

Report to: **Governance Committee**

Date: **19 July 2016**

By: **Chief Operating Officer**

Title of report: **Independent Auditor's (KPMG) Report to those charged with governance and Statement of Accounts 2015/16**

Purpose of report: **To present the KPMG report to those charged with governance, and to report on anticipated unqualified audit opinion on the 2015/16 Statement of Accounts**

RECOMMENDATIONS - To:

- (1) Note the Independent Auditor's (KPMG) report to those charged with governance on ESCC Accounts, and the Value for Money conclusion report.**
 - (2) Authorise the Chief Finance Officer to sign the formal Letter of Representation to KPMG LLP.**
 - (3) Approve the Statement of Accounts for publication.**
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1. Background

1.1 This report summarises the key findings arising from KPMG final audit work in relation to the Council's 2015/16 financial statements; and on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

2. Supporting Information

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

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

3. Changes to ESCC Statement of Accounts

3.1 The Chief Finance Officer on 31 May 2016 formally approved the draft Statement of Accounts, in line with the Accounts and Audit 2015 Regulations. Since then the final audit has been carried out by the Council's External Auditor (KPMG), who is expected to issue an unqualified "true and fair" audit opinion. The Regulations require me to report on changes to the accounts before they can be published.

3.2 Subject to any issues been identified by the auditor between the issue of this report and the meeting, I am able to report that the auditors propose to issue an unqualified opinion.

3.3 As in any year, few presentational adjustments arising from normal audit work have been noted, discussed, and resolved as stated on page 15 of the report, and KPMG have not identified any control findings or recommendations in the course of 2015/16 audit that need to be reported to this committee.

3.4 The Auditor's (KPMG) has carried out the review of the arrangements made by the Council to secure economy, efficiency and effectiveness in the use of resources (value for money), and the auditors (KPMG) subject to the conclusion of the previous year elector objections findings, did not feel it necessary to report on any particular points on value for money issues.

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

4 Publication of Statement of Accounts

4.1 The legal deadline for publishing the 2015/16 accounts is the end of September 2016. Once the auditors have completed their work, a Letter of Representation (Appendix 3) needs to be signed by the Chief Finance Officer prior to the auditor issuing an unqualified opinion. This will enable me to place the Statement of Accounts on the Council's website, which fulfils the legal requirement, and to publish the document as soon as possible afterwards.

5. Conclusion and reasons for recommendations

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

KEVIN FOSTER
Chief Operating Officer

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Local Member(s): All

Background Documents

1. Independent Auditor's (KPMG) report to those charged with governance on the -
 - o East Sussex County Council Accounts
 - o Value for Money conclusion
2. 2015/16 Statement of Accounts
3. Letter of Representation



cutting through complexity

Report to those charged with governance (ISA 260) 2015/16

East Sussex County Council

15 July 2016

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

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

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

This document summarises:

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2016 for the Authority; and**
- **our assessment of the Authority's arrangements to secure value for money.**

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

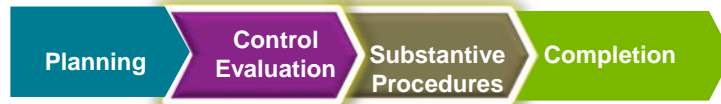
Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).
- The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary

Financial statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during March 2016 (interim audit) and June 2016 (year end audit).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM Arrangements Work

Our *External Audit Plan 2015/16* explained our risk-based approach to VFM work. We are in completion stage of our work to support our 2015/16 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2015/16 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

<p>Proposed audit opinion</p>	<p>We anticipate issuing an unqualified audit opinion on the Authority's financial statements on 19 July 2016 following approval of the Statement of Accounts by the Governance Committee on 19 July 2016 and the adoption of the Pension Fund Annual Report by the Pensions Committee on 18 July 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA.</p>
<p>Audit adjustments</p>	<p>In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.</p> <p>We did not identify any uncorrected audit differences. We identified one corrected audit difference which relates to a reclassification of fixed assets, with no impact on the CIES or Reserves.</p>
<p>Key financial statements audit risks</p>	<p>We review risks to the financial statements on an ongoing basis. We identified the following key financial statements audit risks in our 2015/16 External audit plan issued in March 2016.</p> <ul style="list-style-type: none"> ▪ Accounting for Local Authority Maintained Schools ▪ Valuation of Property, Plant and Equipment ▪ Management override of controls (required by ISA's) ▪ Fraud risk of revenue recognition (required by ISA's, but rebutted) <p>We have worked with officers throughout the year to discuss these key risks and our detailed findings are reported in section 3 of this report.</p>
<p>Accounts production and audit process</p>	<p>The Authority worked to an accelerated closedown timetable this year with the aim of having an audited set of accounts by 19 July 2016. We agreed with officers that a draft set of financial statements would be made available for audit on 6 June 2016 along with supporting working papers and that the draft financial statements would be made available for public inspection at the same time. Draft financial statements were provided to audit on 31 May 2016 and working papers were provided in line with the timetable.</p> <p>The Authority invested and planned carefully for the accelerated year end timetable, has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>We have worked with Officers throughout the year to discuss the specific risk areas for this year's audit, and the Council addressed the issues appropriately. We shall debrief with the Council following the audit on areas where further improvements might be made in the future. We anticipate any improvements identified will be of a minor nature.</p>


<p>Completion</p>	<p>At the date of this report our audit of the financial statements is substantially complete, subject to completion of the following areas:</p> <ul style="list-style-type: none"> ■ Review and testing of the Whole of Government Accounts (WGA) consolidation pack; ■ Journals Testing; ■ Completion of final testing on low risk accounts and disclosures; and ■ Final review and closedown procedures. <p>Before we can issue our opinion we require a signed management representation letter from Management.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>
<p>VFM conclusion and risk areas</p>	<p>We identified the following VFM risks in our External Audit Plan 2015/16 issued in March 2016:</p> <ul style="list-style-type: none"> ■ Bexhill - Hastings Link Road ■ Better Care Fund <p>We have worked with officers throughout the year to discuss this VFM risk and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in these VFM risk areas.</p> <p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 19 July 2016.</p>
<p>Annual Governance Statement</p>	<p>We have reviewed the Annual Governance Statement and confirmed that:</p> <ul style="list-style-type: none"> ■ It complies with <i>Delivering Good Governance in Local Government: A Framework</i> published by CIPFA/SOLACE; and ■ It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.


We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks

In our *External Audit Plan 2015/16*, presented to you in March 2016, we identified the significant risks affecting the Authority's 2015/16 financial statements. We are in the completion phase of our audit and have set out our evaluation of our substantive work done so far.



The table below sets out our detailed findings for each of the risks that are specific to the Council.

Significant audit risk	Issue	Findings
	<p>Risk: LAAP Bulletin 101 Accounting for School Assets used by Local Authority Maintained Schools issued in December 2014 has been published to assist practitioners with the application of the Code in regard to accounting for Local Authority maintained schools. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools.</p> <p>In the last financial year, management reviewed the agreements under which assets are used by VA/VC and Foundation schools and applied the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. During the audit, we worked with the Authority to consider these schools fully in light of the applicable guidance and upon review of the newly acquired evidence, including additional legal documentation obtained from the Dioceses' and title deeds from the Land Registry. As part of this, the Council concluded that there was insufficient supporting evidence to confirm the ownership of the remaining 22 schools.</p> <p>As a result, the Council included these 22 schools in the Council's financial statements where ownership is not currently certain. At that time, we also understood that the Diocese of Chichester was undertaking a process to review these schools and to register the Diocese as the legal owners where they can conclusively prove that they are legally theirs. This is a key area of judgement and there is a risk that Authorities could omit school assets from, or include school assets in, their balance sheet.</p> <p>Approach: As part of our audit, we will discuss with the Authority the latest available information on the remaining schools and review the judgements it has made in this regard. This will include considering the Authority's application of the relevant accounting standards to account for these schools and challenging its judgements where necessary.</p>	<p>Throughout our audit, we have discussed the treatment of the remaining 22 schools. As at the date of drafting this report, no additional information has been obtained on the remaining schools and the Council are waiting on the Diocese of Chichester to undertake the process to review these schools and to register the Diocese as the legal owners.</p> <p>We find that the position has not changed since last year and conclude that the accounting treatment should remain the same. We therefore agree with management to leave these assets on the Council's Balance Sheet.</p>

Other areas of audit focus	Issue	Findings
	<p>Risk: In 2014/15 the Council reported Property, Plant and Equipment of £842.5m. Local authorities exercise judgement in determining the fair value of the different classes of assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. Given the materiality in value and the judgement involved in determining the carrying amounts of assets we consider this to be an area of audit focus.</p> <p>Approach: We will understand the approach to valuation, the qualifications and reports by the Council's valuer and the judgements made by the Council in response to the information received. Where valuations are made other than at the year end we will review the Council's judgement in assessing movements from the valuation date.</p>	<p>We have undertaken testing of the Council's Property, Plant and Equipment within our final accounts testing with emphasis on the significant risk over Valuation. We have reviewed the valuation report received from the External Valuer including the assumptions and methodology applied, confirming that the valuation has been performed in line with the requirements outlined in The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.</p> <p>We have reviewed the Council's year end impairment methodology forming part of the rolling-three year valuation plan, which involves indexation based on the External valuation which is subsequently applied to the remaining assets. We consider that the methodology is appropriate and have undertaken testing to ensure the methodology has been applied correctly. We have undertaken further testing to ensure that revaluation gains and losses have been appropriately reflected in the financial statements.</p> <p>We have not identified any issues to note in our testing.</p>

In our *External Audit Plan 2015/16* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk	Summary of findings
 <p>Management override of controls</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> All areas 	<p>Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.</p> <p>In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>
 <p>Fraud risk of revenue recognition</p> <p>Audit areas affected</p> <ul style="list-style-type: none"> None 	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>In our <i>External Audit Plan 2015/16</i> we reported that we do not consider this to be a significant risk for Local Authorities or their administered Pension Funds as there is unlikely to be an incentive to fraudulently recognise revenue.</p> <p>This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.</p>



Financial Statements (continued) Accounts production and audit process

The Authority has a well established and strong accounts production process. This operated well in 2015/16, and the standard of accounts and supporting working papers was good.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. Overall we consider this to be a commendable performance especially in light of the accounts timetable being brought forward.

We considered the detailed following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain a strong financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate
Completeness of draft accounts	We received a complete set of draft accounts on 31 May 2016. Given the accelerated deadline that the Authority has worked to, we considered the draft financial statements to have been prepared to a high standard. The Authority have made a small number of presentational and disclosure changes to the accounts presented for audit.
Quality of supporting working papers	We issued our <i>Accounts Audit Protocol</i> including our required working papers for the audit on 18 March 2016. The quality of working papers provided was good and met the standards specified in our <i>Accounts Audit Protocol</i> .
Response to audit queries	Officers resolved all audit queries in a timely manner and were helpful and supportive throughout the audit process.
Prior year recommendations	As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report. The Authority has implemented our recommendation in our <i>ISA 260 Report 2014/15</i> .

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of East Sussex County Council for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and East Sussex County Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Chief Finance Officer for presentation to the Governance Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the

financial reporting process; and

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

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

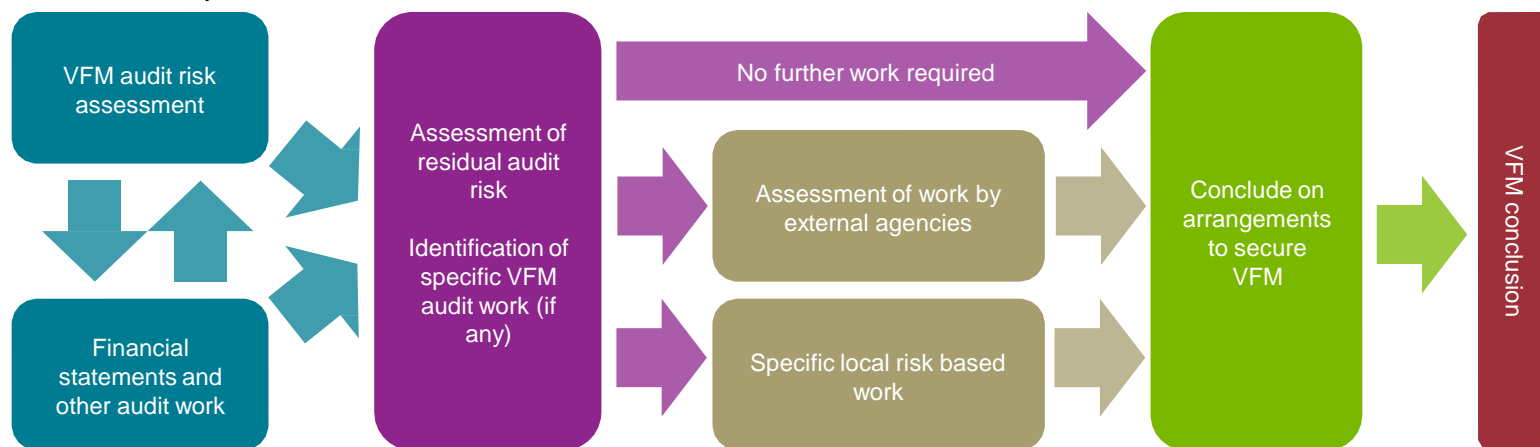
We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

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

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

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Council. The full guidance is available from the NAO website at: <https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors/>. Our approach to the value for money is recorded below:



Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

The following page includes further details of our VFM risk assessment our specific risk-based work.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:


- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and
- completed specific local risk based work.

Key findings


Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we needed to carry out additional work for the identified specific risk. This work is now complete and we also report on this below.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>Risk: In 2015/16 the Authority made substantial expenditure towards the construction of the Bexhill – Hastings Link Road project, which was opened on 17th December 2015. Of this, £56.85m has been funded by the Department for Transport, and the remaining funded by the Authority. Total expenditure over the life of this project has been estimated at £125.7m.</p> <p>We note that we have received a formal objection from an elector regarding this scheme, in which the objector raises a concern regarding the appropriateness of the project management arrangements and approval processes within the Council, and the wider value for money of the scheme.</p>	<p>Bexhill-Hastings Link Road was opened on 17th December. The total final cost of the project is expected to be £125.7m. This results in an overspend of £24.6m when compared to the original budget of £101.1m. There is a remaining payment of apx. £3.7m to the contractor which has been re-profiled into 2016/17 and will be paid during the year. This is due to landscaping works which are expected to be completed in July 2016.</p> <p>During our audit, we have reviewed the project management and overall approval processes utilised during the planning, construction and completion of the Link Road. We have also considered the value of the overspend on the Link Road project as set out above, and its comparability to the Authority's other similar capital projects.</p> <p>Based on this, we are generally satisfied that the overspend against budget is not uncommon with large capital projects of this nature, and that based on available evidence, we have not identified any material weakness in programme or project management arrangements of what has been a highly complex scheme which impact on our Value for Money Conclusion.</p> <p>There are no matters arising from this work that we need to bring to your attention. The consideration of the objection is still continuing.</p>

We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>Risk: The Better Care Fund was set up by Government to encourage joint work across health and adult social care to ensure local people receive better care. Joint arrangements have been established with NHS Eastbourne, Hailsham and Seaford Clinical Commissioning Group, NHS Hastings and Rother Clinical Commissioning Group and NHS High Weald Havens Clinical Commissioning Group to administer the local Better Care Fund (2015/16 expenditure £42.214m). As the arrangements are new, crossing the health and social care boundary with organisations who have different legal structures there is a risk that the governance and accounting arrangements may not be well developed to manage this partnership arrangement appropriately</p>	<p>The Better Care Fund was set up in April 2015 between the CCG's and the Council with the Council being the host. During our audit work we reviewed the s75 agreement between the CCG's and the Council. This agreement lays down the amount of contribution from each party and a scheme of investments for the use contributions. The agreement sets down the joint commissioning wherein individual partners contract with individual partners.</p> <p>The BCF pooled budget operates within the governance of the East Sussex Better Together Programme Board who are reported on a monthly basis. Regular updates are also provided to the Health and Wellbeing Board. We have reviewed the board meeting minutes and there is evidence of information being provided to the ESBT and Health and Wellbeing Board. Quarterly returns relating the Better Care Fund performance are also submitted to the NHS England.</p> <p>The accounting for the BCF was done under the <i>MFA Chapter 3- Annex 1 Accounting for the Better Care Fund: Scenario 2</i>.</p> <p>Where pooled budget members via an s75 agreement, agree that individual members will continue to contract with individual providers without reference to other members and using their own sources of funding alone will in substance will neither be joint operations nor lead commissioner transactions. These are stand-alone arrangements involving only one-to-one transactions. In this event, accounting and AoB considerations are simplified as there are only two parties to the transaction.</p> <p>Based on this, we are satisfied that the Better Care Fund has appropriate structures in place to review the performance and functioning of the Better Care Fund. We are also satisfied that it is being accounted for appropriately.</p>

Appendix 1: Key issues and recommendations

We give each recommendation a risk rating and agree what action management will need to take. Progress against recommendations should be monitored closely during the year.

Recommendations raised will be followed up as part of our 2016/17 financial statements audit.

Priority rating for recommendations		
<p>1 <i>Priority one:</i> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 <i>Priority two:</i> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 <i>Priority three:</i> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

Current year recommendations

We have not identified any control findings or other recommendations in the course of our audit which we would like to bring to your attention.

Appendix 2: Follow up of prior year recommendations

We follow up on recommendations raised as part of our 2014/15 financial statements audit.

Priority rating for recommendations		
<p>1 Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Action taken
1	2	<p>Substantiating valuation arrangements KPMG identified difficulty in substantiating fixed asset revaluations contained within the financial statements, and evidencing judgmental decisions made the Council in the valuation process. Such difficulties included tracking the fixed asset register to valuation reports, following up discrepancies between the valuation reports and asset values in the financial statements, and evidencing a robust impairment review had been appropriately carried out for those assets not revalued as at 31 March 2015.</p> <p>Recommendation It is recommended that all revaluations are clearly mapped back to the instructions to the valuers, and to the valuation reports provided by the Council's valuer. Where assets are recorded in the financial statements at a value different to the valuation provided by the Council's valuer, the explanation for why this is needs to be adequately documented to support this. In addition, the Council must ensure that where an asset has not been valued at the balance sheet date, that an appropriate impairment exercise is carried out to ensure that there is not a material difference between the carrying value and the fair value of the asset.</p>	<p>The process of mapping current year asset revaluations back to the instructions to the valuers, and the valuation reports provided by the Council's valuer was improved.</p> <p>Assets were revalued at the balance sheet date, and an appropriate impairment exercise was carried out for all assets that were not revalued.</p> <p>In response to the recommendation in the prior year, and the migration from the SAP Real Estate module to the SE7 Property Asset Management System (Atrium), management performed a full review of the fixed asset register. This exercise was undertaken in 2015/16 and sought to analyse and correct any discrepancies between the March 2015 valuation report and the fixed asset register. As a result of this exercise, management identified duplicate asset components or components that should no longer be recognised, totalling £8.7m. These have been included in disposals in the year and we concur with this accounting treatment.</p> <p>Further action required None.</p>

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are reporting all audit differences over £490 thousand.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit, Best Value and Community Services Scrutiny Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

Under UK auditing standards (ISA UK&I 260) we are required to provide the Audit, Best Value and Community Services Scrutiny Committee with a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements. We have also identified a number of presentational adjustments as part of our audit, all of which have been discussed and agreed with management.

Adjusted audit differences (£m)				
No.	Detail	CIES Dr/(cr)	Balance Sheet Dr/(cr)	Comments
1	Dr PPE Cr PPE	- -	£1,404,000 (£1,404,000)	During the year the Council re-classified an asset with gross book value of £1.404m from Land and Building to Surplus Assets. Through our testing we identified that this asset was still in operation during 2015/16 and therefore no re-classification was required. The PPE note (Note 13) has been updated to reflect this re-classification.
2	When drafting the Leases note (Note 41), there was a formulae error in the clients working paper. As a result, incorrect values were pulling through into the note. The total differences were: <ul style="list-style-type: none"> £1,078k overstatement of the present value of future lease payments as a lessee £188k overstatement of the present value of future lease payments receivable as a lessor. The Note has been updated to reflect these changes.			
Total		-	-	

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit, Best Value and Community Services Scrutiny Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of East Sussex County Council for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and East Sussex County Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

For 2015/16 our materiality is £9.8 million for the Authority's accounts.

We have reported all audit differences over £490 thousand for the Authority's accounts.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

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

At the year end, we revised our planning materiality reported in our External Audit Plan 2015/16, presented to you in March, 2016.

Due to the final outturn in the accounts, with an increase in the County Fund balance, we increased materiality for the Authority's accounts from £8.5m to £9.8m. Our revised materiality equates to around 1 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit, Best Value and Scrutiny Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Best Value and Scrutiny Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £490k for the Authority.

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

Appendix 6: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Philip Johnstone as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

-A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

-All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

-A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery:

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits [undertaken on behalf of them \(http://www.psa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/\)](http://www.psa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the overall audit quality and regulatory compliance requirements.



cutting through complexity™

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East Sussex County Council

Statement of Accounts

2015/16

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Additional Information

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

Further information on particular aspects of the County Council's finances 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

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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 2015/16.
- 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 2015/16. However, any significant events or developments that occur between 31 March 2016 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 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 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 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 2015/16, assets and liabilities as at 31 March 2016.
- 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 2015, and applies for accounting periods commencing on or after 1 April 2015.

The Code of Practice on Local Authority Accounting 2015/16 (the Code) highlights the following key updates/changes in accounting practice:

The following key updates/changes that will affect the 2015/16 Accounts include:

- Amendments to underline CIPFA/LASAAC's view of the importance of the consideration of materiality when preparing disclosures for local authority financial statements.
- The introduction of a new section on fair value measurement to reflect the adoption of IFRS 13 Fair Value Measurement, and a number of consequential amendments following the adoption of the standard.
- Clarification of the reporting requirements for disclosures that support the Movement in Reserves Statement.

