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period. PP&E is a summation of all the Council's purchases of property, plant, and pieces of equipment to that point in time, less any depreciation.

### **Provisions**

Provisions are made for liabilities and losses which have already been incurred at the date of the balance sheet, and for which the amount or dates on which they will arise can be reliably measured.

### **Public Works Loan Board (PWLB)**

A Government agency, which provides the main source of borrowing for local authorities.

### **Related Parties**

This term covers individuals or bodies with which the County Council has a close economic relationship. It includes Members and Chief Officers, Government departments that provide funding, and other bodies that are involved in partnerships with the County Council.

### **Reserves**

Internal reserves set aside to finance future expenditure for purposes falling outside the definition of provisions.

### **Revenue**

Recurring expenditure principally on pay, running costs of buildings, equipment, and capital financing costs.

### **Revenue Expenditure Funded from Capital Under Statute**

Expenditure which may properly be charged to capital but does not result in a tangible asset.

### **Scheduled Bodies**

Local authorities and other similar bodies whose staff automatically qualify to become members of the Pension Fund.

### **Service Reporting Code of Practice for Local Authorities (SeRCOP)**

The code gives a mandatory definition of total cost and the divisions of service at which total cost must be aggregated when presenting cost based information and performance indicators in a published format. SeRCOP provides guidance to support the objective to establish the widest range of financial reporting requirements, in order that data consistency and comparability are achieved. SeRCOP particularly aims to meet the demands of both the Best Value and the Transparency initiatives and its various stakeholders.

### **Settlements**

These are adjustments to the County Council's pension liability arising from bulk transfers of employees. The full estimated discounted cost or gain is charged immediately to the Comprehensive Income and Expenditure Statement, under the heading of 'non-distributed costs', but this amount is offset by a transfer from the Pensions Reserve.

### **Unusable Reserves**

This include unrealised gains and losses, particularly in relation to the revaluation of property, plant and equipment (e.g. the Revaluation Reserve) adjustment accounts that absorb the difference between the outcome of applying proper accounting practices and the requirements of statutory arrangements for funding expenditure (e.g. the Capital Adjustment Account and the Pensions Reserve).

### **Usable Reserves**

This includes the revenue and capital resources available to meet future expenditure (e.g. the County General Balances, Earmarked Reserves, and the Capital Receipts Reserve).

### **Voluntary Schools**

These schools are also called religious or faith schools and there are two types: voluntary controlled and voluntary aided. In a voluntary controlled school, the land and buildings are owned by a charity often a religious organisation such as a church. The charity appoints some of the members of the governing body, but the local education authority is responsible for running the school. The school is funded by the local education authority who also employs the staff and provides support services and determine the admissions policy. The pupils have to follow the national curriculum. With a voluntary aided school, the governing body is responsible for running the school, the school is funded partly by the local education authority, partly by the governing body and partly by the charity. The governing body employs the staff and the pupils have to follow the national curriculum. The admissions policy is determined and administered by the governors in consultation with the local education authority.