Narrative Report

- Clarification of the current adaptation of the measurement requirements for property, plant and equipment following the adoption of IFRS 13 and the introduction of the concept of current value.
- Introduction an interpretation to clarify what a short period means for the measurement of a class of assets for local authorities.
- Minor clarifications of the reporting requirements in Accounting for Schools in Local Authorities in England and Wales.
- Confirmation that the measurement of heritage assets shall continue to be made by any method that is appropriate and relevant and rationalises the disclosures of heritage assets following the introduction of FRS 102 the Financial Reporting Standard applicable in the UK.
- Accounting for schools in local authorities in England and Wales, providing detailed guidance to assist local authorities with the consolidation of schools income, expenditure, assets, liabilities and reserves in their single entity financial statements.
- Relevant extant LAAP Bulletins, including:
 - LAAP Bulletin 99 Reserves and Balances
 - LAAP Bulletin 100 Project Plan for Implementation of the Measurement Requirements for Transport Infrastructure Assets by 2016/17, and
 - LAAP Bulletin 104 Closure of the 2015/16 Accounts and Related Matters

Financial Report

The 2015/16 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.

In 2015/16 the Council (including schools) planned to spend £783m to deliver services to the people of East Sussex, with a further £139m of investment in infrastructure and assets through its capital programme. The Council's stated priorities outcomes are:

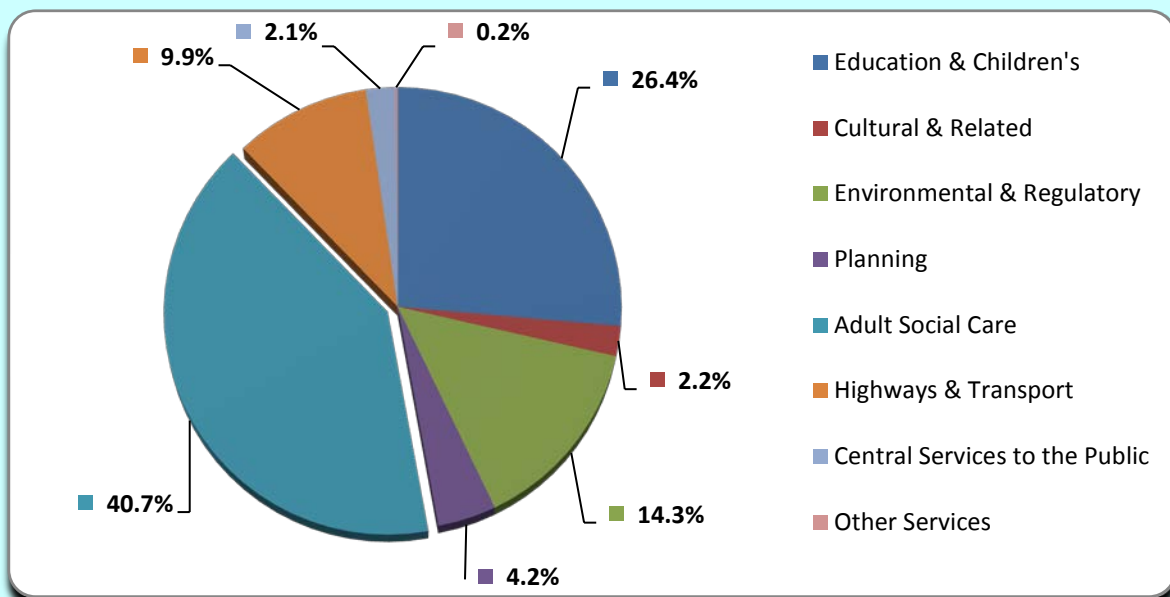
- Economic Growth
- Helping people to help themselves
- Keeping vulnerable people safe
- Making the best use of resources

Making best use of our resources means achieving all stated outcomes within the diminishing resources available to the Council. 2015/16 is the third of a three year plan delivering over £60m of savings. At the same time, key services have been protected as far as possible from the effects of increased prices and demand. The Council has been able to contain all of the cost pressures on its budget for 2015/16 within the forecast identified within the MTFP.

The final revenue budget for 2015/16 was presented to Council in February 2015. Overall, the budget set for 2015/16 sought to protect our priority service areas, and identified savings from our efficiencies with marginal appropriations from balances.

So how much was spent on the revenue account

The Comprehensive Income and Expenditure Statement (CIES) at page 18 show how the Council money is spent and where the money comes from. The CIES net expenditure is presented in a prescribed Service Reporting Code of Practice (SeRCOP) format as summarised in the charts below.

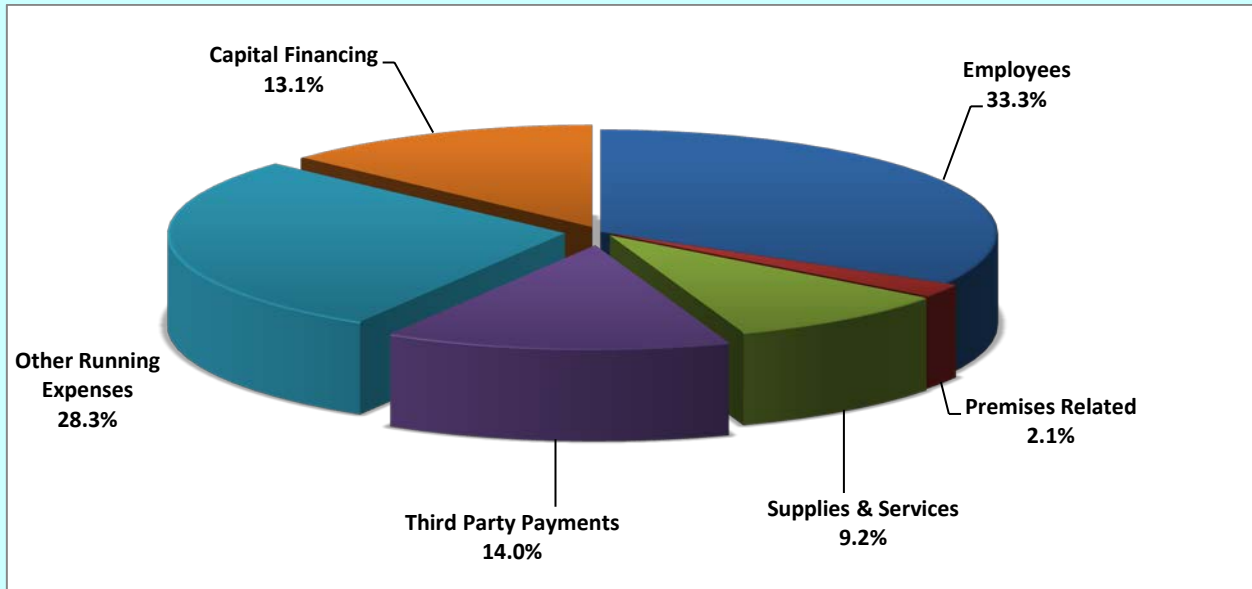


Narrative Report

Central Services to the Public include Central Services, Corporate and Democratic Core and Non Distributed costs line from the CIES. Education and Children's Services – include dedicated school grants/ budgets, special education, and children's social care.

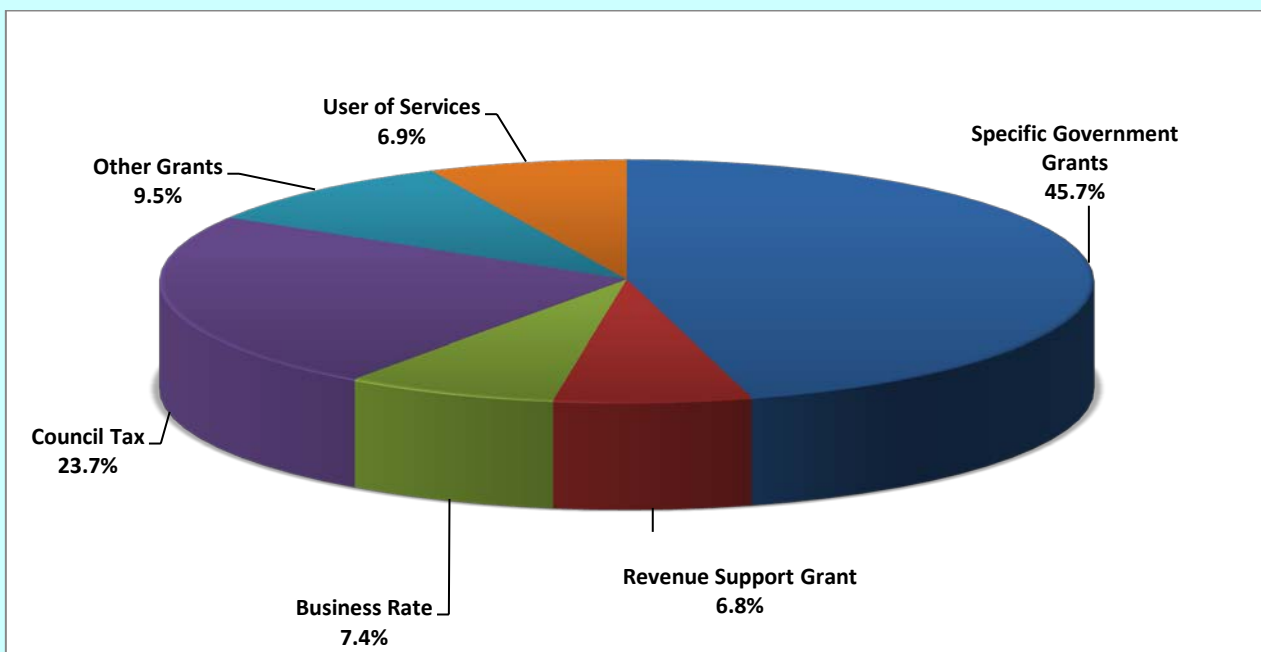
In total, our net revenue expenditure was £369.87m. The chart below presents a full break down of how the money was spent:

What the money was spent on



County Council services are staff intensive and employee costs account for 33.3% (34.7% in 2014/15) of the expenditure. Running expenses including costs of premises at 2.1% (2.3% in 2014/15) supplies and services at 9.2% (9.1% in 2014/15), and third party payments account for 14.0% (13.8% in 2014/15) with other expenses at 28.3% (19.4% in 2014/15). Capital financing (the cost of borrowing, interest and repayments) and accounting for on-going Private Finance Initiative (PFI) within the ESCC Balance Sheet accounts for the remaining 13.1% (20.7% in 2014/15).

Where the money came from



The chart shows that 45.7% of our income came from Specific Government grants, RSG at 6.8%, 23.7% came from residents through the council tax, 9.5% from other grants, the Business Rates at 7.4%, and 6.9% 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 £369.87m during 2015/16, based on the total cost of providing services including charges for support services, treasury management, and use of assets.

Throughout 2015/16, 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 £421.07m (including Dedicated Schools Grant), with total actual expenditure of £421.80m, i.e. services overspend of £0.73m. There are no new material variations and as previously reported this will be managed within the unused general contingency and the remaining inflation provision for 2015/16.

The Council's general balance of £10.0m at the year end is in line with the target minimum level of 2.5% (actual 2.70%) of the net revenue budget set by the Council.

The analysis of revenue expenditure provided is for budgetary comparison purposes and does not agree directly to the analysis of expenditure contained in the Comprehensive Income and Expenditure Statement (CIES). The disparity arises because the CIES is presented in a prescribed Service Reporting Code of Practice (SeRCOP) format, based on standard accounting practices, which facilitate direct comparisons with other local authorities. For example, for external reporting purposes, the CIES includes gains and losses on the sale of fixed assets. The differences in presentation and convention may significantly affect the reported cost of services, but it has no effect on the total reported expenditure of the Council.

The table below sets out the revenue budget for 2015/16 using the standard management reporting format and how these compare with outturn:

Departments	Current Estimate £m	Actual Outturn £m	Variation £m
Adult Social Care	174.21	174.38	(0.17)
Public Health	(0.01)	(0.01)	-
Governance and Community Services	3.77	3.77	-
Children's Services Department	115.31	115.90	(0.59)
Business Services Department	(1.80)	(1.80)	-
Communities, Economy, and Transport	129.59	129.56	0.03
Service Spend (incl. DSG Related)	421.07	421.80	(0.73)
Corporate Budgets	31.51	30.50	1.01
Reversal of Capital Charges	(123.12)	(123.12)	-
Treasury Management	40.69	40.69	-
Net Expenditure	370.15	369.87	0.28
Financed from:			
	£m	£m	£m
Revenue Support Grant	65.09	65.11	0.02
Business Rate Top-up	56.83	56.83	-
Business Rate Retention	14.23	13.93	(0.30)
Collection Fund: Business Rates (Surplus) / Deficit	(0.27)	(0.27)	-
Council Tax	227.22	227.22	-
Collection Fund: Council Tax (Surplus) / Deficit	4.55	4.55	-
New Home Bonus Grant	2.50	2.50	-
	370.15	369.87	(0.28)
Balances:			
	£m	£m	
Opening	8.90	8.90	
Added / (withdrawn) during the year	-	1.10	
Closing	8.90	10.00	

Earmarked Reserves

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

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 that ESCC has access to fund risks and one off pressures over a number of years. If ESCC minimises the level of reserves such that in future, financial planning across years is hampered, eventually, the requirement for managing these costs will fall directly on the Council Tax set in each year in an uneven and less well managed manner, which will prove hard to sustain as budgets become even tighter. Reserves can only be spent once and the possibility of creating new reserves in an era where budgets are tight and can become overspent not just individually but corporately is now very limited

Details of the Council's earmarked reserves can be found on page 47, Note 9 to the Accounting Statements. Current earmarked reserves held at 31 March 2016 totalled £120.6m. Of this £12.8m relates to reserves to meet the estimated future costs of managing the Private Finance Initiative (PFI) waste facility, £24.9m relates to future funding for the capital programme from 2018/19, and £29.3m 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

The original budget at the start of the year was £139.3m. Net budget not spent of £50.2m in the previous year due to project delays was brought forward at the start of the year and added to this amount. During the financial year the capital programme was subject to thorough reviews and where necessary projects were re-profiled. These changes were submitted to Council for approval as part of the State of the County report and 2016-17 budget setting. Any variations formed the revised budgets against which future monitoring took place. The current programme is also updated through formal approved variations for previously unforeseen events or further external funding secured. The final revised gross budget for the year was £151.5m of which £34.1m was supported by scheme specific resources giving a net budget provision of £117.3m.

In 2015-16 the County Council spent £132.4m gross of which £30.8m was supported by scheme specific resources giving a net budget provision of £101.6m, on its roads, schools and other capital projects.

The larger schemes that took place during the year included Schools Places, the structural maintenance of roads throughout the county, the Bexhill and Hastings Link Road of which phase 1 has now been successfully delivered, Broadband and many other improvements to schools and roads.

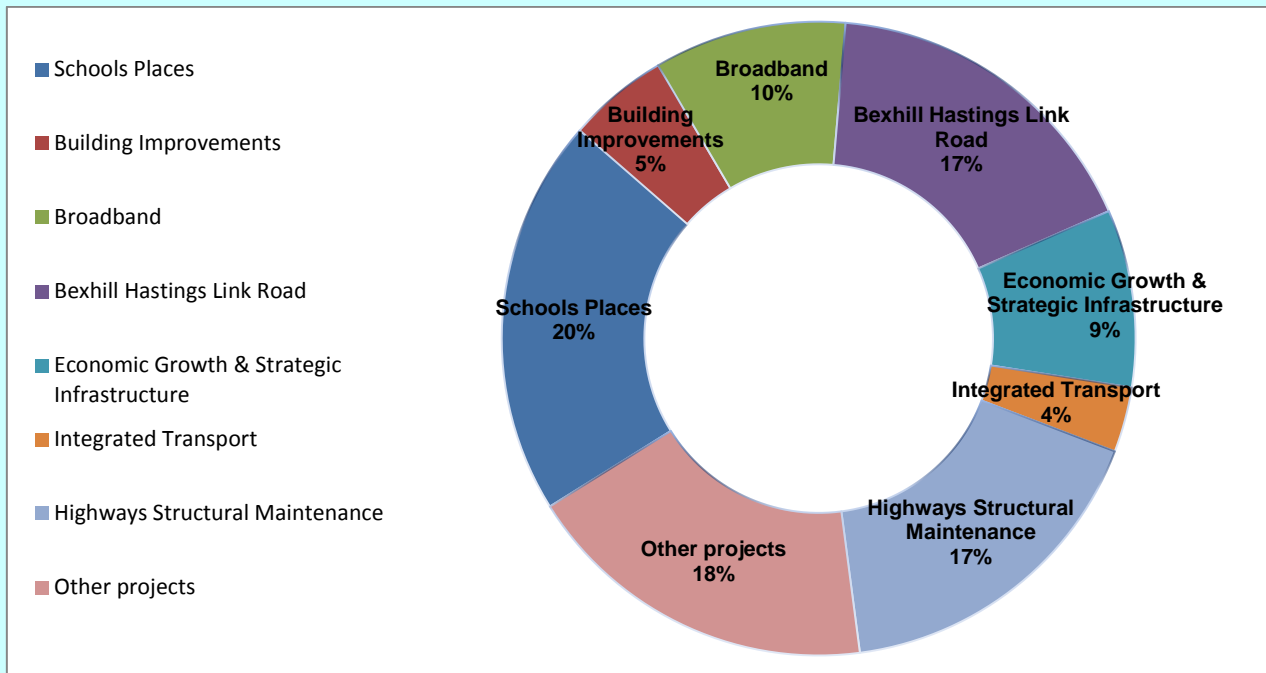
The net variation of £15.7m compared to the revised net budget represents a number of scheme delays including; rescheduling of the remaining Broadband premises connections, delays in the construction and subsequent opening of the Bexhill and Hastings Link Road caused works to the greenways to slip, and Queensway Gateway Road delays in planning permission.

Capital Programme movements during 2015/16:

	£m
Budget as per February 2015	139.3
Adjustments to reflect 2014/15 Outturn	50.2
Project re-profiling following reviews	(45.3)
Approved Variations	7.2
Budget as per February 2015	151.4

Narrative Report

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 graph shows the annual programme expenditure by specific large projects 2015/16.



During 2016-17 the County Council plans to invest £128.6m (this figure excludes net budget not spent in 2015-16), the planned funding for this is:

	£m
Borrowing	55.4
Scheme Specific grants and contributions	30.6
Non specific grants	27.5
Capital Receipts	5.0
Revenue contributions	10.1
Total resources	128.6

The Balance Sheet

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

At 31 March 2015 £m	Description	At 31 March 2016 £m
855,733	Non-current - including Property, Plant & Equipment	894,483
350,813	Current Assets including debtors, and short term investments	328,719
(130,111)	Current Liabilities including creditors and bank overdraft	(133,154)
(902,392)	Long Term Liabilities and provisions	(791,370)
174,043	Net Assets	298,678
<i>Represented by:</i>		
216,207	Usable Reserves	165,938
(42,164)	Unusable Reserves	132,740
174,043	Total Reserves	298,678

Narrative Report

The main changes to the balance sheet in 2015/16 include the actuarial valuation of the Council's pension scheme liabilities and pension reserve on the Balance Sheet have reduced by £123.4m 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 significantly due to the use of earmarked reserves and capital grants and contributions being used to finance capital investment.

Financial Challenges in 2016/17

For 2016/17, the Council has to meet a total savings requirement of over £19.549m due to, among other matters, reduced government funding, capital financing costs, inflation (contractual and employee), pension deficit contribution and the national insurance changes. The Council's medium term modelling has been updated to reflect the provisional four-year Funding Settlement. This also takes into account inflation (both pay and contract), superannuation, and national insurance changes as well as allowances for specific and general risks.

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>

East Sussex Pension Fund

During the year to 31 March 2016, the overall increase in the Fund is due to positive performance in equity and other markets, which was estimated to be 1.6%.

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 £540.4m at the start of the year to £417.0m at 31 March 2016. Note 44 to the accounting statements provide detailed information.

The explanations for this significant change are as follows:

- In assessing liabilities for retirement benefits at 31 March 2015, the actuary assumed a discount rate of 0.8% real (3.2% 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 2016, the actuary has advised that a rate of 1.3% real (3.5% nominal) is appropriate. The change in the real discount rate over the year has resulted in a decrease in liabilities measured at today's prices of around £142.4m, included in the actuarial profit recognised for the year in the Movement in Reserves Statement (MiRS).
- Pensions payments are increased each April in line with pension increase orders. The actuary's assessment of the scheme liabilities as at 31 March 2016 allows for the 0% pension increase as at April 2016. As the pension increase assumption as at 31 March 2015 (2.4% p.a.) was higher than this, the result is a reduction in liabilities measured at today's prices of around £20.3m.
- Asset returns on the Fund in the year to 31 March 2016 were lower than expected for the Council. As noted above, the increase in the Fund's assets due to investment performance was estimated to be 1.6%, compared to the expected return on assets at the start of the year of 3.2%.

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 £621.9m, £245.9m and £518.3m in respect of employee members, deferred pensioners, and pensioners respectively as at 31 March 2016. There is also a liability of approximately £39.0m in respect of LGPS unfunded pensions and £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.

Treasury Management Borrowing Facilities and Investments

The strategy for 2015/16, agreed in February 2015 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 proposed capital programme and revenue budget dealt with elsewhere on the agenda. 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 the quarter 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 2016 was £2.0m at an average rate of 0.72%.

Narrative Report

At 31 March 2016, the majority of the Council's external debt was held as long term loans (£270.4m), and no cost effective opportunities have arisen in the twelve months to restructure the existing debt portfolio. In February 2016 the Council took advantage of attractive Public Work Loan Board (PWLB) borrowing rates and borrowed £20m, 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.

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.

Accounting issues that will affect Local Authority in 2016/17

Summary of the accounting issues that will affect local government accounting during 2016/17 include –

- Highways Network Asset
- Telling the story – improving the presentation of Local Authority Financial Statements
- Accounting and report by Pension Funds
- Statutory guidance on the flexible use of capital receipts
- The Accounts and Audit Regulations 2015
- IFRS 16 - Leases

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 2015/16 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 2016.

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 2016.

Marion Kelly

Chief Finance Officer
19 July 2016

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 2016 on pages 14 to 129. 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 2015/16.

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 Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they 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 the Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Explanatory Forward 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 2016 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 2016 and the amount and disposition of the fund's assets and liabilities as at 31 March 2016, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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 Explanatory Forward 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 the 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 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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 2016.

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.

In addition, we cannot conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by local authority electors. We are satisfied that those matters do not have a material effect on the financial statements or a significant impact on the value for money conclusion.

Philip Johnstone
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 4GL

19 July 2016

1. Scope of responsibility

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

2. Purpose of the governance framework

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

The code of corporate governance can provide only reasonable and not absolute assurance that the Council achieves its aim of good governance. Equally the County Council's system of internal control is designed to identify and prioritise the risks to the achievement 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 2016 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 International Standards for Audition (ISA) 260 report;
- the judgements of a range of external inspection and other statutory bodies including the Local Government Ombudsman, the Care Quality Commission and the Office for Standards in Education

4. Key elements of the governance and internal control environments

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

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

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

5. Assurance and Significant Governance Issues

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

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

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

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

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

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

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

Cllr Keith Glazier
Leader and Chairman of the Governance Committee
19 July 2016

Becky Shaw
Chief Executive
19 July 2016

Movement in Reserves Statement

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 Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase / Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

2014/15	County Fund Balance	Schools Balance	Capital Receipts Reserve	Capital Grants Unapplied	Earmarked Reserves - General	Earmarked Reserve – Revenue Grants	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2014 - Notes 25 and 26	8,898	15,077	10,532	53,379	115,496	30,916	234,298	27,992	262,290
Movement in Reserves during 2014/15									
Deficit on provision of services	(42,400)	-	-	-	-	-	(42,400)	-	(42,400)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	(45,847)	(45,847)
Total Comprehensive Income and Expenditure	(42,400)	-	-	-	-	-	(42,400)	(45,847)	(88,247)
Adjustments between accounting basis & funding basis under regulations - Note 8	40,802	-	(4,451)	(12,042)	-	-	24,309	(24,309)	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	(1,598)	-	(4,451)	(12,042)	-	-	(18,091)	(70,156)	(88,247)
Transfers to / (from) Earmarked Reserves - Note 9	1,598	470	-	-	(729)	(1,339)	-	-	-
Increase / (Decrease) in Year	-	470	(4,451)	(12,042)	(729)	(1,339)	(18,091)	(70,156)	(88,247)
Balance at 31 March 2015 - Notes 25 and 26	8,898	15,547	6,081	41,337	114,767	29,577	216,207	(42,164)	174,043

Movement in Reserves Statement

2015/16	County Fund Balance	Schools Balance	Capital Receipts Reserve	Capital Grants Unapplied	Earmarked Reserves - General	Earmarked Reserve – Revenue Grants	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2015 - Notes 25 and 26	8,898	15,547	6,081	41,337	114,767	29,577	216,207	(42,164)	174,043
Movement in Reserves during 2015/16									
Deficit on provision of services	(75,595)	-	-	-	-	-	(75,595)	-	(75,595)
Other Comprehensive Income and Expenditure		-	-	-	-	-		200,230	200,230
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)	-
Net Increase / (Decrease) before Transfers to Earmarked Reserves	(23,272)	-	(3,649)	(23,348)	-	-	(50,269)	174,904	124,635
Transfers to / (from) Earmarked Reserves - Note 9	24,373	(617)	-	-	(23,523)	(233)	-	-	-
Increase / (Decrease) in Year	1,101	(617)	(3,649)	(23,348)	(23,523)	(233)	(50,269)	174,904	124,635
Balance at 31 March 2016 - Notes 25 and 26	9,999	14,930	2,432	17,989	91,244	29,344	165,938	132,740	298,678

Comprehensive Income and Expenditure Statement

This statement shows the Council's accounting cost in the year of providing services in accordance with general accepted accounting practices rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. It summarises the resources that have been generated and consumed in providing the functions for which the Council is responsible, and demonstrates how the cost has been financed from general government grants and income from local taxpayers.

2014/15				2015/16		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
432,926	(315,786)	117,140	Education and children's services	437,477	(313,433)	124,043
12,956	(3,455)	9,501	Cultural & related services	13,036	(2,888)	10,148
32,063	(6,880)	25,183	Environmental & regulatory services - Note 6	68,712	(6,816)	61,896
9,832	(1,127)	8,705	Planning services - Note 6	19,335	(914)	18,421
235,716	(54,834)	180,882	Adult social care - Note 6	317,064	(140,907)	176,156
30,955	(30,932)	23	Public Health	26,671	(26,619)	52
52,401	(11,399)	41,002	Highways and transport services	53,869	(11,627)	42,242
1,779	(198)	1,581	Other Housing services	574	(218)	356
2,345	(1,925)	420	Central services to the public	3,057	(3,026)	31
3,694	(49)	3,645	Corporate and Democratic Core	3,493	(144)	3,348
3,476	(292)	3,184	Non Distributed Costs	4,810	(221)	4,589
818,143	(426,877)	391,266	Cost of Services	948,097	(506,813)	441,284
58,749	-	58,749	Other operating expenditure - Note 10	23,813	-	23,813
39,622	(2,798)	36,824	Financing and investment income and expenditure - Note 11	37,265	(2,710)	34,555
-	(444,438)	(444,438)	Taxation and non-specific grant income - Note 12	-	(424,057)	(424,057)
		42,401	Deficit on Provision of Services			75,595
		(52,011)	Surplus on revaluation of non-current assets - Note 26			(52,704)
		97,858	Actuarial losses on pension assets or liabilities - Note 44			(147,526)
		45,847	Other Comprehensive Income and Expenditure			(200,230)
		88,248	Total Comprehensive Income and Expenditure			(124,635)

Note - The Comprehensive Income and Expenditure Statement is produced in line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Service Reporting Code of Practice (SeRCOP) and the Code. This requires a standard analysis of service expenditure, to be shown at total cost, which includes charges for capital asset utilisation, apportionments of central costs, expenditure from funds and reserves and appropriate provision for pension costs.

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 Council (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 is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses 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 2015			31 March 2016	
£000		Note	£000	
842,541	Property, Plant & Equipment	13	879,157	
645	Heritage Assets	16	652	
1,419	Investment Property	14	1,744	
5,543	Intangible Assets	15	10,102	
1	Long Term Investments	19	1	
5,584	Long Term Debtors	21	2,827	
855,733	Long Term Assets		894,483	
284,575	Short Term Investments	19	256,545	
4,105	Assets Held for Sale	20	523	
4,352	Payments in Advance	21	5,028	
55	Inventories		39	
55,563	Short Term Debtors	21	43,628	
2,163	Cash and Cash Equivalents	22	22,956	
350,813	Current Assets		328,719	
(16,416)	Income in Advance	23	(15,424)	
(5,383)	Short Term Borrowing	19	(6,099)	
(18,888)	Bank overdraft and Accrued balance for third parties	22	(25,251)	
(1,323)	Provisions	24	(3,214)	
(88,101)	Short Term Creditors	23	(83,166)	
(130,111)	Current Liabilities		(133,154)	
(540,383)	Liabilities related to defined benefit pension schemes	44	(416,950)	
(14,269)	Provisions	24	(13,910)	
(255,035)	Long Term Borrowing	19	(270,422)	
(5,343)	Capital Grants & Contributions Receipts in Advance	37	(6,173)	
(87,362)	Other Long Term Liabilities	42	(83,915)	
(902,392)	Long Term Liabilities		(791,370)	
174,043	Net Assets		298,678	
216,207	Usable Reserves	25	165,938	
(42,164)	Unusable Reserves	26	132,740	
174,043	Total Reserves		298,678	

I certify that this Statement of Accounts provides a true and fair view of the financial position of the Council as at 31 March 2016 and its Comprehensive Income and Expenditure Statement for the year then ended.

Marion Kelly

Chief Finance Officer, 19 July 2016

The Governance Committee approved the Statement of Accounts on 19 July 2016.

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 the Council's 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.

2014/15		2015/16
£000		£000
42,401	Net deficit on the provision of services	75,595
(126,786)	Adjustments to net deficit on the provision of services for non-cash movements	(137,175)
60,536	Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	27,882
(23,849)	Net cash inflow from Operating Activities - Note 27	(33,698)
31,470	Investing Activities - Note 28	32,597
8,813	Financing Activities - Note 29	(13,329)
16,434	Net (increase) / decrease in net cash and cash equivalents - Note 22	(14,430)
291	Net cash and cash equivalents at the beginning of the reporting period - Note 22	16,725
16,725	Net cash and cash equivalents at the end of the reporting period- Note 22	2,295

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 2016 is a net cash overdrawn position of £2.295m.

Notes to the Accounting Statements

1. Authorisation of the Statement of Accounts

Authorisation of Statement of Accounts - These accounts were authorised for issue by Marion Kelly, Chief Finance Officer, and the Statement of Accounts (approved on 19 July 2016) 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 2015/16 financial year and its position at the year-end of 31 March 2016. 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 2015/16 and the Service Reporting Code of Practice 2015/16, 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

In assessing liabilities for retirement benefits at 31 March 2014, the actuary assumed a discount rate of 1.5% real (4.3% nominal), which is based on the rate of return at the accounting date on a high-quality corporate bond of equivalent currency and term to scheme liabilities. In assessing liabilities for retirement benefits at 31 March 2015, the actuary has advised that a rate of 0.8% real (3.2% nominal) is appropriate.

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

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

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

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

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

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

x. Events After the Balance Sheet Date

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

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

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

xi. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

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

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

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

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

Notes to the Accounting Statements

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

Available-for-Sale Assets

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

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

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

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

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

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

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

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

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

xii. Foreign Currency Transaction

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

xiii. Government Grants and Contributions

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

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

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

Notes to the Accounting Statements

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

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

xiv. Intangible Assets

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

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

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The expected useful life is normally 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.

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

xviii. Jointly Controlled Operations and Jointly Controlled Assets

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

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

xix. Leases

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

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

The Council as Lessee

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

Lease payments are apportioned between:

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

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

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

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

The Council as Lessor

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

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Lease rentals receivable are apportioned between:

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

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

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

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

xx. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Cost of Services.

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;

Notes to the Accounting Statements

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

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

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

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

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

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

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

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

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

Impairment

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

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

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

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

Componentisation Policy

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

Notes to the Accounting Statements

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets 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.

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 is, currently, twenty two Voluntary Controlled school under the Council's ownership which is 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

Notes to the Accounting Statements

end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

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

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

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

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

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge (based on Internal Rate of Return of 10.12% for Peacehaven Schools and 5.50% 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.

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Closed Landfill Sites

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

Contingent Liabilities

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

Contingent Assets

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

xxiv. Reserves

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

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

xxv. Revenue Expenditure Funded from Capital under Statute

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

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

xxvi. Value Added Tax (VAT)

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

xxvii. Interest Charges

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

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

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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 at least 4% of its total debt outstanding at the start of the year or an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. The Council adopted the Asset Life Method (annuity method) as a result of any PFI assets coming on the Balance Sheet and any related Minimum Revenue Provision (MRP) will be equivalent to the "capital repayment element" of the annual service charge payable to the PFI Operator and for finance leases. MRP will also be equivalent to the "capital repayment (principal) element" of the annual rental payable under the lease agreement. This is not a cost to the Comprehensive Income & Expenditure Statement but is charged to the County Fund through the Movement in Reserve Statement.

xxix. Pension Fund

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

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

xxx. Carbon Reduction Commitment (CRC)

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

The Carbon Reduction Commitment (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.

xxxi. Capital Expenditure on Assets Owned by Others

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

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

xxxii. Council Tax and Business Rates

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

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

xxxiii. Heritage Assets

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

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

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

Art Collection

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

Equipment and other Artefacts

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

Archaeology

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

Heritage Assets – General

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

xxxiv. Fair Value Measurement

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

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

The Council uses External Valuers to 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:

Notes to the Accounting Statements

- 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 2016/17 (the Code) will introduce several changes in accounting policies which will be required from 1 April 2016. 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 Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs 2012 – 2014 Cycle
- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative)
- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis
- The changes to the format of the Pension Fund Account and the Net Assets Statement.

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. However, in the 2016/17 year the comparator 2015/16 Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement must reflect the new formats and reporting requirements as a result of the Telling the Story review of the presentation of local authority financial statements. The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 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 2019. 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 asset register is continually reviewed to ensure property records are accurate and the financial information on which they are based is correct. As a result, a number of assets have been removed from the register in 2015/16 as disposals and total £8.7m. A prior period adjustment has not been made to the opening balance at 1 April 2015 as the information was not available at the time the 2014/15 Statement of Accounts were issued and it was judged that the amount was not material and would not have influenced the decision or assessment of users of the financial statements.
- 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.

Notes to the Accounting Statements

- 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). The Admission Body has agreed to deposit a sum of money (£54,000) 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 authority the Surrey County 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.
- **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 staff 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.

Notes to the Accounting Statements

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	55	9	-	64
Special	-	-	4	4
Voluntary Controlled	47	-	-	47
Voluntary Aided	27	2	-	29
Foundation / Trust	-	1	-	1
Academy	3	35	4	42
Total	132	47	8	187

- As at 31 March 2016, the Council's accounts with five 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.
- 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 2016 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 2015/16 is £37.6m and the net book value of property, plant and equipment at 31 March 2016 is £879.2m.</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 £2.9m for every one year that useful lives had to be reduced.</p> <p>Indexation was applied in 2015/16 as the amount calculated was materially different to the carrying value. The net revaluation gain of the assets indexed was £15.5m.</p>

Notes to the Accounting Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	<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 2015/16 to the Surplus on Provision of Services is £57.6m and £11.3m to the Revaluation Reserve. In October 2015 there was a fire at Shinewater school destroying part of the school but it remained open. Pevensey Bay library suffered damage after a flood in January 2015.</p>
Allowance for doubtful debts	<p>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.</p>	<p>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. The decrease in allowance for bad debts set aside in 2015/16 is £0.29m.</p>
Pension Liability	<p>The Council recognises and discloses its retirement benefit obligation in accordance with the measurement and presentational requirement of IAS 19 'Employee Benefits'.</p> <p>When estimating the present value of defined pension benefit obligations that represent a gross long-term liability in the Balance Sheet, and, indirectly, the period's net pension expense in the Comprehensive Income and Expenditure Statement, the actuary makes a number of critical assumptions affecting these estimates. Most notably, assumptions include a number of judgements and estimations in respect of the expected rate of return on assets, the discount rate, inflation assumptions, the rate of increase in salaries, life expectancy, and the annual rate of compensation increase, which have a direct and potentially material impact on the amounts presented. Significant changes in these assumptions between periods can have a material effect on the financial statements. However, the assumptions interact in complex ways.</p>	<p>The value of the 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 2015/16, the Council's actuary advised that the net pension's liability has decreased from £540.4m at the start of the year to £417.0m at 31 March 2016. Note 44 to the Accounting Statements provide detailed information.</p>
Provisions and Reserves	<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 & 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>	<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.</p>

Notes to the Accounting Statements

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Contingent liabilities	The Council has had to make an informed estimate of the likely liability the Council could face if certain events happened in the future. These estimates have been made by an appropriate officer or qualified specialist where appropriate.	Details of the Council's contingent liabilities are set out in Note 45.
Decommissioning landfill sites	<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 £9.8m provision (see Note 24), which it believes is appropriate based on local circumstances, including risks and major environmental initiatives being undertaken.
Business Rates	<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 2015-16 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 2016. 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 2016.</p>	Business Rates appeals are charged and provided for in proportion of the precepting shares. The total provision charged to the collection fund for 2015/16 has been calculated at £0.313m.
Fair Value estimations	<p>When the fair values of Investment Properties, Surplus Assets and Assets Held for Sale cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using the following valuation techniques:</p> <ul style="list-style-type: none"> • For Level 2 inputs, quoted prices for similar assets or liabilities in active markets at the balance sheet date; • For level 3 inputs, valuations based on most recent valuations adjusted to current valuation by the use of indexation and impairment review. <p>Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible, judgment is required in establishing fair values. These judgments typically include considerations such as uncertainty and risk. Changes in assumptions used could affect the fair value of the Council's assets and liabilities.</p> <p>Where Level 1 inputs are not available, the authority employs RICS qualified valuers (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>

Notes to the Accounting Statements

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 2015/16. This is included within losses on disposals of non-current assets of £23.3m (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
College Central, Eastbourne	Academy	Special	809
Cuckmere House, Eastbourne	Academy	Special	4,695
New Horizons, St Leonards	Academy	Special	2,674
St Leonards, St Leonards (VC)	Academy	Primary	2,407
St Mary's, Horam	Academy	Special	4,027
Total			14,612

Comprehensive Income and Expenditure Statement 2015/16

- Environmental & Regulatory Services [heading in the CIES] includes a charge of £36.7m relating to a revaluation loss at the Newhaven Energy Recovery Facility. Notes 18 and 42 provide further details;
- 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 19 July 2016. 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 2016, 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 2016 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 2016/17. 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 2016 are shown in the table below.

School	Type of School	Date of Conversion	£000
The South Downs, Eastbourne	Special	April 2016	2,425
The Lindfield, Eastbourne	Special	April 2016	1,877
St Paul's, St Leonards (VC)	Primary	September 2016	3,265
Hawkes Farm, Hailsham	Primary	September 2016	2,918
Meeching Valley, Newhaven	Primary	September 2016	1,338
Total			11,823

Sir Henry Fermor, Crowborough (primary) and The Bishop Bell, Eastbourne (secondary) schools are expected to transfer to academy status in April 2016 but as they are voluntary aided (VA) schools they have been previously removed from the Council's Balance Sheet.

- Following the European Union (EU) referendum on 23rd June 2016, the UK has voted to leave the EU. The result of the referendum brings uncertainty and the implications of the referendum will become clearer over time.

Notes to the Accounting Statements

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 the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2015/16	Usable Reserves			Movement in Unusable Reserves
	County Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	94,077	-	-	(94,077)
Revaluation gains on Property Plant and Equipment that reverse previous impairment charged to the Comprehensive Income Expenditure Statement	(11,189)	-	-	11,189
Movements in the market value of Investment Properties	(325)	-	-	325
Amortisation of intangible assets	1,174	-	-	(1,174)
Capital grants and contributions applied	(78,578)	-	-	78,578
Revenue expenditure funded from capital under statute	39,156	-	-	(39,156)
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	-	-	(23,957)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	(14,492)	-	-	14,492
Capital expenditure charged against the General Fund	(49,192)	-	-	49,192
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	23,348	-	(23,348)	-
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the loss on disposal to the Comprehensive Income and Expenditure Statement	(652)	652	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure		(4,301)	-	4,301
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited to the Comprehensive Income and Expenditure Statement	58,023	-	-	(58,023)
Employer's pensions contributions and direct payments to pensioners payable in the year	(33,930)	-	-	33,930
Adjustment primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	1,043	-	-	(1,043)
Adjustment primarily involving the Accumulated Absences Account:				
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)	-	-	97
Total Adjustments	52,323	(3,649)	(23,348)	25,326

Notes to the Accounting Statements

2014/15	Usable Reserves			Movement in Unusable Reserves
	County Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non-current assets	71,266	-	-	(71,266)
Revaluation gains on Property Plant and Equipment that reverse previous impairment charged to the Comprehensive Income Expenditure Statement	(9,260)	-	-	9,260
Movements in the market value of Investment Properties	28	-	-	(28)
Amortisation of intangible assets	481	-	-	(481)
Capital grants and contributions applied	(70,065)	-	-	70,065
Revenue expenditure funded from capital under statute	19,488	-	-	(19,488)
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	60,757	-	-	(60,757)
Donated Assets Account	(115)	-	-	115
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	(14,695)	-	-	14,695
Capital expenditure charged against the General Fund	(42,056)	-	-	42,056
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	12,042	-	(12,042)	-
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the loss on disposal to the Comprehensive Income and Expenditure Statement	(2,513)	2,513	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure		(6,964)	-	6,964
Adjustments primarily involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited to the Comprehensive Income and Expenditure Statement	50,386	-	-	(50,386)
Employer's pensions contributions and direct payments to pensioners payable in the year	(33,157)	-	-	33,157
Adjustment primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax and business rates income calculated for the year in accordance with statutory requirements	(1,473)	-	-	1,473
Adjustment primarily involving the Accumulated Absences Account:				
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	(312)	-	-	312
Total Adjustments	40,802	(4,451)	(12,042)	(24,309)

Notes to the Accounting Statements

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 2015/16.

Earmarked Reserves	Balance at 1 April 2014	Transfers Out 2014/15	Transfers In 2014/15	Balance at 31 March 2015	Transfers In 2015/16	Transfers Out 2015/16	Balance at 31 March 2016
	£000	£000	£000	£000	£000	£000	£000
Capital Programme	18,007	(24,687)	34,043	27,363	50,763	(53,269)	24,857
Corporate Waste	51,119	(19,000)	2,724	34,843	-	(22,000)	12,843
Service Development	3,755	(1,402)	1,357	3,710	2,764	(2,418)	4,055
Financing	15,097	(3,936)	3,246	14,407	250	(2,750)	11,907
Infrastructure	12,080	(6,479)	1,196	6,797	938	(1,094)	6,643
Insurance	5,097	-	1,254	6,351	930	(708)	6,573
General Risk	2,917	(525)	-	2,392	-	(160)	2,232
Schools	2,508	(34)	-	2,474	239	(1,431)	1,282
Service	1,583	(4,976)	4,024	631	1,319	(384)	1,566
Transformation	3,333	(336)	-	2,997	5,856	(2,851)	6,002
Public Health	-	-	12,802	12,802	1,433	(950)	13,284
Sub-Total	115,496	(61,375)	60,646	114,767	64,492	(88,015)	91,244
Revenue Grants and Contributions	30,916	(30,916)	29,577	29,577	29,345	(29,577)	29,344
Total	146,412	(92,291)	90,223	144,344	93,837	(117,592)	120,588

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: <ul style="list-style-type: none"> • 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 and Community 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"> • ICT corporate system development and cross organisational developments.

Notes to the Accounting Statements

- Strategic Economic Development - To provide support for Council projects that promote economic development and an increase in businesses, including providing guarantees.
- CBOSS - To meet the cost of developing the corporate back office systems and services.

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.
Service reserves	Funds set aside for specific purposes in respect of individual Council services. A proportion of departmental underspends are held in the Corporate Service Reserve and may be used for projects that are focussed on the corporate priorities as set out within the Council's Business Plan.
Transformation reserve	This funds the transformation programme to change, protect and improve Council services. The Council is in the process of implementing a programme office and it is likely that many of the programmes being managed through that office will be funded through this reserve.
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 2014	Transfers Out 2014/15	Transfers In 2014/15	Balance at 31 March 2015	Transfers Out 2015/16	Transfers In 2015/16	Balance at 31 March 2016
	£000	£000	£000	£000	£000	£000	£000
Balances held by Schools	15,077	(358)	828	15,547	133	(750)	14,930

10. Other Operating Expenditure

	2014/15 £000	2015/16 £000
Levies		
▪ Ashdown Forest Conservators	76	76
▪ Sussex Sea Fisheries	300	301
▪ Environment Agency	130	131
Losses on the disposal of non-current assets	58,243	23,305
Total	58,749	23,813

Note - The 2015/16 losses on the disposal of non-current assets figure of £23.3m (£58.2m 2014/15) includes the removal of five schools from the Balance Sheet, that have attained Academy status at a value of £14.6m (details are included in Note 6).

Notes to the Accounting Statements

11. Financing and Investment Income and Expenditure

	2014/15	2015/16
	£000	£000
Interest payable on debt and finance leases	21,341	20,190
Net interest on pension assets and liabilities	18,253	17,399
Interest receivable	(2,268)	(2,311)
(Increase) / Decrease in Fair Value of Investment Properties	28	(325)
Surplus on Trading Undertakings	(530)	(398)
Total	36,824	34,555

12. Taxation and Non Specific Grant Income

	2014/15	2015/16
	£000	£000
Council tax income	219,577	227,221
Council tax adjustment	3,662	3,668
Non domestic rates	55,762	56,671
Business Rate Retention	10,976	13,925
Business Rate adjustment	(370)	(270)
Revenue Support Grant	85,645	65,114
Education Services Grant	6,412	-
Council Tax Transition Grant & Other Grants	1,957	-
Local Services Support Grant	863	-
New Home Bonus	1,816	2,497
Donated Assets	116	-
Capital grants and contributions	58,022	55,231
Total	444,438	424,057

Note

Local Services Support Grant is a general grant under Section 31 of the Local Government Act 2003. The Council has the freedom to use it to meet its locally identified priorities.

Notes to the Accounting Statements

13. Property, Plant, and Equipment

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
Cost or Valuation								
At 1 April 2015	371,779	175,327	352,091	1,941	7,972	88,213	997,323	119,483
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)	-
At 31 March 2016	349,140	163,330	451,023	1,943	21,925	8,287	995,648	77,091
Accumulated Depreciation and Impairment								
At 1 April 2015	(6,118)	(17,121)	(131,399)	-	(144)	-	(154,782)	(10,601)
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	-
At 31 March 2016	(77)	(10,895)	(105,434)	-	(85)	-	(116,491)	(54)

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*
Net Book Value								
At 31 March 2016	349,063	152,435	345,589	1,943	21,840	8,287	879,157	77,037
At 31 March 2015	365,661	158,206	220,692	1,941	7,828	88,213	842,541	108,882

Movements in 2014/15:	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment	PFI Assets Included in Property, Plant and Equipment*
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation								
At 1 April 2014	494,596	170,423	315,488	1,929	7,855	61,429	1,051,720	117,310
Prior Period Adjustment	(47,966)	(13,299)	-	-	-	-	(61,265)	-
Restated at 1 April 2014	446,630	157,124	315,488	1,929	7,855	61,429	990,455	117,310
Additions	21,727	2,777	36,603	12	6	34,313	95,438	358
Revaluation increases recognised in the Revaluation Reserve	35,658	7,416	-	-	1,046	-	44,120	1,826
Revaluation decreases recognised in the Revaluation Reserve	(21,720)	(1,233)	-	-	(504)	-	(23,457)	(11)
Revaluation increases (reversal of previous losses) recognised in the deficit on the Provision of Services	7,275	1,665	-	-	320	-	9,260	-
Revaluation decreases recognised in the deficit on the Provision of Services	(47,451)	(539)	-	-	(1,324)	-	(49,314)	-
Derecognition – disposals	2,001	(1,556)	-	-	(1,523)	-	(1,078)	-
Derecognition – academy & trust schools	(49,899)	(14,140)	-	-	-	(1,221)	(65,260)	-
Assets reclassified within PPE	(24,946)	22,850	-	-	2,096	-	-	-
Assets reclassified (to)/from Held for Sale	(2,700)	(141)	-	-	-	-	(2,841)	-
Other movements in cost or valuation – assets under construction	5,204	1,104	-	-	-	(6,308)	-	-
At 31 March 2015	371,779	175,327	352,091	1,941	7,972	88,213	997,323	119,483

Notes to the Accounting Statements

	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*
Movements in 2014/15:								
Accumulated Depreciation and Impairment								
At 1 April 2014	(31,085)	(27,363)	(118,805)	-	(351)	-	(177,604)	(7,812)
Prior Period Adjustment	2,894	2,292	-	-	-	-	5,186	-
Restated at 1 April 2014	(28,191)	(25,071)	(118,805)	-	(351)	-	(172,418)	(7,812)
Depreciation charge	(10,713)	(10,406)	(12,594)	-	(75)	-	(33,788)	(4,292)
Depreciation written out to the Revaluation Reserve	13,680	17,520	-	-	135	-	31,335	1,503
Revaluation losses recognised in the deficit on the Provision of Services	11,445	323	-	-	68	-	11,836	-
Assets reclassified within PPE	2,652	(2,597)	-	-	(55)	-	-	-
Assets reclassified to Held for Sale	-	-	-	-	-	-	-	-
Derecognition – disposals	(837)	58	-	-	134	-	(645)	-
Derecognition - Academy & Trust Schools	5,846	3,052	-	-	-	-	8,898	-
At 31 March 2015	(6,118)	(17,121)	(131,399)	-	(144)	-	(154,782)	10,601
Net Book Value								
At 31 March 2015	365,661	158,206	220,692	1,941	7,828	88,213	842,541	108,882
Restated at 31 March 2014	418,439	132,053	196,683	1,929	7,504	61,429	818,037	109,498
31 March 2014	463,511	143,060	196,683	1,929	7,504	61,429	874,116	109,498

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

Over the two year period, 2016/17 to 2017/18, the Council is planning to spend a gross capital expenditure of £213.4m. A large part of this, some £67.0m is planned to be funded using scheme specific resources such as government grants and contributions from external organisations. The approved capital programme shows that in 2016/17 the council plans to spend £128.6m, of which £30.6m is supported by scheme specific resources.

Having adjusted for actual outturn in 2015/16, slippage on projects and for provisions where there is an on-going commitment, the gross commitment profiles for schemes in progress at 1 April 2016 are shown below:

2016/17	2017/18	Total
£m	£m	£m
45.5	6.3	51.8

Notes to the Accounting Statements

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 £30.58m 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 2015/16 using different indices for each asset type.

	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Surplus Assets	Total
	£000	£000	£000	£000
Carried at at historical cost	-	30,583	-	30,583
Valued at fair value in:				
31 March 2016	349,140	132,747	21,925	503,812
31 March 2015	-	-	-	-
31 March 2014	-	-	-	-
31 March 2013	-	-	-	-
31 March 2012	-	-	-	-
Total Cost or Valuation	349,140	163,330	21,925	534,395

Notes to the Accounting Statements

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

As at 31 March 2016 there are forty properties classed as surplus, an increase of eleven from the previous year. Two properties were disposed of, six reclassified as surplus from other land and buildings, two reclassified from surplus to other land and buildings, ten reclassified as surplus from held for sale and one reclassified from surplus to held for sale. The fair value hierarchy of surplus assets at 31 March 2016 is as follows:

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

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.

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:

	2014/15	2015/16
	£000	£000
Rental Income from Investment Property	326	173

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.

	2014/15	2015/16
	£000	£000
Balance at start of the year	1,448	1,419
Gains from fair value adjustments	267	346
Losses from fair value adjustments	(296)	(21)
Net gains / (losses)	(29)	325
Balance at end of the year	1,419	1,744

Notes to the Accounting Statements

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

The fair value hierarchy at 31 March 2016 is as follows:

	31 March 2016			Total
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Recurring fair value measurements using:	£000	£000	£000	£000
Office units	-	-	1,744	1,744

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 £1.17m charged to revenue in 2015/16 (£0.48m in 2014/15) was charged to the ICT – Business Services cost centre and then absorbed as an overhead across all the service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

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

	2014/15	2015/16
	£000	£000
Balance at start of year:		
Gross carrying amounts	11,996	15,341
Accumulated amortisation	(9,317)	(9,798)
Net carrying amount at start of year	2,679	5,543
Purchases	3,345	4,814
Transfers	-	919
Amortisation for the period	(481)	(1,174)
Net carrying amount at end of year	5,543	10,102
Comprising:		
Gross carrying amounts	15,341	11,870
Accumulated amortisation	(9,798)	(1,768)
Net carrying amount at end of year	5,543	10,102

The closing gross carrying amount and accumulated amortisation figures have both been adjusted by £9.204m, as a result of four assets having been amortised in full, with no overall change to the closing net carrying amount.

Notes to the Accounting Statements

The individual items of capitalised software in the Balance Sheet at 31 March 2016 are:

Description	Carrying Amount		Remaining Amortisation (Years)
	31 March 2015 £000	31 March 2016 £000	
Agile	76	106	6
Compliance Management	98	427	6 – 7
Atrium	131	146	5 – 6
Carefirst	1,433	3,520	5 – 7
Desktop Anywhere	1,524	1,255	5 – 6
HRMS Financials	222	190	6
ICT Service Management Tool	138	115	5 – 6
Library Management System	51	42	5 – 6
LogRhythm	26	21	6
Microsoft Enterprise Agreement	51	25	1
Microsoft Enterprise Solution	1,184	960	1 – 6
Microsoft Premier	50	-	-
Microsoft ExchangeServer	154	128	5
On Line Payments	123	104	5 – 6
SEND	56	64	5 – 6
SAP Software	22	718	6 – 7
SSA/RAS	89	73	5 – 6
Web Content Management System	92	219	5 – 6
Windows Server	23	18	6
Biztalk	-	33	7
Citrix	-	292	7
Data Centre	-	872	7
Easynet WiFi	-	14	7
Managed Service for Schools	-	184	7
People's Network	-	364	7
Printing Rationalisation	-	72	7
Protective Marketing	-	64	7
RBUSS Service	-	76	7
Total	5,543	10,102	

- 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

Notes to the Accounting Statements

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.

Reconciliation of the carrying value of Heritage Asset:

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

The Art Collection was revalued in 2011/12 at £13,000. In 2012/13, the chattels at Bentley House, Halland were reclassified from Property, Plant & Equipment to Heritage Assets and revalued down to £484,000. In 2014/15, The Sugar Loaf Folly, Brightling was recognised and the Battle Abbey Estate Archives were donated at a value of £116,000.

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.

Notes to the Accounting Statements

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) carried out a full valuation of the collection of paintings in 2011/12 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, based on a March 2011 inventory, was undertaken by Sotheby's who provided a saleroom estimate for each item.

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

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

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 2015/16, £39.156m (£19.488m in 2014/15) of the Council's capital investment related to Revenue Expenditure Funded from Capital Under Statute (Note 8), 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 £64.0m in 2015/16. Some assets will also lose value on revaluation. In 2015/16, the Council has recognised revaluation losses of £68.9m (£61.0m in 2014/15). The largest revaluation loss is at the Newhaven Energy Recovery Facility. Due to a change in valuer and valuation methodology the value of the asset has been reduced by £36.7m. Of this amount, £2.8 has been charged to the Revaluation Reserve and the balance of £33.9m to Comprehensive Income and Expenditure. Of the £68.9m total, £57.6m (£37.5m 2014/15) has been charged to the Comprehensive Income and Expenditure Statement and £11.3m (£23.5m in 2014/15) to the Revaluation Reserve. The reversal of revaluation losses taken to the Comprehensive Income and Expenditure Statement in 2015/16 totalled £11.2m (£9.3m 2014/15). The net charge to the Comprehensive Income and Expenditure Statement of losses less reversals was £46.4m (£28.2m 2014/15). 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

Notes to the Accounting Statements

19. Financial Instruments

Categories of Financial Instruments

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

	Long Term		Current	
	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000	31 March 2016 £000
Financial Assets				
Investments				
Loans and receivables	1	1	284,575	256,545
Cash and Cash Equivalents				
			2,163	22,956
Debtors				
Loans and receivables	5,585	2,827	40,026	29,178
Total Financial Assets	5,586	2,828	326,764	308,679
Financial Liabilities				
Borrowings				
Financial liabilities at amortised cost	(255,035)	(270,422)	(5,383)	(6,099)
Bank overdraft and accrued balance for third parties			(18,889)	(25,251)
Other Long Term Liabilities				
PFI and finance lease liabilities at amortised cost	(87,300)	(83,852)		
Financial Guarantees at amortised cost	(61)	(61)		
Long Term Creditors at amortised cost	(1)	(2)		
Total Other Long Term Liabilities	(87,362)	(83,915)		
Creditors				
PFI and finance lease liabilities at amortised cost			(3,322)	(3,559)
Financial liabilities at amortised cost			(71,435)	(65,886)
Total Financial Liabilities	(342,397)	(354,337)	(99,029)	(100,795)

Income, Expense, Gains and Losses

2014/15	Financial Liabilities measured at amortised cost £000	Financial Assets: Loans and receivables £000	Total £000
Interest expense	(21,341)	-	(21,341)
Total expense in Deficit on the Provision of Services	(21,341)	-	(21,341)
Interest income	-	2,268	2,268
Total income in Deficit on the Provision of Services	-	2,268	2,268
Net gain / (loss) for the year	(21,341)	2,268	(19,073)

Notes to the Accounting Statements

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

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

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

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

Financial Liabilities

- For loans from the PWLB payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For non-PWLB loans payable, PWLB premature repayment rates have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;
- Estimated ranges of interest rates at 31 March 2016 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 2016 of £346.7m 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 £240.4m would be valued at £301.6m. 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 £106.3m for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £346.7m.

Notes to the Accounting Statements

The fair values calculated are as follows:

Financial Liabilities

	31 March 2015		31 March 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
PWLB Debt	(224,337)	(328,636)	(240,440)	(346,727)
Non PWLB Debt	(35,900)	(45,319)	(35,900)	(59,118)
Other Short Term Borrowing	(181)	(181)	(181)	(181)
Bank overdraft and accrued balance for third parties	(18,889)	(18,889)	(25,251)	(25,251)
PFI Liabilities	(90,622)	(90,622)	(87,412)	(122,975)
Financial Guarantees	(61)	(61)	(61)	(61)
Current Creditors	(71,436)	(71,436)	(65,885)	(65,885)
Long Term Creditors	(1)	(1)	(2)	(2)
Total	(441,427)	(555,145)	(455,132)	(620,200)

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 2016, arising from a commitment to pay interest to lenders above current market rates.

Financial Assets

	2014/15		2015/16	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Short Term Deposits	284,575	284,575	256,545	256,545
Money Market Funds	2,000	2,000	22,300	22,300
Other Cash and Cash Equivalents	163	163	656	656
Current Debtors	40,026	40,026	29,178	29,178
Long Term Debtors	5,586	5,586	2,828	2,828
Total	332,350	332,350	311,507	311,507

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.

Notes to the Accounting Statements

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

The fair value hierarchy at 31 March 2016 is as follows:

	31 March 2016			Total
	Quoted prices in active markets for identical assets (Level 1)	Other significant observable Inputs (Level 2)	Significant unobservable inputs (Level 3)	
	£000	£000	£000	
Recurring fair value measurements using:				
Financial liabilities				
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)
Total	-	(497,225)	(122,975)	(620,200)
Financial assets				
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
Total	22,300	289,207	-	311,507

Notes to the Accounting Statements

20. Assets Held for Sale

	2014/15	2015/16
	£000	£000
Balance outstanding at start of year	3,921	4,105
Assets newly classified as held for sale	2,841	183
Additions	14	26
Revaluation losses recognised in Provision of Services	-	(1,182)
Assets declassified as held for sale	-	(2,498)
Assets sold	(2,671)	(111)
Balance outstanding at year end	4,105	523

During 2015/16, one held for sale property was sold. Ten properties were reclassified from held for sale to surplus properties and one property was reclassified from surplus properties to being held for sale. Assets Held for Sale are valued 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.

21. Current & Long Term Debtors and Payments in Advance

	31 March 2015	31 March 2016
	£000	£000
Current Debtors		
Central Government Bodies	4,881	3,399
Other Local Authorities	22,189	18,597
NHS Bodies	3,592	42
Other Entities and Individuals	24,901	21,590
Total	55,563	43,628
Long Term Debtors		
Higher Education Institution	1,079	1,036
South East Local Enterprise Partnership (SELEP)	4,200	1,600
Other Entities and Individuals	305	191
Total	5,584	2,827

Allowance for debts impairment

The Council makes allowance for impairment of debts based on an assessment of the recoverability of receivables. A decrease in the provision for bad debt adjustment of £0.289m was made in 2015/16, bringing the total allowance for impairment to £1.21m at 31 March 2016. 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 2016 the Council's share of these allowances amounts to £6.984m (£7.034m at 31 March 2015) out of its share of Council Tax & Business Rates debts totalling £16.195m (£15.841m at 31 March 2015).

Payments In Advance

	31 March	31 March
	2015	2016
	£000	£000
Leasing	182	80
Other Local Authorities	2	6
Other Entities & Individuals	4,168	4,942
Total	4,352	5,028

Notes to the Accounting Statements

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

	31 March 2015 £000	31 March 2016 £000	Movement £000
Cash in hand	156	140	(16)
Short-term deposits	2,007	22,816	20,809
Total Cash and Cash Equivalents	2,163	22,956	20,793
Imputed cash adjustment for pooled budget re the purchase of integrated community equipment	(711)	(467)	244
Bank overdraft	(1,945)	(5,968)	(4,023)
Accrued balance at bank and for third parties	(16,232)	(18,816)	(2,584)
Total bank overdraft and accrued balance for third parties	(18,888)	(25,251)	(6,363)
Net cash and cash equivalent balances / (overdrawn)	(16,725)	(2,295)	14,430

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 2015 £000	31 March 2016 £000
East Sussex Fire Authority	(16,127)	(18,721)
Trust Funds	(105)	(95)
Accrued balance at bank and for third parties	(16,232)	(18,816)

The pooled bank balances at 31 March 2016 include £9.8m (£25.0m at 31 March 2015) relating to bank accounts operated by schools under local management arrangements.

23. Creditors and Income in Advance

Creditors

	31 March 2015 £000	31 March 2016 £000
Central Government Bodies	6,705	6,670
Other Local Authorities	8,935	9,576
NHS Bodies	3,326	2,735
Other Entities and Individuals	69,135	64,185
Total	88,101	83,166

Income in Advance

	31 March 2015 £000	31 March 2016 £000
Other Local Authorities	2,632	2,788
NHS Bodies	6,629	5,282
Other Entities and Individuals	7,155	7,354
Total	16,416	15,424

Notes to the Accounting Statements

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:

Long Term Provisions	31 March 2015 £000	Additional provisions £000	Amounts used £000	31 March 2016 £000
Insurance claims	4,046	-	(176)	3,870
Section 117 liabilities	800	-	(71)	729
Closed Landfill Sites	9,423	-	(112)	9,311
Total	14,269	-	(359)	13,910
Short Term Provisions	31 March 2015 £000	Additional provisions £000	Amounts used £000	31 March 2016 £000
Adult Social Care legal costs	122	-	(122)	-
Adult Social Care Redundancies	132	-	(132)	-
Adult Social Care Provision	-	850	-	850
Services Redundancies	-	457	-	457
Municipal Mutual Insurance (MMI)	28	526	-	554
NNDR Appeals	551	312	-	863
Closed Landfill Sites	490	-	-	490
Total	1,323	2,145	(254)	3,214
Total Provisions	15,592	2,145	(613)	17,124

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 2016.

Notes to the Accounting Statements

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 2015	31 March 2016
	£000	£000
Usable Capital Receipts Reserve	6,081	2,432
Capital Grants & Contributions Unapplied	41,337	17,989
Earmarked Reserves	114,767	91,244
Earmarked Reserves – Revenue Grant & Contribution	29,577	29,344
County Fund balances	8,898	9,999
School Balances	15,547	14,930
Total Usable Reserves	216,207	165,938

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.

	2014/15	2015/16
	£000	£000
Balance at 1 April	10,532	6,081
Amounts receivable during the year	2,514	652
Amounts applied to finance new capital investment	<u>(6,965)</u>	<u>(4,301)</u>
Net Transfer to / (from) the Capital Receipts Reserve	(4,451)	(3,649)
Balance at 31 March	6,081	2,432

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.

	2014/15	2015/16
	£000	£000
Balance at 1 April	53,379	41,337
Amounts receivable during the year	53,914	50,243
Amounts applied to finance new capital investment	<u>(65,956)</u>	<u>(73,591)</u>
Net Transfer to / (from) the Capital Unapplied Account	(12,042)	(23,348)
Balance at 31 March	41,337	17,989

Notes to the Accounting Statements

26. Unusable Reserves

	31 March 2015	31 March 2016
	£000	£000
Revaluation Reserve	152,212	187,437
Capital Adjustment Account	346,240	363,432
Financial Instruments Adjustment Account	(23)	(23)
Collection Fund Adjustment Account	5,919	4,876
Accumulated Absences Account	(6,129)	(6,032)
Pensions Reserve	(540,383)	(416,950)
Total Unusable Reserves	(42,164)	132,740

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.

	2014/15	2015/16	
	£000	£000	£000
Balance at 1 April	119,618		152,212
Upward revaluation of assets	75,468	63,974	
Downward revaluation of assets and impairment losses not charged to the Deficit on the Provision of Services	(23,457)	(11,270)	
Surplus on revaluation of non-current assets not posted to the Deficit on the Provision of Services	52,011		52,704
Difference between fair value depreciation and historical cost depreciation	(7,375)	(7,032)	
Accumulated gains on assets sold or scrapped	(12,042)	(10,448)	
Amount written off to the Capital Adjustment Account	(19,417)		(17,479)
Balance at 31 March	152,212		187,437

Notes to the Accounting Statements

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.

	2014/15 £000	2015/16 £000	£000
Balance at 1 April	335,688		346,240
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
Charges for depreciation and impairment of non-current assets	(33,789)	(36,473)	
Revaluation losses on non-current assets	(37,477)	(57,604)	
Revaluation loss reversals on non-current assets	9,260	11,189	
Amortisation of intangible assets	(481)	(1,174)	
Revenue expenditure funded from capital under statute	(19,488)	(39,156)	
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	(60,757)	(23,957)	
	(142,732)		(147,175)
Adjusting amounts written out of the Revaluation Reserve	19,417		17,479
Net written out amount of the cost of non-current assets consumed in the year	(123,315)		(129,696)
Capital financing applied in the year			
Use of the Capital Receipts Reserve to finance new capital expenditure	6,964	4,301	
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	70,065	78,578	
Statutory provision for the financing of capital investment charged against the General Fund balance	14,695	14,492	
Capital expenditure charged against the General Fund balances	42,056	49,192	
	133,780		146,563
Movements in the market value of Investment Properties credited or debited to the Comprehensive Income and Expenditure Statement	(28)		325
Movements in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement	115		-
Balance at 31 March	346,240		363,432

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2016 will be charged to the General Fund over a specific period.

Notes to the Accounting Statements

	2014/15 £000	2015/16 £000
Balance at 1 April	(23)	(23)
Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	-	-
Balance at 31 March	(23)	(23)

Pensions Reserve

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

	2014/15 £000	2015/16 £000
Balance at 1 April	(425,296)	(540,383)
Remeasurement of the net defined liability	(97,858)	147,526
Benefits credited to the Provision of Services in the Comprehensive Income and Expenditure Statement	(50,386)	(58,023)
Employer's pension contributions charged to General Fund Balance	33,157	33,930
Balance at 31 March	(540,383)	(416,950)

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.

	2014/15 £000	2015/16 £000
Balance at 1 April	4,446	5,919
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	1,529	(886)
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	(56)	(157)
Net movement in the Collection Fund Adjustment Account	1,473	(1,043)
Balance at 31 March	5,919	4,876

Notes to the Accounting Statements

Accumulated Absences Account

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

	2014/15 £000	2015/16 £000
Balance at 1 April	(6,441)	(6,129)
Settlement or cancellation of accrual made at the end of the preceding year	6,441	6,129
Amounts accrued at the end of the current year	(6,129)	(6,032)
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	312	97
Balance at 31 March	(6,129)	(6,032)

27. Cash Flow Statement - Operating Activities

The cash flows for operating activities include the following items:

	2014/15 £000	2015/16 £000
Net Deficit on the Provision of Services	42,401	75,595
<u>Adjustment for non-cash movements</u>		
Depreciation	(33,789)	(36,473)
Impairment and downward revaluations	(37,477)	(57,604)
Reversal of previous years revaluation losses	9,259	11,189
Amortisation of Intangible Assets	(481)	(1,174)
Financial Guarantee Adjustments	(6)	-
(Increase) / Decrease in Interest Creditors	25	(57)
(Increase) / Decrease in Creditors	(2,848)	7,430
Increase / (Decrease) in Interest Debtors	401	(30)
Increase / (Decrease) in Debtors	14,419	(11,184)
Decrease in Inventories	(66)	(16)
Movement in Pension Liability	(17,229)	(24,093)
Contributions (to) / from Provisions	1,675	(1,532)
Donated Assets Account	115	-
Carrying amount of non-current assets sold or derecognised	(60,756)	(23,956)
Upward / (Downward) revaluation in Investment Property Values	(28)	325
<u>Adjustment for items that are investing or financing activities</u>		
Capital grants and contributions credited to provision of services	58,022	55,230
Net adjustments from the sale of short term investments	-	(28,000)
Proceeds from the sale of PPE, Investment Property and Intangible assets	2,514	652
Net Cash inflow from Operating Activities	(23,849)	(33,698)

Notes to the Accounting Statements

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

	2014/15 £000	2015/16 £000
Interest receivable	(3,118)	(2,311)
Opening debtor	(175)	(575)
Closing debtor	575	545
Cash flow interest received	(2,718)	(2,341)

	2014/15 £000	2015/16 £000
Interest payable	21,341	20,190
Opening creditor	(1,273)	(1,248)
Closing creditor	1,248	1,305
Cash flow interest paid	21,316	20,247

28. Cash Flow Statement – Investing Activities

	2014/15 £000	2015/16 £000
Additions of Property, Plant & Equipment (PPE)	95,438	88,075
Additions of Intangible Assets & Assets Held for Sale	3,358	4,839
Opening Capital Creditors	6,137	7,548
Closing Capital Creditors	(7,548)	(8,387)
Long Term loans granted	4,200	-
Proceeds from the sale of short-term investments	(2,000)	-
Proceeds from the sale of PPE	(2,514)	(652)
Other capital cash receipts	(231)	(2,757)
Capital Grants Received	(65,370)	(56,069)
Net cash outflow from investing activities	31,470	32,597

29. Cash Flow Statement – Financing Activities

	2014/15 £000	2015/16 £000
Cash receipts of short and long term borrowing	-	(20,000)
Appropriation to the Collection Fund Adjustment Account	1,536	(731)
Repayments of short and long term borrowing	3,954	3,955
Payments for the reduction of long term PFI Liabilities	3,323	3,447
Net cash outflow from financing activities	8,813	(13,329)

Notes to the Accounting Statements

30. Amounts reported for resource allocation decisions

The Council Chief Operating Decision Maker is the Cabinet. Both elected representatives (councillors) and paid employees (council officers) work together to supply these services for East Sussex.

The Cabinet is responsible for most day-to-day Council decisions, while the full Council is responsible for agreeing the main policies and priorities for all services, including the Council's budget. They do this by setting the overall policies and strategies for the Council and by monitoring the way in which these are implemented. In addition, the Council is responsible for ensuring that our business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and is used economically, efficiently and effectively.

The Council's spending against its Revenue and Capital Programmes is monitored throughout each year and regularly reported to Cabinet. This is supported by a comprehensive monitoring system, with Chief Officers responsible for their departments' budget management. In year budget monitoring is an important guide to setting the budget for the following year and also enables final accounts to be produced quickly, accurately and in accordance with the legislative requirements.

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Service Reporting Code of Practice*. However, decisions about resource allocation are taken by the Cabinet on the basis of budget reports analysed across departments. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- charges in relation to capital expenditure (depreciation, revaluation and impairment losses) are based on estimates whereas actual charges to services are included in the Comprehensive Income and Expenditure Statement
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged to departments.

East Sussex County Council departments and responsibilities

The Council's five departments and their main responsibilities are:

- Adult Social Care – provide social care services for residents over 16, including residential care and sensory care services and Public Health is responsible for improving and protecting health and reducing health inequalities, covering health protection, health improvement, and health service quality improvement.
- Governance and Community Services – provides overall governance aspects of the council including legal and constitutional arrangements.
- Children's Services – provide social care for people under 16, state education and other childcare services.
- Business Services – responsible for managing our finances, IT, human resources, procurement and property.
- Communities, Economy and Transport – responsible for community services such as libraries and registrars, customer access/services roads, transport planning, economy and the East Sussex environment.

The income and expenditure of the Council's principal departments recorded in the budget reports for the year is as follows:

2015/16 Department Income and Expenditure	Adult Social Care	Public Health	Governance & Community Services	Children's Services	Business Services	Communities, Economy, & Transport	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(86,414)	(763)	(5,486)	(310,017)	(59,369)	(71,403)	(533,453)
Government grants	(11,253)	(25,907)	(297)	(266,098)	(1,990)	(5,641)	(311,185)
Total Income	(97,667)	(26,670)	(5,783)	(576,115)	(61,359)	(77,044)	(844,638)
Employee expenses	52,088	1,887	5,011	221,161	18,536	19,431	318,114
Other service expenses	205,992	23,911	4,252	173,794	38,687	178,166	624,803
Support service recharges	13,967	865	289	297,055	2,334	9,006	323,516
Total Expenditure	272,047	26,663	9,552	692,010	59,557	206,603	1,266,433
Net Expenditure	174,380	(8)	3,769	115,897	(1,802)	129,559	421,795

Notes to the Accounting Statements

2014/15 Department Income and Expenditure	Adult Social Care	Public Health	Governance & Community Services	Children's Services	Business Services	Communities, Economy, & Transport	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(78,706)	(234)	(8,260)	(323,509)	(57,236)	(49,946)	(517,891)
Government grants	(1,890)	(30,504)	(308)	(273,422)	(1,852)	(8,514)	(316,490)
Total Income	(80,596)	(30,738)	(8,568)	(596,931)	(59,088)	(58,460)	(834,381)
Employee expenses	49,897	1,672	4,816	230,516	19,290	20,005	326,196
Other service expenses	191,949	28,360	3,710	190,887	38,404	116,576	569,886
Support service recharges	13,633	714	2,947	300,084	1,123	11,082	329,583
Total Expenditure	255,479	30,746	11,473	721,487	58,817	147,663	1,225,664
Net Expenditure	174,883	8	2,904	124,556	(271)	89,203	391,284

Reconciliation of Department Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of department income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

Net expenditure in the Department Analysis

Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis

Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement

Cost of Services in Comprehensive Income and Expenditure Statement

2014/15 £000	2015/16 £000
391,284	421,795
224,130	226,282
(224,148)	(206,793)
391,266	441,284

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of department income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2015/16	Department Analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(533,453)	-	14,309	323,516	(195,628)	-	(195,628)
Net surplus on trading undertakings	-	-	-	-	-	(398)	(398)
Interest and investment income	-	-	-	-	-	(2,311)	(2,311)
Council tax	-	-	-	-	-	(227,221)	(227,221)
Revenue Support Grant	-	-	-	-	-	(65,114)	(65,114)
Business Rate Retention	-	-	-	-	-	(56,671)	(56,671)
Business Rate Top-up	-	-	-	-	-	(13,925)	(13,925)

Notes to the Accounting Statements

2015/16	Department Analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Bus Rates Sur/Deficit	-	-	-	-	-	270	270
New Home Bonus	-	-	-	-	-	(2,497)	(2,497)
Council Tax/Business Rate Adjustment	-	-	-	-	-	(3,668)	(3,668)
Government grants and contributions	(311,185)	-	-	-	(311,185)	(55,231)	(366,416)
Total Income	(844,638)	-	14,309	323,516	(506,813)	(426,767)	(933,580)
Employee expenses	318,114	33,313	(74,708)	-	276,720	-	276,720
Other service expenses	624,803	55,537	(132,085)	-	548,255	-	548,255
Support Service recharges	323,516	-	-	(323,516)	-	-	-
Depreciation, amortisation and impairment	-	83,966	-	-	83,966	-	83,966
Revenue Expenditure Funded from Capital Under Statute (Refcus)	-	39,156	-	-	39,156	-	39,156
Pensions interest cost and net return on assets	-	-	-	-	-	17,399	17,399
Interest Payable and Similar Charges - Leases/PFI schemes	-	-	-	-	-	6,845	6,845
Interest Payments	-	-	-	-	-	13,345	13,345
Precepts & Levies	-	-	-	-	-	508	508
Changes in fair value of investment properties	-	-	-	-	-	(325)	(325)
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	23,305	23,305
Total operating expenses	1,266,433	211,973	(206,793)	(323,516)	948,097	61,078	1,009,175
Deficit on the provision of services	421,795	211,973	(192,484)	-	441,284	(365,689)	75,595
2014/15							
	Department Analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(517,891)	-	46,400	361,104	(110,387)	-	(110,387)
Net surplus on trading undertakings	-	-	-	-	-	(531)	(531)
Interest and investment income	-	-	-	-	-	(2,268)	(2,268)
Donated Assets	-	-	-	-	-	(116)	(116)
Council tax	-	-	-	-	-	(219,577)	(219,577)
Revenue Support Grant	-	-	-	-	-	(85,645)	(85,645)
Business Rate Retention	-	-	-	-	-	(10,976)	(10,976)
Business Rate Top-up	-	-	-	-	-	(55,763)	(55,763)

Notes to the Accounting Statements

2014/15	Department Analysis	Amounts not reported to management for decision making	Amounts not included in CIES	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Education Services Grant (ESG)	-	-	-	-	-	(6,412)	(6,412)
Council Tax Transition Grant, etc.	-	-	-	-	-	(1,957)	(1,957)
Local Services Support Grant (LSSG)	-	-	-	-	-	314	314
Council Tax Freeze Grant	-	-	-	-	-	(863)	(863)
New Home Bonus	-	-	-	-	-	(1,816)	(1,816)
Council Tax/Business Rate Adjustment	-	-	-	-	-	(3,605)	(3,605)
Government grants and contributions	(316,490)	-	-	-	(316,490)	(58,022)	(374,512)
Total Income	(834,381)	-	46,400	361,104	(426,877)	(447,237)	(874,114)
Employee expenses	326,196	39,422	(74,592)	-	291,026	-	291,026
Other service expenses	569,886	58,329	(149,556)	(31,521)	447,138	-	447,138
Support Service recharges	329,582	-	-	(329,582)	-	-	-
Depreciation, amortisation and impairment	-	57,795	-	-	57,795	-	57,795
Revenue Expenditure Funded from Capital Under Statute (Refcus)	-	22,184	-	-	22,184	-	22,184
Pensions interest cost and net return on assets	-	-	-	-	-	18,254	18,254
Interest Payable and Similar Charges - Leases/PFI schemes	-	-	-	-	-	6,898	6,898
Interest Payments	-	-	-	-	-	14,443	14,443
Precepts & Levies	-	-	-	-	-	506	506
Changes in fair value of investment properties	-	-	-	-	-	28	28
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	58,243	58,243
Total operating expenses	1,225,666	177,730	(224,148)	(361,103)	816,143	93,371	916,514
Deficit on the provision of services	391,284	177,730	(177,748)	-	391,266	(348,865)	42,401

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 their budget by generating income from other parts of the Council or other organisations. Trading operations are incorporated into the Comprehensive Income and Expenditure Statement. Some are an integral part of one of the Council's services to the public, whilst others are support services to the Council's services to the public. The Council provides various services to bodies including district and parish councils, Sussex Police and Crime Commissioner and East Sussex Fire Authority, under the provisions of section 1 of the above Act. The scale of these operations is small in relation to the Council's expenditure generally and can be summarised as follows:

The table below analyses the figure shown in the Comprehensive Income and Expenditure Account as the net effect of trading accounts:

	2014/15			2015/16		
	Expenditure £000	Income £000	Net Expenditure £000	Expenditure £000	Income £000	Net Expenditure £000
County Catering Service	563	(648)	(85)	497	(664)	(167)
County Transport Group	1,110	(1,654)	(544)	987	(1,268)	(281)
Chiltern	40	(4)	36	26	(3)	23
Hospitality Hub/Milton Grange	27	(6)	21	24	(6)	18
Sidley Café	28	(12)	16	29	(10)	19
1970 Act	1,617	(1,591)	26	1,929	(1,939)	(10)
Total	3,385	(3,915)	(530)	3,492	(3,890)	(398)

Note

The 1970 Act includes Legal Services, County Records, School Library Service, Music Tuition, Street Lighting, Lewes Car Parking Scheme, Occupational Health, Financial Services and Property Services.

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

In 2015/16 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; High Weald, Lewes & Havens CCG.

- The **Integrated Community Equipment Service** scheme which started in September 2004 comprises the Council as host agency and the East Sussex Downs and Weald CCG and Hastings and Rother CCG.
- The **Better Care Fund** (BCF) is a new scheme which started in April 2015 and comprises the Council, as host agency; Eastbourne, Hailsham and Seaford CCG; Hastings and Rother CCG; and High Weald Lewes Havens CCG. 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	2014/15			2015/16		
	Expenditure £000	Income £000	ESCC Contribution £000	Expenditure £000	Income £000	ESCC Contribution £000
Integrated Community Equipment	3,852	(3,852)	(1,926)	4,255	(4,255)	(2,128)
Better Care Fund	-	-	-	42,214	(42,214)	(5,663)
Total	3,852	(3,852)	(1,926)	46,469	(46,469)	(7,791)

Note

Clinical Commissioning Boards were abolished on 31 March 2013 under the Health & Social Care Act 2012 with clinical commissioning groups taking over their responsibilities.

Notes to the Accounting Statements

33. Members' Allowances

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

	2014/15 £000	2015/16 £000
Salaries - basic allowances	537	540
National Insurance & Pension	115	115
Special responsibility allowances	199	202
Expenses	43	37
Total	894	894

The table below shows the actual amounts paid to individual members in the 2015/16 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 our Constitution.

Actual amounts paid to individual members in 2015/16

Member	Members Basic Allowance	Special Responsibility Allowance	Travel by Car	Fares and Subsistence
	£	£	£	£
Cllr Alan Shuttleworth	11,080	-	360	-
Cllr Barry Taylor	11,080	-	-	-
Cllr Bob Standley	11,080	-	537	-
Cllr David Elkin	11,080	17,232	2,308	255
Cllr Frank Carstairs	11,080	-	-	-
Cllr Ian Buchanan	11,080	-	266	-
Cllr Jeremy Birch	1,102	-	-	-
Cllr Jim Sheppard	11,080	-	-	-
Cllr John Hodges	9,584	-	749	-
Cllr John Ungar	11,080	-	-	-
Cllr Kim Forward	11,080	-	547	-
Cllr Michael Ensor	11,080	6,153	-	-
Cllr Michael Wincott	11,080	-	-	-
Cllr Mike Blanch	11,080	6,153	490	112
Cllr Mike Pursglove	11,080	-	1,158	21
Cllr Peter Charlton	11,080	-	-	-
Cllr Philip Howson	11,080	4,927	609	-
Cllr Richard Stogdon	11,080	6,153	1,242	332
Cllr Rosalyn St Pierre	11,080	-	761	159
Cllr Roy Galley	11,080	-	1,015	190
Cllr Ruth O'Keeffe	11,080	-	-	-
Cllr Steve Wallis	11,080	-	69	-
Cllr Sylvia Tidy	11,080	14,771	1,766	56
Cllr Tania Charman	8,042	-	-	-
Cllr Trevor Webb	11,080	4,927	-	91
Cllr Angharad Davies	11,080	-	1,829	90
Cllr Bill Bentley	11,080	14,771	1,465	18
Cllr Carl Maynard	11,080	14,771	2,179	26
Cllr Carla Butler	11,080	-	-	-
Cllr Carolyn Lambert	11,080	-	-	-

Notes to the Accounting Statements

Member	Members Basic Allowance	Special Responsibility Allowance	Travel by Car	Fares and Subsistence
Cllr Charles Clark	11,080	-	-	-
Cllr Christopher Dowling	11,080	14,771	1,615	75
Cllr Claire Dowling	11,080	-	187	-
Cllr Colin Belsey	11,080	12,307	1,953	110
Cllr Daniel Shing	11,080	-	126	-
Cllr David Tutt	11,080	12,307	351	-
Cllr Francis Whetstone	11,080	-	-	-
Cllr Godfrey Daniel	11,080	6,153	1,488	52
Cllr John Barnes	11,080	-	-	-
Cllr Kathryn Field	11,080	6,153	1,086	25
Cllr Keith Glazier	11,080	24,618	4,004	351
Cllr Laurence Keeley	11,080	-	738	119
Cllr Michael Phillips	11,080	-	-	-
Cllr Nicholas Bennett	11,080	14,771	2,372	58
Cllr Patrick Rodohan	11,080	-	770	-
Cllr Peter Pragnell	11,080	6,153	-	-
Cllr Philip Scott	11,080	-	29	-
Cllr Rupert Simmons	11,080	14,771	1,708	31
Cllr Stephen Shing	11,080	-	166	-
Cllr Stuart Earl	11,080	-	360	-
Total	539,486	201,861	34,304	2,169

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 2015/16

	Notes	Salary, Fees and Allowances	Bonuses	Expenses Allowances (incl. Benefit in Kind)	Compensation of Loss of Employment	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		139,415	6,889	3,938	-	29,700	179,941
Director of Communities, Economy & Transport.	1	136,499	-	2,954	-	28,301	167,754
Director of Public Health	2	104,108	-	-	-	14,887	118,995
Assistant Chief Executive		91,137	-	-	-	18,501	109,638
Director of Children's Services		135,661	-	198	-	27,539	163,399
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. 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

Senior Employees Remuneration 2014/15

	Notes	Salary, Fees and Allowances	Bonuses	Expenses Allowances (incl. Benefit in Kind)	Compensation of Loss of Employment	Employer's Pension Contributions	Total
		£	£	£	£	£	£
Chief Executive - Becky Shaw		184,738	-	-	-	37,502	222,240
Chief Operating Officer		130,634	-	-	-	26,519	157,153
Director of Adult Social Care		137,775	-	2,467	-	27,968	168,210
Director of Communities, Economy & Transport.	1	134,859	-	2,080	-	27,968	164,907
Director of Public Health	2	102,883	-	-	-	14,404	117,287
Assistant Chief Executive		87,436	-	-	-	17,749	105,185
Director of Children's Services	3	123,142	-	-	-	24,998	148,140
Chief Finance Officer		104,614	-	-	-	21,237	125,851

Notes:

1. Director of Communities, Economy & Transport - Pension Contributions were based on salary (before salary sacrifice) of £137,775.
2. Director of Public Health - NHS Pension Scheme not LGPS.
3. Director of Children's Services - commenced 22 April 2014 (No payments made in 2014/15 to the Interim Director of Children's Service's prior to permanent appointment of the current post holder).

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	2014/15 Number of employees			2015/16 Number of employees		
	Non - Schools	Schools	Total	Non - Schools	Schools	Total
£50,000 to £54,999	39	70	109	79	72	151
£55,000 to £59,999	27	44	71	21	44	65
£60,000 to £64,999	35	29	64	40	31	71
£65,000 to £69,999	3	20	23	8	15	23
£70,000 to £74,999	3	13	16	5	11	16
£75,000 to £79,999	3	4	7	2	4	6
£80,000 to £84,999	5	2	7	3	1	4
£85,000 to £89,999	3	2	5	3	3	6
£90,000 to £94,999	1	2	3	4	1	5
£95,000 to £99,999	-	1	1	1	1	2
£100,000 to £104,999	2	1	3	1	1	2
£105,000 to £109,999	2	1	3	3	1	4
£110,000 to £114,999	-	-	-	-	-	-
£115,000 to £119,999	-	-	-	-	-	-
£120,000 to £124,999	1	-	1	-	-	-
£125,000 to £129,999	1	-	1	-	-	-
£130,000 to £134,999	1	-	1	-	-	-
£135,000 to £139,999	1	-	1	3	-	3
£140,000 to £144,999	1	-	1	-	-	-
£145,000 to £149,999	-	1	1	-	-	-
£150,000 to £154,999	-	-	-	1	-	1
£155,000 to £159,999	-	-	-	-	-	-
£160,000 to £164,999	-	-	-	-	-	-

Notes to the Accounting Statements

Remuneration band	2014/15			2015/16		
	Number of employees			Number of employees		
	Non - Schools	Schools	Total	Non - Schools	Schools	Total
£165,000 to £169,999	-	-	-	-	-	-
£170,000 to £174,999	-	-	-	-	-	-
£175,000 to £179,999	-	-	-	-	-	-
£180,000 to £184,999	1	-	1	-	-	-
£185,000 to £189,999	-	-	-	1	-	1

35. Termination Benefits & Exit Packages

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

The Council terminated the contracts of 188 employees during 2015/16, incurring costs of £2.05m (254 terminations at a cost of £2.54m in 2014/15). An analysis of the numbers and amounts broken down by pay band and split between compulsory redundancies and other departures for both 2015/16 and 2014/15 are shown in the tables below.

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	-	-	-	-	-	-
Total	59	481	129	1,568	188	2,049

The total cost of £2.049m in the table above is the amount that has been charged to the Comprehensive Income and Expenditure Statement in 2015/16. There were no provision amounts for exit packages charged to the Comprehensive Income and Expenditure Statement in 2015/16.

Notes to the Accounting Statements

Exit Packages 2014/15

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	103	713	122	879	225	1,592
£20,000 to £39,999	12	288	12	350	24	638
£40,000 to £59,999	1	58	1	49	2	107
£60,000 to £79,999	1	72	2	134	3	206
£100,000 to £149,999	-	-	-	-	-	-
£150,000 to £199,999	-	-	-	-	-	-
£200,000 to £249,999	-	-	-	-	-	-
Total	-	-	-	-	-	-
	117	1,131	137	1,412	254	2,543

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.

	2014/15 £000	2015/16 £000
Fees payable to with regard to external audit services carried out by the appointed auditor for the year	115	84
Fees payable for Inspection Work	15	-
Fees payable for Tax Advisory	2	4
Fees payable for the certification of grant claims and returns	7	-
Fees payable for the certification of grant claims and returns for the year	9	7
Total	148	95

37. Grant Income

The Council credited the following grants, contributions, and donations to the Comprehensive Income and Expenditure Statement in 2015/16:

	2014/15 £000	2015/16 £000
Credited to Taxation and Non Specific Grant Income		
Council Tax	223,239	230,889
Business Rates	66,368	70,326
Revenue Support Grant:		
General	85,645	65,114
New Homes Bonus	1,816	2,497
Local Services Support	863	-
Education Support	6,412	-
Council Tax Transition & Other	1,957	-
	96,693	67,611
Donated Assets – Battle Abbey Estate Archives	116	-
Capital grants and contributions recognised	58,022	55,231
Total	444,438	424,057

Notes to the Accounting Statements

Grants Credited to Services

Dedicated Schools	246,745	235,571
Young Peoples Learning Agency & Sixth Forms	4,135	4,071
Private Finance Initiative	4,755	4,755
Pupil Premium	13,054	11,574
Public Health	30,504	25,907
Education Services	974	4,920
Universal Infant Free School Meals	3,118	4,089
Social Care	125	7,504
Independent Living Fund	-	3,107
Other	13,081	9,744
Total	316,491	311,242

Note – details of the Dedicated Schools Grant figure are included in Note 38 below.

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 2015 £000	31 March 2016 £000
Current Liabilities – Receipts in Advance		
Revenue Grants & Contributions	-	49
	31 March 2015 £000	31 March 2016 £000
Long Term Liabilities – Receipts in Advance		
Capital Grants & Contributions	5,343	6,173

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 2015/16 are as follows:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2015/16 before Academy recoupment			333,869
Academy figure recouped for 2015/16			(94,851)
Total DSG after Academy recoupment for 2015/16			239,018
Plus: Brought Forward from 2014/15			6,660
Less: Carry forward to 2016/17 agreed in advance			(3,586)
Agreed initial budgeted distribution in 2015/16	63,788	178,304	242,092
In year adjustments	516	(2,124)	(1,608)
Final budgeted distribution for 2015/16	64,304	176,180	240,484
Less: Actual central expenditure	(64,422)		(64,422)
Less: Actual ISB deployed to schools		(176,180)	(176,180)
Plus Local authority contribution for 2015/16	567		567
Carry forward to 2016/17 agreed in advance	3,586		3,586
Carry forward to 2016/17	4,035	-	4,035

Notes to the Accounting Statements

School Reserve

The total value of the Individual Schools Budget (the budget which is delegated to schools) for 2015/16 was £176.2m. Schools carried forward (reserve) a net total of £14.9m (8.5%) at the end of the financial year at 31 March 2016, which was a decrease of £0.6m compared to 31 March 2015. Table below shows the numbers and value of schools with surplus and deficits.

		Primary	Secondary	Special	Total
All schools with surpluses					
Number of schools	No.	124	11	4	139
Total surplus	£000	10,534	3,664	1,062	15,260
All schools with deficits					
Number of schools	No.	6	1	-	7
Total deficit	£000	(94)	(181)	-	(275)
Carry forward	£000	10,440	3,483	1,062	14,985
Less Capital Loan to Schools	£000	(55)	-	-	(55)
Net carry forward	£000	10,385	3,483	1,062	14,930

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 2016 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 2015/16 is shown in Note 33.

Other Public Bodies

During 2015/16, the Pension Fund had an average balance of £4.6m deposited with the Council, and paid £33,000 interest for these deposits. The Council charged the Fund £1.0m 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.

Notes to the Accounting Statements

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 2016.

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 (£11,295 2014/15). There were no long term debts to the company at 31 March 2016.

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.

	2014/15 £000	2015/16 £000
Opening Capital Financing Requirement	372,910	361,385
Property, Plant and Equipment	95,438	88,075
Intangible assets	3,345	4,814
Assets Held for Sale	14	26
Revenue Expenditure Funded from Capital under Statute	19,488	39,156
Total capital investment	118,285	132,071
Capital receipts	(6,964)	(4,301)
Government grants and contributions	(70,065)	(78,578)
Revenue financing	(42,056)	(49,192)
Total financing other than from loans	(119,085)	(132,071)
Long Term capital debtors	3,970	(2,758)
Net investment financed from loans		
Minimum Revenue Provision (MRP) for the repayment of loans	(14,695)	(14,492)
Closing Capital Financing Requirement	361,385	344,135
	2014/15 £000	2015/16 £000
Explanation of movements in year		
Decrease in underlying need to borrow, that is not supported by government financial assistance	(11,526)	(17,250)

Notes to the Accounting Statements

41. Leases

Authority as Lessee

Finance Leases - As at 31 March 2016, 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 2015	31 March 2016
	£000	£000
Not later than one year	3,385	2,989
Later than one year and not later than five years	10,513	9,577
Later than five years	21,544	17,702
Total	35,442	30,268

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

	2014/15	2015/16
	£000	£000
Vehicles	291	184
Schools Equipment	953	900
Land and Buildings	2,573	2,339
Total	3,817	3,423

Other payments for the renting and hiring of facilities in 2015/16 was £0.062m (£0.014m 2014/15).

Authority as Lessor

Finance Leases - As at 31 March 2016, 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 2015	31 March 2016
	£000	£000
Not later than one year	1,868	1,531
Later than one year and not later than five years	48	518
Later than five years	12	13
Total	1,928	2,062

The total income received from leasing, renting and hiring of facilities in 2015/16 was £2.268m (£2.716m 2014/15).

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 2015 £000	31 March 2016 £000
Long Term PFI Liabilities	87,301	83,852
Financial Guarantees	60	61
Long Term Creditors	1	2
Total	87,362	83,915

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
1 April 2015	6,281	228	14,242	3,890	24,641
Additions	494	-	-	83	577
Revaluations	400	-	1,777	536	2,713
Depreciation	(204)	(8)	(464)	(192)	(868)
31 March 2016	6,971	220	15,555	4,317	27,063

Note - In September 2013, Hoddern Junior School and Peacehaven Infants School amalgamated to become Peacehaven Heights Primary School.

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
1 April 2015	7,016	1,863	2,188	6,073	65,725	1,376	84,241
Revaluations	264	(1,785)	344	3,128	(31,373)	(1,313)	(30,735)
Depreciation	(300)	(78)	(84)	(217)	(2,811)	(42)	(3,532)
31 March 2016	6,980	-	2,448	8,984	31,541	21	49,974

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 £000	Interest £000	Service Charge £000	Contingent Rent £000	Total £000
Within 1 year: 2016/17	2,811	4,129	15,954	2,470	25,364
Within 2 to 5 years: 2017/18 to 2020/21	8,830	14,959	66,840	7,123	97,752
Within 6 to 10 years: 2021/22 to 2025/26	20,896	15,058	92,578	18,545	147,077
Within 11 to 15 years: 2026/27 to 2030/31	28,295	8,641	103,915	24,102	164,953
Within 16 to 20 years: 2031/32 to 2032/33	13,885	1,157	45,115	11,430	71,587
Total	74,717	43,944	324,402	63,670	506,733

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 2016, 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: 2016/17	749	1,269	1,551	659	4,229
Within 2 to 5 years: 2017/18 to 2020/21	3,823	4,248	6,685	3,054	17,810
Within 6 to 10 years: 2021/22 to 2025/26	7,361	2,727	9,550	4,851	24,489
Within 11 to 15 years: 2026/27 to 2029/30	762	76	869	466	2,172
Total	12,695	8,320	18,655	9,030	48,700

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 2016 is £87.4m (£74.7m for Waste PFI, and £12.7m for Peacehaven Schools PFI), and as at 31 March 2015 was £90.62m (£77.37m for Waste PFI, and £13.25m for Peacehaven Schools PFI).

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

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

	Waste PFI	Schools PFI	Total	Included in Short Term Creditors	Included in Long term Liabilities
	£000	£000	£000	£000	£000
Balance outstanding at 1 April 2015	77,372	13,251	90,623	3,322	87,301
Lease principal repayment	(2,655)	(556)	(3,211)	238	(3,449)
Balance outstanding at 31 March 2016	74,717	12,695	87,412	3,560	83,852

Notes to the Accounting Statements

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 2015/16, the Council incurred a total of £13.8m payable to Teachers Pensions in respect of teacher's pension costs, which represents 14.1% (April to August) and 16.48% (September to March) of teachers pensionable pay. In addition the Council is responsible for all pension payments related to added years it has awarded, together with the related increase which amounted to £2.7m. These figures compare to an amount of £13.3m payable in 2014/15 (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.

As at March 2016, the Council owed £1.89m to Teachers Pensions for the employer's and employee's contribution to the Teachers Pensions Scheme (£1.81m at March 2015). 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 2015/16, the Council incurred a total of £0.137m 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 £0.122m payable in 2014/15.

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

	2014/15 £000	2015/16 £000
	31,748	40,297
	385	327
	18,253	17,399
	50,386	58,023

Notes to the Accounting Statements

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

	(93,392)	16,841
	-	(142,436)
	200,428	(21,931)
	(9,178)	
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	148,244	(89,503)
	(115,087)	123,433
Employers' contributions payable to the scheme	33,157	33,930

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:

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Present Value of the define benefit obligations: Local Government Pension Scheme	(1,091,825)	(1,263,248)	(1,338,145)	(1,580,330)	(1,469,360)
Fair value of plan assets in the Local Government Pension Scheme	791,625	905,659	912,849	1,039,947	1,052,410
Deficit in the scheme: Local Government Pension Scheme	(300,200)	(357,589)	(425,296)	(540,383)	(416,950)

The liabilities show the underlying commitments that the Council has in the long run to pay retirement benefits. The total liability of £1,469.4m (£1,580.3m in 2014/15) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet, resulting in a negative overall balance of £416.9m (£540.4m in 2014/15).

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 2016 is £40.6m (£32.1m in 2014/15).

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 2016 is employee members £621.9m (£635.6m at 31 March 2015), deferred pensioners £245.8m (£279.3m) and pensioners £518.3m (£574.9m). There is also a liability of approximately £38.9m (£42.5m) in respect of LGPS unfunded pensions and £44.3m (£47.9m) in respect of Teachers' unfunded pensions. It is assumed that all unfunded pensions are payable for the remainder of the member's life.

Assets and Liabilities in Relation to Post-employment Benefits

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

	2014/15 £000	2015/16 £000
Opening balance at 1 April:	1,338,145	1,580,330
Current Service Cost	31,748	40,297
Interest Cost	57,363	50,615
Contributions by scheme participants	8,752	8,752
Re-measurement (gains) and losses:		
• Actuarial gains/losses arising from changes in demographic assumptions	-	-

Notes to the Accounting Statements

- Actuarial gains/losses arising from changes in financial assumptions
 - Other
- Past Service Cost
Losses/(gains) on curtailment
Liabilities assumed on entity combinations
Benefits paid
Liabilities extinguished on settlements
Unfunded Benefits paid

	2014/15	2015/16
	£000	£000
	200,428	(142,436)
	(9,178)	(21,931)
	385	327
	-	-
	-	-
	(41,968)	(41,300)
	-	-
	(5,345)	(5,294)
Closing balance at 31 March	1,580,330	1,469,360

Reconciliation of fair value of the scheme assets:

Opening fair value of scheme asset at 1 April:

- Interest Income
Re-measurement gain/(loss):
- The return on plan assets, excluding the amount included in the net interest expense
 - Other
- The effect of changes in foreign exchange rates
Contributions from employer
Contributions from employees into the scheme
Benefits paid
Unfunded benefits paid

	2014/15	2015/16
	£000	£000
	912,849	1,039,947
	39,110	33,216
	93,392	(16,841)
	5,345	5,294
	-	-
	27,812	28,636
	8,752	8,752
	(41,968)	(41,300)
	(5,345)	(5,294)
Closing fair value of scheme assets at 31 March	1,039,947	1,052,410

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 £16.38m (2014/15: £132.5m).

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets 2014/15 £000	%	Fair value of scheme assets 2015/16 £000	%
Cash and cash equivalents	37,309	4	35,027	3
Equity instruments:				
By industry type				
• Consumer	41,038	4	19,317	2
• Manufacturing	27,414	3	12,580	1
• Energy and utilities	27,438	3	2,749	-
• Financial institutions	59,737	6	31,099	3
• Health and care	41,853	4	13,333	1
• Information technology	44,582	4	16,013	2
•	136	-	5,301	1
Sub-total equity	242,198	24	100,392	10
Bonds:				
By sector				
• Government	16,517	2	19,146	2
• Other	10,638	1	19,588	2
Sub-total bonds	27,155	3	38,734	4

Notes to the Accounting Statements

	Fair value of scheme assets 2014/15 £000	%	Fair value of scheme assets 2015/16 £000	%
Private equity:				
All	57,478	6	62,842	6
Overseas				
Sub-total private equity	57,478	6	62,842	6
Other investment funds:				
• UK Property	107,306	10	124,653	12
• Overseas Property				
Sub-total other investment funds	107,306	10	124,653	12
Investment funds and unit trusts:				
• Equities	472,518	45	545,537	52
• Bonds	67,736	6	122,195	12
• Hedge Funds	1,164	-	1,141	-
• Commodities	2,538	-	517	-
• Infrastructure	20,679	2	17,771	2
• Other	4,069	-	3,601	-
Sub-total Investment funds and unit trusts	568,704	53	690,762	65
Derivatives:				
• Foreign exchange	(203)	-	-	-
Total assets	1,039,947	100	1,052,410	100

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The County Council Fund liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, based on the calculations in the latest full valuation of the scheme as at 31 March 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	22.2 Years	
Women	24.4 Years	
Longevity at 65 for future pensioners		
Men	24.2 Years	
Women	26.7 Years	
Rate of increase in salaries	4.30%	4.20%
Rate of inflation/increase in pensions	2.40%	2.20%
Rate for discounting scheme liabilities	3.20%	3.50%

	2014/15	2015/16

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 2016:

0.5% decrease in Real Discount Rate
 1 year increase in member life expectancy
 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
10	149,829
3	44,081
3	37,807
7	110,024

At 31 March 2016, the Council owed £3.13m (£2.99m 31 March 2015) 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 96 to 125.

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 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

Hochtief Taylor Woodrow Joint Venture, the main contractor on the Bexhill to Hastings Link Road (Combe Valley Way), has submitted a number of compensation events that have been disputed or rejected by the Council. The contractor may choose to take some, none, or all of these compensation events to adjudication or arbitration. It is not possible to reliably measure the financial obligation to the Council of action the contractor may take, so there is a risk that any action taken may have an impact on future accounts.

NNDR Appeals - 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 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.

A claim regarding VAT paid on off-street car parking charges, has been lodged with the First Tier Tribunal (Tax) for £190,117 for a refund of tax. The claim is on hold pending a Court of Appeal judgement on the Isle of Wight Council and other such case.

47. Nature and extent of risks arising from Financial Instruments

Key Risks

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

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

Overall Procedures for Managing Risk

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

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

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

The annual Treasury Management Strategy which incorporates the prudential indicators was approved by Full Council on 10 February 2015 and is available on the Council's website. The key issues within the strategy were:

- The Authorised Limit for 2015/16 was set at £435 million. This is the maximum limit of external borrowings or other long term liabilities;
- The Operational Boundary was expected to be £415 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.

Notes to the Accounting Statements

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 2015/16. Whilst the recent 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 2016 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:

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

Yellow	Purple	Blue	Orange	Red	Green	No Colour
<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 £256.0m and cash deposits of £22.8m 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 2016 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 2016, the Council's investments and cash deposits included £248.8m with UK banks and £30.0m 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 £9.5m in 2015/16 (£20.5m 2014/15) is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31 March 2015	31 March 2016
	£000	£000
Less than three months	17,187	7,193
Three to five months	892	277
Five months to one year	543	489
More than one year	1,890	1,575
Total	20,512	9,534

Liquidity risk

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

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

The maturity analysis of financial assets is as follows:

	31 March 2015	31 March 2016
	£000	£000
Less than one year (current assets)	326,764	308,679
Between one and two years	5,586	2,828
Total	332,350	311,507

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 2015	31 March 2016
	%	%	£000	£000
Less than one year (current liabilities)	0%	25%	99,028	100,796
Between one and two years	0%	40%	17,673	17,266
Between two and five years	0%	60%	31,368	39,460
Between five and ten years	0%	80%	54,474	52,601
More than ten years	0%	80%	238,883	245,009
Total			441,427	455,132

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);

Notes to the Accounting Statements

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

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

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

If all interest rates had been 1% higher (with all other variables held constant) the financial effect in 2015/16 would be:

	£000
Increase in interest payable on variable rate borrowings (none held)	-
Increase in interest receivable on variable rate investments	<u>228</u>
Impact on Comprehensive Income and Expenditure	<u>228</u>

The approximate impact of a 1% fall in interest rates would be as above, but with the movements being reversed. This figure of £0.23 million (£0.02 million in 2014/15) 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 2016 was £12,700. 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 is held on trust 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.

Notes to the Accounting Statements

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

	Opening Balance £000	2015/16		Closing Balance £000
		Income £000	Expenditure £000	
Sole trustee funds				
Music Trust	633	-	16	617
Robertsbridge Youth Centre	105	(1)	-	106
Lewes Educational Charity	43	(2)	2	43
How Scholarship	5	-	-	5
Wright Legacy	2	-	-	2
Total sole trustee funds	788	(3)	18	773
Ashdown Forest Trust	1,357	(70)	68	1,359
General trust funds	64	-	-	64
Bequests	20	-	20	-
Comforts funds	80	(33)	24	89
Total trust funds	2,309	(106)	130	2,285

49. Landfill Allowance Trading Scheme

In order to reduce the amount of biodegradable waste (for example, kitchen and garden waste, paper and card) going to landfill, the government has issued tradable landfill allowances to waste disposal authorities to allow them to landfill a reducing number of tonnes for each year from 2005/06 to 2019/20. The scheme final year is 2012/13. The allowances are reflected at fair value and are subsequently re-valued each financial year. As at 31 March 2014, the council had 58,621 surplus permits from 2013-14, valued at £nil. Surplus allowances were not banked into the 2013/14 year - 2012/13 was the final year of the LATS regulations - surplus allowances were automatically transferred into the National Cancellation Account.

50. 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 restored. 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 for 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 2016 the liability had reduced to £9.80m (£9.91m at 31 March 2015).

The Council own the freehold or part freehold of eight of the nineteen sites and in accordance with IAS 16 Property, Plant & Equipment and the Council's own accounting policy (see accounting policy xxi on page 30), has recognised the land value in the Balance Sheet. Four of the sites are located on land already on the Council's Balance Sheet and the remaining four sites are valued as Property, Plant & Equipment at £2.0m at 31 March 2016 (£2.0m at 31 March 2015).

Introduction

The Local Government Pension Scheme (LGPS) is a statutory pension scheme, whose rules are governed by Parliament in accordance with the Superannuation Act 1972. New regulations came into force on 1 April 2008 with the rules of the scheme split between two separate sets of regulation; the Local Government Pension Scheme (Benefits, Membership, and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008 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, set up for the benefit of local government employees the LGPS is in fact administered locally. The LGPS is open to all employees of the County Council, District, Borough, and Unitary Authorities in East Sussex, as well as Colleges of Further Education, Town and Parish Councils and a small number of charitable organisations who have applied to be treated as “admission bodies”.

In addition, the Scheme allows employees of private contractors to remain in the Scheme where they are providing a service or assets in connection with the functions of a scheme employer, in accordance with the specific requirements of the LGPS Regulations. The scheme is not open to teachers or fire fighters, as these groups of employees have separate pension schemes.

Currently within the East Sussex Pension Fund, there are 107 participating employers. A full list of participating employers is given in Note 27.

Fund Account for the year ended 31 March 2016

2014/15			2015/16	
£000	£000		£000	£000
		Dealings with members, employers and others directly involved in the fund		
		Contributions	7	
(87,237)		From Employers		(92,259)
<u>(26,761)</u>		From Members		<u>(27,904)</u>
	(113,998)			(120,163)
	<u>(5,592)</u>	Transfers in from other pension funds	8	<u>(3,656)</u>
	(119,590)			(123,819)
	111,993	Benefits	9	118,469
	<u>98,183</u>	Payments to and on account of leavers	10	<u>4,940</u>
	210,176			123,409
	90,586	Net (additions)/withdrawals from dealings with members		(410)
	10,037	Management expenses	11	13,465
		Returns on investments		
	(26,856)	Investment income	12	(42,096)
	621	Taxes on income	13	506
	<u>(341,397)</u>	Profit and losses on disposal of investments and changes in the market value of investments	15a	<u>3,719</u>
	(367,632)	Net return on investments		(37,871)
	(267,009)	Net increase in fund during the year		(24,816)
	<u>(2,479,540)</u>	Add opening net assets of the scheme		<u>(2,746,549)</u>
	(2,746,549)	Closing net assets of the scheme		(2,771,365)

Net Assets Statement for the year ended 31 March 2016

31 March 2015 £000		Notes	31 March 2016 £000
2,667,422	Investment assets	15	2,684,489
3,758	Other Investment balances	21	3,031
81,220	Cash deposits	15	79,131
2,752,400			2,766,651
(12,486)	Investment liabilities	22	(1,519)
10,570	Current assets	21	10,936
(3,935)	Current liabilities	22	(4,703)
2,746,549	Net assets of the fund available to fund benefits at the year end.		2,771,365

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 2016 and of the movements for the year then ended.

Marion Kelly
Chief Finance Officer
Business Services Department
19 July 2016

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 2015/16 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 2009 (as amended).

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

East Sussex Pension Fund	31 March 2015	31 March 2016
Number of employers with active members	106	109
Number of employees		
County Council	8,993	8,789
Other employees	13,695	14,578
Total	22,688	23,367
Number of pensioners		
County Council	7,671	7,987
Other employers	9,446	9,955
Total	17,117	17,942
Deferred pensioners		
County Council	12,360	13,062
Other employers	13,397	14,282
Total	25,757	27,344

Notes to the East Sussex Pension Fund Accounts

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 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Currently, employer contribution rates range from 12.9% to 31.0% of pensionable pay.

d) Benefits

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

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

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the East Sussex Pension Fund Website.

2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2015/16 financial year and its position at year-end as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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 a Statement of Investment Principles, 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 Costs.

Administrative expenses

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

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 on 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 2015/16, £1.0m of fees is based on such estimates (2014/15: £1.3m).

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 as follows:

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

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.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date. The value of over-the-counter contract options is based on quotations from an independent broker. Where this is not available, the value is provided by the Custodian using generally accepted option-pricing models with independent market data.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

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 section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 23).

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 2016 was £167.4 million (£153.9 million at 31 March 2015).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

Use of Financial Instruments

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

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

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

The items in the Net assets statement at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Notes to the East Sussex Pension Fund Accounts

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2013 Valuation the actuary advised that: <ul style="list-style-type: none"> • A 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £253 million (9%). • A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £78 million (3%). • A 0.5% increase in the assumed prices inflation (increase in pensions) would increase the value of liabilities by approximately £197 million (7%). • A 1 year increase in assumed life expectancy would increase the liability by approximately £87 million (3%).
Debtors	At 31 March 2016, the fund had a balance of sundry debtors of £1.1 million. The fund makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable.	Where the expectation is different from the original estimate, such difference will affect the carrying value of receivables.
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £167.4 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

	2014/15 £000	2015/16 £000
By category		
Employee's contributions	26,761	27,904
Employer's contributions		
Normal contributions	83,555	86,306
Deficit recovery contributions	3,104	5,085
Augmentation contributions	578	868
Total	113,998	120,163
By authority		
Scheduled bodies	62,033	71,816
Admitted bodies	9,620	5,230
Administrative Authority	42,345	43,117
Total	113,998	120,163

8: Transfers in from other pension funds

	2014/15 £000	2015/16 £000
Group transfers	719	-
Individual transfers	4,873	3,656
Total	5,592	3,656

Notes to the East Sussex Pension Fund Accounts

9: Benefits payable

	2014/15	2015/16
	£000	£000
By category		
Pensions	95,040	98,309
Commutation and lump sum retirement benefits	15,584	17,025
Lump sum death benefits	1,369	3,135
Total	111,993	118,469
By authority		
Scheduled bodies	61,933	67,780
Admitted bodies	3,962	3,384
Administrative Authority	46,098	47,305
Total	111,993	118,469

10: Payments to and on account of leavers

	2014/15	2015/16
	£000	£000
Refunds to members leaving service	160	231
Group transfers*	95,097	759
Individual transfers	2,926	3,950
Total	98,183	4,940

*During 2014/15 the Ministry of Justice (MoJ) merged the 35 probation trust pension funds into a single fund hosted within the Local Government Pension Scheme. The MoJ appointed the Greater Manchester Pension Fund (GMPF) to manage the assets and liabilities of these 35 trusts. As part of this merger the Surrey and Sussex Probation Board's assets and liabilities were transferred to the GMPF the value of this group transfer was £95m. [11: Management expenses](#)

	2014/15	2015/16
	£000	£000
Administrative costs	1,085	1,065
Oversight and governance costs	572	741
Investment management expenses	8,380	11,659
Total	10,037	13,465

The investment management expenses above includes £482.2k (£273.4k 2014/15) in respect of transaction costs.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 15a).

The external auditor appointed to audit the fund is KPMG their fee for 2015/16 was £27k (£27k 2014/15) and this is included within oversight and governance costs. Fees include only the statutory audit of the fund and no non-audit services have been provided.

12: Investment income

	2014/15	2015/16
	£000	£000
Fixed interest securities	1,543	1,653
Index linked securities	594	800
Equity dividends	12,352	10,528
Private equity income	7	18
Pooled property investments	9,149	8,772
Pooled investments - unit trusts and other managed funds	2,672	19,885
Interest on cash deposits	524	418
Class Actions	15	22
Total	26,856	42,096

Notes to the East Sussex Pension Fund Accounts

13: Taxes on income

	2014/15	2015/16
	£000	£000
Withholding tax – equities	(382)	(303)
Withholding tax – pooled	(239)	(203)
Total	(621)	(506)

14: Investment expenses

	2014/15	2015/16
	£000	£000
Management fees:		
fees invoiced to the fund	8,277	8,078
fees deducted at source*	-	3,430
Custody fees	103	151
Total	8,380	11,659

*Includes fees deducted at source included in 2015/16 as per Cipfa Management Expenses Guidance

During the year, the Pension Fund incurred fees of £2.4m (£2.4m in 2014/15) on its private equity investments, fees of £0.7m (£0.8m in 2014/15) on its infrastructure investments and fees of £0.4m (£0.3m in 2014/15) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund and have been included in the 2015/16 accounts.

For 2015/16 these expenses have been grossed up and included within the fund account, recognizing these costs incurred by the pension fund, in line with the Cipfa guidance on investment management expenses. In 2014/15 these were accounted for through the netting off of the value of the expenses against the assets of the fund.

15: Investments

	2014/15	2015/16
	£000	£000
Investment assets		
Fixed interest securities	180,186	191,721
Index Linked	245,968	237,433
Equities	692,429	290,442
Pooled Investments	1,033,431	1,420,022
Pooled property investments	287,569	322,775
Private equity/infrastructure	215,199	216,898
Commodities	6,842	3,613
Multi Asset	5,798	1,585
Derivative contracts:		
Forward Currency Contracts	207	1,656
	2,667,629	2,686,145
Cash deposits with Custodian	81,220	79,131
Other Investment balances (Note 21)	3,551	1,375
Total investment assets	2,752,400	2,766,651
Investment Liabilities (Note 22)	(10,973)	(1,510)
Derivative contracts:		
Forward Currency Contracts	(1,513)	(9)
Total Investment Liabilities	(12,486)	(1,519)
Net investment assets	2,739,914	2,765,132

Notes to the East Sussex Pension Fund Accounts

15a: Reconciliation of movements in investments and derivatives

	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
Fixed interest securities	180,186	13,784	(649)	(1,600)	191,721
Index Linked	245,968	6,582	(20,709)	5,592	237,433
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
	2,667,422	779,647	(764,300)	1,720	2,684,489
Derivative contracts					
■ Forward currency contracts	(1,306)	15,692	(6,728)	(6,011)	1,647
	2,666,116	795,339	(771,028)	(4,291)	2,686,136
Other investment balances:					
■ Cash deposits	81,220			572	79,131
■ Other Investment Balances	3,551				1,375
■ Investment Liabilities	(10,973)				(1,510)
Net investment assets	2,739,914			(3,719)	2,765,132

	Market value 1 April 2014	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 2015
	£000	£000	£000	£000	£000
Fixed interest securities	162,880	37,219	(37,867)	17,954	180,186
Index Linked	58,659	195,656	(28,694)	20,347	245,968
Equities	596,116	120,689	(170,522)	146,146	692,429
Pooled investments	1,139,887	2,072	(198,456)	89,928	1,033,431
Pooled property investments	244,451	22,730	(14,195)	34,583	287,569
Private equity/infrastructure	181,777	29,316	(30,593)	34,699	215,199
Commodities	6,631	-	-	211	6,842
Multi Asset	3,228	6,263	-	(3,693)	5,798
	2,393,629	413,945	(480,327)	340,175	2,667,422
Derivative contracts					
■ Forward currency contracts	305	7,886	(9,824)	327	(1,306)
	2,393,934	421,831	(490,151)	340,502	2,666,116
Other investment balances:					
■ Cash deposits	80,934			895	81,220
■ Other Investment Balances	2,154				3,551
■ Investment Liabilities	(2,327)				(10,973)
Net investment assets	2,474,695			341,397	2,739,914

Transaction costs incurred during the year total £482.2k (£273k in 2013/14). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

Notes to the East Sussex Pension Fund Accounts

15b: Analysis of investments (excluding derivative contracts)

	2014/15 £000	2015/16 £000
Fixed interest securities		
UK		
Corporate quoted	180,186	191,721
	180,186	191,721
Index linked Securities		
UK		
Public sector quoted	209,174	198,883
Overseas		
Public sector quoted	36,794	38,550
	245,968	237,433
Equities		
UK		
Quoted	87,439	45,010
Unquoted	10,603	8,500
Overseas		
Quoted	594,387	236,932
	692,429	290,442
Pooled funds - additional analysis		
UK		
Unit trusts	538,178	549,263
Overseas		
Unit trusts	495,253	870,759
	1,033,431	1,420,022
Pooled property investments	287,569	322,775
Private equity/infrastructure	215,199	216,898
Commodities	6,842	3,613
Multi Asset	5,798	1,585
	515,408	544,871
	2,667,422	2,684,489

15c: Investments analysed by fund manager

	Market value 31 March 2015		Market value 31 March 2016	
	£000	%	£000	%
Prudential M&G	112,502	4.1%	111,779	4.0%
East Sussex Pension Fund Cash	25,337	0.9%	54,563	2.0%
UBS Infrastructure Fund	22,081	0.8%	20,726	0.7%
Prudential Infracapital	39,237	1.4%	28,728	1.0%
Legal & General	631,265	23.1%	822,218	29.8%
M&G UK Financing Fund	10,603	0.4%	8,500	0.3%
Schroders Property	294,110	10.7%	325,867	11.8%
Harbourvest Strategies	69,800	2.5%	79,284	2.9%
Adams St Partners	85,379	3.1%	88,603	3.2%
M&G Absolute Return Bonds	67,699	2.5%	67,434	2.4%
Ruffer LLP	256,733	9.4%	240,264	8.7%
Lazard Asset Management	410,206	15.0%	-	0.0%
Newton Investment Management	249,719	9.1%	253,240	9.2%
Longview Partners	174,558	6.4%	180,739	6.5%
State Street Global Advisers	290,685	10.6%	483,187	17.5%
	2,739,914		2,765,132	

Notes to the East Sussex Pension Fund Accounts

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

Security	Market Value 31 March 2015	% of total fund	Market value 31 March 2016	% of total fund
	£000		£000	
State Street Fundamental Index	290,724	10.6%	483,244	17.5%
L&G UK Equity Index	270,937	9.9%	260,786	9.4%
Newton Real Return (Pooled Fund)	250,075	9.1%	253,601	9.2%
L&G North America Equity Index	116,763	4.3%	230,151	8.3%
L&G Over 5 year Index Gilt Linked	144,327	5.3%	147,197	5.3%

15c: Stock lending

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

16: 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. During the year the fund bought equity option contracts that protect it from falls in value in the main markets in which the scheme invests.

Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	Liability value
		000		000	£000	£000
Greater than 2 months	GBP	942	EUR	(1,197)	-	(9)
Greater than 2 months	GBP	69,410	USD	(97,790)	1,389	-
Greater than 2 months	GBP	32,573	JPY	(5,209,006)	267	-
					1,656	(9)
Net forward currency contracts at 31 March 2016						1,647
Prior year comparative						
Open forward currency contracts at 31 March 2015					207	(1,513)
Net forward currency contracts at 31 March 2015						(1,306)

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 2015			31 March 2016		
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
Financial Assets					
180,186	-	-	191,721	-	-
245,968	-	-	237,433	-	-
692,429	-	-	290,442	-	-
1,033,431	-	-	1,420,022	-	-
287,569	-	-	322,775	-	-
215,199	-	-	216,898	-	-
6,842	-	-	3,613	-	-
5,798	-	-	1,585	-	-
207	-	-	1,656	-	-
-	81,220	-	-	79,131	-
3,551	-	-	1,375	-	-
-	10,570	-	-	10,936	-
2,671,180	91,790	-	2,687,520	90,067	-
Financial liabilities					
(1,513)	-	-	(9)	-	-
(10,973)	-	-	(1,510)	-	-
-	-	(3,935)	-	-	(4,703)
(12,486)	-	(3,935)	(1,519)	-	(4,703)
2,658,694	91,790	(3,935)	2,686,001	90,067	(4,703)

17b: Net gains and losses on financial instruments

	31 March 2015 £000	31 March 2016 £000
Financial assets		
Fair value through profit and loss	340,180	1,620
Loans and receivables	890	673
Financial liabilities		
Fair value through profit and loss	327	(6,012)
Total	341,397	(3,719)

17c: Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

	31 March 2015		31 March 2016	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Financial assets				
Fair value through profit and loss	2,671,180	2,671,180	2,687,520	2,687,520
Loans and receivables	91,790	91,790	90,067	90,067
Total financial assets	2,762,970	2,762,970	2,777,587	2,777,587
Financial liabilities				
Fair value through profit and loss	(12,486)	(12,486)	(1,519)	(1,519)
Financial liabilities at amortised cost	(3,935)	(3,935)	(4,703)	(4,703)
Total financial liabilities	(16,421)	(16,421)	(6,222)	(6,222)

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

17d: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments 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

Financial instruments 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 and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments 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.

Such instruments would include unquoted equity investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which East Sussex Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

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.

Notes to the East Sussex Pension Fund Accounts

	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				
Financial assets at fair value through profit and loss	1,837,623	281,259	568,638	2,687,520
Loans and receivables	78,340	11,727	-	90,067
Total financial assets	1,915,963	292,986	568,638	2,777,587
Financial liabilities				
Financial liabilities at fair value through profit and loss	99,759	(101,278)	-	(1,519)
Financial liabilities at amortised cost	(4,703)	-	-	(4,703)
Total financial liabilities	95,056	(101,278)	-	(6,222)
Net financial assets	2,011,019	191,708	568,638	2,771,365

	Quoted market price	Using observable inputs	With Significant unobservable inputs	Total
Values at 31 March 2015	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Financial assets				
Financial assets at fair value through profit and loss	1,764,750	294,505	611,925	2,671,180
Loans and receivables	91,790	-	-	91,790
Total financial assets	1,856,540	294,505	611,925	2,762,970
Financial liabilities				
Financial liabilities at fair value through profit and loss	(12,486)	-	-	(12,486)
Financial liabilities at amortised cost	(3,935)	-	-	(3,935)
Total financial liabilities	(16,421)	-	-	(16,421)
Net financial assets	1,840,119	294,505	611,925	2,746,549

18: Nature and extent of risks arising from financial instruments

Risk and risk management

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

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

a) Market risk

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

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

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

The fund manages these risks in two ways:

Notes to the East Sussex Pension Fund Accounts

- 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 2016/17 reporting period:

Asset Type	Potential Market Movements (+/-)
Index Linked	8%
Other Bonds	9%
UK equities	17%
Global equities	20%
Pooled property investments	15%
Private Equity	29%
Infrastructure funds	20%
Absolute Return	13%
Cash	1%

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

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

Asset Type	Values at 31 March 2016 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Cash and Cash Equivalents	54,226	542	54,768	53,684
Investment portfolio assets:				
Index Linked	147,197	11,776	158,973	135,421
Other Bonds	179,213	16,129	195,342	163,084
UK equities	394,039	66,987	461,026	327,052
Global equities	953,271	190,654	1,143,925	762,617
Pooled property investments	325,731	48,860	374,591	276,871
Private Equity	167,888	48,687	216,575	119,201
Infrastructure funds	49,454	9,891	59,345	39,563
Absolute Return	491,108	63,844	554,952	427,264
Net derivative assets	1,647	-	1,647	1,647
Investment income due	1,358	-	1,358	1,358
Amounts receivable for sales	-	-	-	-
Amounts payable for purchases	-	-	-	-
Total assets available to pay benefits	2,765,132	457,370	3,222,502	2,307,762

Notes to the East Sussex Pension Fund Accounts

Asset Type	Values at 31 March 2015 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Cash and Cash Equivalents	81,220	812	82,032	80,408
Investment portfolio assets:				
Index Linked Bonds	245,968	12,298	258,266	233,670
Other Bonds	180,186	18,019	198,205	162,167
UK equities	636,219	108,157	744,376	528,062
Overseas equities	594,387	118,877	713,264	475,510
Overseas equity unit trusts	495,254	99,051	594,305	396,203
Pooled property investments	287,569	43,135	330,704	244,434
Private equity	153,880	44,625	198,505	109,255
Infrastructure funds	61,319	9,811	71,130	51,508
Commodities	6,842	958	7,800	5,884
Multi Asset	5,798	-	5,798	5,798
Net derivative assets	(1,306)	-	(1,306)	(1,306)
Investment income due	2,010	-	2,010	2,010
Amounts receivable for sales	1,526	-	1,526	1,526
Amounts payable for purchases	(9,132)	-	(9,132)	(9,132)
Total assets available to pay benefits	2,741,740	455,743	3,197,483	2,285,997

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 2015 £000	As at 31 March 2016 £000
Cash with Custodian	81,220	79,131
Cash balances	(246)	(369)
Fixed interest securities	180,186	191,721
Total	261,160	270,483

Interest rate risk sensitivity analysis

The fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis point (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment adviser has advised that this is consistent with an annual one standard deviation move in interest rates, where interest rates are determined by the prices of fixed interest UK government bonds.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset type	Carrying amount as at 31 March 2016 £000	Potential movement on 1 % change in interest rates £000	Value on increase £000	Value on decrease £000
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
Total change in assets available	270,483	1,917	272,400	268,566

Asset type	Carrying amount as at 31	Potential movement on 1	Value on increase	Value on decrease
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Notes to the East Sussex Pension Fund Accounts

	March 2015	% change in interest rates		
	£000	£000	£000	£000
Cash and cash equivalents	81,220	-	81,220	81,220
Cash balances	(246)	-	(246)	(246)
Fixed interest securities	180,186	1,802	181,988	178,384
Total change in assets available	261,160	1,802	262,962	259,358

Income Source

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

Income Source

	Carrying amount as at 31 March 2016	Potential movement on 1 % change in interest rates	Value on increase	Value on decrease
	£000	£000	£000	£000
Cash deposits/cash and cash equivalents	524	810	1,334	(286)
Fixed interest securities	1,537	-	1,537	1,537
Total change in assets available	2,061	810	2,871	1,251

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

Currency risk

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

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

The following table summarises the fund's currency exposure as at 31 March 2016 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2015	Asset value as at 31 March 2016
	£000	£000
Overseas index linked	36,794	38,550
Overseas quoted securities	594,387	236,931
Overseas unit trusts	495,253	870,760
Total overseas assets	1,126,434	1,146,241

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 13% (as measured by one standard deviation).

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

A 13% strengthening/weakening of the UK pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Values at 31 March 2015	Potential Market movement	Value on increase	Value on decrease
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Notes to the East Sussex Pension Fund Accounts

	£000	£000	£000	£000
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
Total change in assets available	1,146,241	149,012	1,295,253	997,229

Currency exposure - asset type

	Values at 31 March 2015	Potential Market movement	Value on increase	Value on decrease
	£000	£000	£000	£000
Overseas Index Linked	36,794	4,783	41,577	32,011
Overseas quoted securities	594,387	77,270	671,657	517,117
Overseas unit trusts	495,253	64,383	559,636	430,870
Total change in assets available	1,126,434	146,436	1,272,870	979,998

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 risks are represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

The fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits in recent years.

Summary	Asset value as at 31 March 2015	Asset value as at 31 March 2016
	£000	£000
Money market funds		
NTGI Global Cash Fund	71,519	65,450
Short term bills and notes		
UK Treasury bills	-	11,588
Bank deposit accounts		
Non NT cash accounts	6,000	-
Bank current accounts		
NT custody cash accounts	3,701	2,093
Total overseas assets	81,220	79,131

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 2016 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 2013. 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 2013 valuation shows the fund has a past service deficit, being 81% funded in respect of past liabilities. This compares with 87% funded at the 2010 valuation.

East Sussex Pension Fund ("the Fund")

Actuarial Statement for 2015/16

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

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2014. 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 (NB this will also minimise the costs to be borne by Council Tax payers);

to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

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.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £2,344 million, were sufficient to meet 81% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £541 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 valuation report dated 28 March 2014.

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 2013 valuation were as follows:

Notes to the East Sussex Pension Fund Accounts

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.6%	2.1%
Pay increases	4.3%	1.8%
Price inflation/Pension increases	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_2010 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	22.2 years	24.4 years
Future Pensioners*	24.2 years	26.7 years

*Figures assume members aged 45 as at the 2013 valuation.

Copies of the 2013 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 April 2013

Experience has been worse than expected since the last formal valuation (excluding the effect of any membership movements). Real bond yields have fallen dramatically placing a higher value on liabilities. The effect of this has been only partially offset by the effect of strong asset returns. Funding levels are therefore likely to have worsened and deficits increased over the period.

The next actuarial valuation will be carried out as at 31 March 2016. 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 2015/16 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.

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 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 Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the East Sussex Pension Fund, which is in the remainder of this note.

Present value of Promised Retirement Benefits

Present value of Promised Retirement Benefits (£m)	Year ended	
	31 March 2015	31 March 2016
Active members	1,893	1,858
Deferred pensions	732	645
Pensioners	1,405	1,269
Total	4,030	3,772

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

Notes to the East Sussex Pension Fund Accounts

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2016 is to decrease the actuarial present value by £373m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2015 % p.a.	31 Mar 2016 % p.a.
Inflation / Pension Increase Rate	2.4%	2.2%
Salary Increase rate	4.3%	4.2%
Discount Rate	3.2%	3.5%

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2012 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	22.2 years	24.4 years
Future Pensioners*	24.2 years	26.7 years

*Future pensioners are assumed to be currently aged 45 at the most recent formal valuation as at 31 March 2013.

Please note that the assumptions are identical to last year's IAS26 disclosure for the Fund.

Commutation assumption

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:

Change in assumptions for the year ended 31 March 2016	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% decrease in discount rate	11%	398
1 year increase in member life expectancy	3%	113
0.5% increase in salary increase rate	3%	128
0.5% increase in pensions increase rate	7%	263

21: Current assets

	31 March 2015 £000	31 March 2016 £000
Other Investment Balances		
Sales inc Currency	1,734	1,656
Investment Income Due	1,685	861
Recoverable Taxes	324	497
Managers Fee Rebate	15	17
Total	3,758	3,031

	31 March 2015 £000	31 March 2016 £000
Current Assets		
Contributions receivable from employers and employees	8,243	9,845
Sundry Debtors	2,327	1,091
Total	10,570	10,936

22: Current liabilities

31 March 2015 31 March 2016

Notes to the East Sussex Pension Fund Accounts

	£000	£000
Investment Liabilities		
Purchases including currency	(10,645)	(9)
Managers Fees	(1,841)	(1,510)
Total	(12,486)	(1,519)

	31 March 2015 £000	31 March 2016 £000
Current Liabilities		
Pension Payments (inc Lump Sums)	(988)	(1,415)
Cash	(246)	(369)
Professional Fees	(21)	(84)
Administration Recharge	(1,173)	(1,038)
Sundry Creditors	(1,507)	(1,797)
Total	(3,935)	(4,703)

23: Additional voluntary contributions

	Market value 31 March 2015 £000	Market value 31 March 2016 £000
Prudential	14,992	14,893

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2015/16 some members of the pension scheme paid voluntary contributions and transfers in of £1.666m (£1.512m 2014/15) to Prudential to buy extra pension benefits when they retire. £2.430m was disinvested from the AVC provider in 2015/16 (£1.925m 2014/15). Contributions and benefits to scheme members are made directly between the scheme member and the AVC provider. The AVC funds are not, therefore, included in the Pension Fund Accounts.

24: 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 fund committee is required to declare their interests at each meeting.

The Treasurer of the Pension Fund and members of the County Council and the Investment Panel have no material transactions with the Pension Fund.

The Council incurred costs in administering the fund and charged £1.0m to the fund in 2015/16 (£1.2m in 2014/15). The Council's contribution to the fund was £43.1m in 2015/16 (£42.3m in 2014/15). All amounts due to the fund were paid in the year. At 31 March 2016 the Pension Fund bank account was overdrawn by £0.369m. The average invested throughout the year was £4.6m (£2.7m in 2014/15) and earned interest of £0.033m in 2015/16 (£0.017m in 2014/15).

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.

25: Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2016 totalled £87.3m (31 March 2015: £115.3m).

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 2016 the unfunded commitment was £84.0m for private equity, and £3.4m 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 2016.

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.

Notes to the East Sussex Pension Fund Accounts

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.

26: Contingent assets

Eighteen 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:

- 5 guarantees by local authorities participating in the Fund;
- 2 Parent company guarantee;
- 2 deposits held by East Sussex County Council

At 31 March 2016 the Fund has invested £223.1 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 £55.2 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.

27: Impairment losses

During 2015/16 the fund has not recognised any impairment losses.

28: East Sussex Pension Fund – Active Participating Employers

Employer	Contribution Rate					
	2014/15		2015/16		2016/17	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	18.5%	-	19.0%	-	19.3%	249,000
East Sussex County Council	19.3%	424,000	19.3%	1,179,000	19.3%	1,999,000
East Sussex Fire & Rescue Service	18.9%	-	19.4%	-	19.9%	-
Eastbourne Borough Council	19.1%	264,000	19.1%	314,000	19.1%	367,000
Hastings Borough Council	20.6%	144,000	20.6%	194,300	20.6%	248,800
Lewes District Council	20.5%	46,500	20.5%	97,000	20.5%	151,700
Rother District Council	19.7%	307,100	19.7%	355,900	19.7%	408,300
University of Brighton	18.7%	-	18.7%	-	18.7%	-
Wealden District Council	18.0%	409,800	18.5%	427,400	19.0%	445,700
Other Scheduled Bodies						
ARK Schools Hastings	19.6%	5,960	19.6%	1,040	19.6%	-
Aurora Academies Trust	19.9%	10,600	19.9%	16,600	19.9%	18,500
Beacon Academy	20.6%	-	20.7%	4,400	20.7%	10,400
Bexhill Academy	20.7%	28,800	20.7%	25,300	20.7%	24,500
BHCC Bilingual Primary School	12.9%	5,400	12.9%	5,300	12.9%	5,200
Brighton Aldridge Community Academy	17.9%	-	18.4%	-	18.5%	4,400
Cavendish Academy	18.2%	22,300	18.2%	20,200	18.2%	17,900
City Academy Whitehawk	21.6%	1,590	21.6%	280	21.6%	-
Diocese of Chichester Academy Trust	26.4%	-	26.4%	-	26.4%	-
Eastbourne Academy	19.4%	-	19.9%	-	19.9%	4,700
Eastbourne Homes Ltd	17.5%	-	18.0%	-	18.5%	-
Gildredge House Free School	16.6%	7,200	16.6%	6,700	16.6%	6,200
Glyne Academy	23.4%	-	23.4%	-	23.4%	-
Hailsham Academy	17.3%	23,800	17.3%	20,800	17.3%	17,600
Hailsham Primary Academy	-	-	22.0%	-	22.0%	-
King Church of England Free School	13.7%	980	13.7%	960	13.7%	930
Marshlands Academy	18.9%	2,200	18.9%	2,300	18.9%	2,400
Newhaven Primary Academy	-	-	22.0%	-	22.0%	-
Ore Village Primary Academy	16.6%	7,510	16.6%	6,540	16.6%	5,470
Pebsham Academy	17.2%	4,300	17.2%	3,500	17.2%	2,700
Portslade Aldridge Community Academy	18.2%	1,100	18.2%	6,600	18.2%	12,700
Ratton Academy	20.6%	-	21.1%	-	21.6%	-

Notes to the East Sussex Pension Fund Accounts

Employer	Contribution Rate					
	2014/15		2015/16		2016/17	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
Ringmer Academy	18.8%	-	19.3%	-	19.8%	-
Rye Multi Academies Trust	24.0%	-	23.5%	-	23.0%	-
Seaford Academy	21.6%	12,300	21.6%	9,100	21.6%	6,300
Seahaven Academy	19.3%	5,800	19.3%	6,100	19.3%	6,400
Surrey & Sussex Probation Board	18.1%	62,000	-	-	-	-
The Hastings Academies Trust	18.6%	-	19.1%	-	19.6%	-
The SABDEN Multi Academy Trust	-	-	25.6%	-	25.6%	-
Torfield & Saxon Mount Academy Trust	20.6%	-	21.1%	-	21.6%	-
UTC@ Harbourside	-	-	22.0%	-	22.0%	-
White House Academy	16.0%	1,600	16.0%	1,700	16.0%	1,700
William Parker Academy	19.6%	5,120	19.6%	-	19.6%	-
Town and Parish Councils (pool)						
Battle Town Council	20.1%	-	20.6%	-	21.1%	-
Chailey Parish Council	20.1%	-	20.6%	-	21.1%	-
Chiddingly Parish Council	20.1%	-	20.6%	-	21.1%	-
Conservators of Ashdown Forest	20.1%	-	20.6%	-	21.1%	-
Crowborough Town Council	20.1%	-	20.6%	-	21.1%	-
Ewhurst Parish Council	20.1%	-	20.6%	-	21.1%	-
Fletching Parish Council	20.1%	-	20.6%	-	21.1%	-
Forest Row Parish Council	20.1%	-	20.6%	-	21.1%	-
Hailsham Town Council	20.1%	-	20.6%	-	21.1%	-
Hartfield Parish Council	20.1%	-	20.6%	-	21.1%	-
Heathfield & Waldron Parish Council	20.1%	-	20.6%	-	21.1%	-
Hurst Green Parish Council	20.1%	-	20.6%	-	21.1%	-
Lewes Town Council	20.1%	-	20.6%	-	21.1%	-
Maresfield Parish Council	20.1%	-	20.6%	-	21.1%	-
Newhaven Town Council	20.1%	-	20.6%	-	21.1%	-
Newick Parish Council	20.1%	-	20.6%	-	21.1%	-
Peacehaven Town Council	20.1%	-	20.6%	-	21.1%	-
Pett Parish Council	20.1%	-	20.6%	-	21.1%	-
Plumpton Parish Council	20.1%	-	20.6%	-	21.1%	-
Polegate Town Council	20.1%	-	20.6%	-	21.1%	-
Ringmer Parish Council	20.1%	-	20.6%	-	21.1%	-
Rye Town Council	20.1%	-	20.6%	-	21.1%	-
Salehurst & Robertsbridge Parish Council	20.1%	-	20.6%	-	21.1%	-
Seaford Town Council	20.1%	-	20.6%	-	21.1%	-
Sussex Inshore Fisheries & Conservation Authority	20.1%	-	20.6%	-	21.1%	-
Telscombe Town Council	20.1%	-	20.6%	-	21.1%	-
Uckfield Town Council	20.1%	-	20.6%	-	21.1%	-
Westham Parish Council	20.1%	-	20.6%	-	21.1%	-
Willingdon & Jevington Parish Council	20.1%	-	20.6%	-	21.1%	-
Colleges						
Bexhill College	17.0%	-	17.5%	-	18.0%	-
Brighton, Hove & Sussex Sixth Form College	17.0%	-	17.5%	-	18.0%	-
City College, Brighton	17.4%	42,000	17.4%	68,000	17.4%	96,000
Plumpton College	17.0%	-	17.5%	-	18.0%	-
Sussex Coast College	17.5%	-	18.0%	-	18.4%	2,700
Sussex Downs College	16.0%	-	16.5%	-	17.0%	-
Vardean Sixth Form College	17.0%	-	17.5%	-	18.0%	-
Community Admission Bodies (Open) & Pre-2000 Admission Bodies (Open)						
Amicus Horizon	17.5%	310,000	17.5%	388,000	17.5%	472,000
East Sussex Energy, Infrastructure & Development Ltd (ESEID)	22.1%	-	21.2%	-	20.4%	-

Notes to the East Sussex Pension Fund Accounts

Employer	Contribution Rate					
	2014/15		2015/16		2016/17	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
Hastings Business Operations Limited (HBOL)	17.2%	-	18.6%	-	20.0%	-
Sussex Housing & Care	20.0%	59,300	20.0%	123,700	20.0%	193,500
Community Admission Bodies (Closed) & Pre-2000 Admission Bodies (Closed)						
Brighton Dome & Festival	31.0%	-	31.0%	-	31.0%	-
Care Quality Commission	21.3%	-	21.8%	-	22.3%	-
De La Warr Pavilion Charitable Trust	25.1%	-	27.0%	1,900	27.0%	5,500
Hove & Portslade CAB	21.5%	-	21.5%	-	21.5%	-
Sussex Archaeological Society	24.2%	31,400	24.2%	35,600	24.2%	40,100
Sussex County Sports Partnership	15.8%	-	15.8%	-	15.8%	-
University of Sussex	30.9%	112,700	-	-	-	-
Other Admission Bodies						
Accent Catering Services Ltd	21.4%	-	21.4%	-	21.4%	-
Amey	22.9%	-	19.1%	-	15.2%	-
BHCC - Peyton and Byrne	21.1%	-	-	-	-	-
Curchill - Cavendish	26.2%	200	-	-	-	-
Churchill Contract Services	-	-	23.3%	-	26.0%	-
Civica ICT - William Parker	15.9%	-	15.9%	-	15.9%	-
Eastbourne Homes - SEILL	22.6%	-	22.6%	-	22.6%	-
Eastbourne Leisure Trust	20.9%	-	21.2%	11,700	21.2%	25,000
EBC - Towner	19.2%	-	19.2%	-	19.2%	-
Eden Foodservice	19.3%	-	16.1%	-	13.0%	-
Education Futures Trust	21.9%	-	21.9%	-	-	-
ESCC - Care at Home	21.5%	-	-	-	-	-
ESCC - Care at Home	-	-	27.4%	-	27.4%	-
ESCC - Churchill	20.7%	-	-	-	-	-
ESCC - Health Management Ltd (HML)	20.0%	-	20.0%	-	20.0%	-
ESCC - John O'Conner Ltd	19.9%	1,600	16.8%	-	13.0%	-
ESCC - NSL Limited	24.3%	-	23.9%	-	23.5%	-
European Electronique Ltd	14.5%	14,700	-	-	-	-
May Gurney Ltd	22.8%	-	24.7%	-	25.4%	3,000
Mears Ltd	24.9%	5,200	24.9%	25,400	24.9%	47,300
MyTime Active Ltd	20.1%	3,400	20.1%	10,900	20.1%	19,000
Sussex Community Development Association Ltd (SCDA)	-	-	26.4%	-	26.4%	-
Wealden Leisure - Portslade Sports Centre	-	-	17.4%	-	17.4%	-
Wave Leisure Trust Ltd	18.8%	-	20.9%	13,100	20.9%	56,300
Wave Leisure - Newhaven Fort	-	-	27.6%	-	27.6%	-
WDC - ISS Limited	26.4%	-	26.4%	-	26.4%	-
WDC - Kier	24.8%	-	24.4%	-	24.0%	-
WDC - Richardson	21.8%	-	21.0%	-	20.3%	-
WDC - Wealden Leisure	22.1%	17,600	22.1%	111,200	22.1%	212,900
BHCC - Wealden Leisure	20.1%	-	22.6%	4,000	22.6%	19,000
White Rock Theatre	22.4%	8,500	22.4%	18,600	22.4%	29,700

29: Investment Performance

The County Council uses an independent Investment performance measurement service, provided by the State Street Performance Services which measures the performance of the Fund compared with 88 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

Notes to the East Sussex Pension Fund Accounts

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	1.6	7.4	7.3	5.7
Benchmark	0.4	5.9	5.9	4.9
Relative	1.2	1.4	1.3	0.8

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	1.6	7.4	7.3	5.7
Local Authority Average	0.2	6.4	7.1	5.6
Relative	1.4	0.9	0.2	0.1

The Fund outperformed the average local authority fund over the year by 1.4% (1.6% outperformance 2014/15), ranking the East Sussex Fund in the 17th percentile (22nd 2014/15) in the local authority universe. Over three years the fund outperformed by 0.9% (0.1% outperformance 2014/15) and was placed in the 18th percentile (44th 2014/15). Over five years the fund outperformed by 0.2% (0.3% underperformance 2014/15) and was placed in the 43rd percentile (67th 2014/15). Over ten years the fund years the fund outperformed by 0.1% (0.0% 2014/15) and was placed in the 36th percentile (50th 2014/15).

Relative performance is calculated on a geometric basis as follows:

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

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

30: 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.

2014/15	2015/16
£000	£000

Notes to the East Sussex Pension Fund Accounts

East Sussex County Council	4,942	5,292
Brighton & Hove City Council	2,475	2,495
Eastbourne Borough Council	375	368
Magistrates	247	250
Hastings Borough Council	180	180
Wealden District Council	212	174
Rother District Council	126	123
South East Water	95	82
Lewes District Council	82	74
Mid-Sussex District Council	105	66
Wealden Leisure Ltd	47	47
Brighton University	26	24
East Sussex Fire Authority	20	20
LPFA	17	17
Capita Hartshead	15	15
Mears Group PLC	12	12
Brighton and Hove City College	12	9
London Borough of Camden	7	7
London Borough of Lewisham	6	6
London Borough of Southwark	6	6
The Eastbourne Academy	6	5
West Midlands Pension Fund	5	5
University of Sussex	2	4
Valuation Tribunal Service	4	4
West Sussex County Council	3	3
Torfaen Borough Council	3	3
Eastbourne Homes	2	2
Plumpton College	2	2
Varndean College	2	2
London Borough of Ealing	2	2
Sussex Downs College	1	1
Newhaven Town Council	1	1
Seahaven Academy	2	-
Sussex Housing & Care	2	-
Total	9,044	9,301

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/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.

**Business Services
Department**

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Philip Johnstone
Director, Public Sector Audit and Assurance
KPMG LLP
15 Canada Square
London
E14 5GL

date

19 July 2016

Dear Philip,

This representation letter is provided in connection with your audit of the financial statements of East Sussex County Council ("the Authority"), for the year ended 31 March 2016, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;
- ii. whether the Pension Fund financial statements of the give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2016, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- iii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement and the related notes. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;
 - ii. give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2016 and the amount and disposition of the Fund's assets
-

and liabilities as at 31 March 2016, other than liabilities to pay pensions and other benefits after the end of the scheme year;

- iii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed.

Information provided

4. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. The Authority confirms the following:
 - i. The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii. The Authority has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements;and
 - b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

7. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
8. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you the identity of the Authority's [and the Group's] related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 Related Party Disclosures.
10. The Authority confirms that:
 - a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
 - b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.
11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - funded or unfunded; and
 - approved or unapproved,have been identified and properly accounted for; and
 - b) all plan amendments, curtailments and settlements have been identified and properly accounted for.
12. The Authority confirms that there have been no material contractual changes to PFI schemes (Private Finance Initiatives) during the 2015/16 financial year.
 13. The Authority confirms that the valuation of Property, Plant and Equipment undertaken at 31 March 2016 is accurate and that the valuation basis used and the assumptions applied are reasonable and appropriate for the Authority's assets.
 14. In respect of the process of reviewing all assets on the fixed asset register and the migration from the SAP Real Estate module to the SE7 Property Asset Management System (Atrium), we identified duplicate asset components or components that should no longer be recognised, totalling £8.7m. We do not believe that these assets constitute a fundamental error in the prior period accounts and as such, we have processed their disposal in the current year.
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This letter was tabled and agreed at the meeting of the Governance Committee on 19 July 2016.

Yours faithfully,

Councillor Keith Glazier
Leader of the Council and Chair of the Governance Committee
For and on behalf of East Sussex County Council

Marion Kelly
Chief Finance Officer

Appendix to the Authority Representation Letter of East Sussex County Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period,
- A Balance Sheet as at the end of the period,
- A Movement in Reserves Statement for the period,
- A Cash Flow Statement for the period,
- Notes, comprising a summary of significant accounting policies and other explanatory information.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A pension fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 Related Party Disclosures as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the reporting entity; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

Related party transaction:

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.