

West Sussex County Council Statement of Accounts 2018/19 Contents

		Page
Narrative Report		2
Statement of Responsibilities		19
Movement in Reserves Statement		20
Balance Sheet		21
Expenditure and Funding Analysis		22
Comprehensive Income and Expenditure Statement		23
Cash Flow Statement		24
Notes to the Financial Statements	Notes	
Prior Period Adjustment	1	25
Notes to the Movement in Reserves Statement	2-3	27
Notes to the Balance Sheet	4-19	32
Notes to the Expenditure and Funding Analysis	20-21	75
Notes to the Comprehensive Income and Expenditure Statement	22-33	79
Notes to the Cash Flow Statement	34-37	96
Events after the Balance Sheet Date; Contingent Assets; Contingent Liabilities	38-40	97
Accounting Policies	41	99
Critical Judgements in applying Accounting Policies	42	117
Assumptions made about the future and other major sources of estimation uncertainty	43	119
Accounting Standards that have been issued but have not yet been adopted	44	121
Firefighters' Pension Scheme	45	122
Glossary of Financial Terms		123
Independent Auditor's Report to Members of West Sussex County Council		128
West Sussex Pension Fund		133
Independent Auditor's Report to Members of West Sussex Pension Fund		172

Narrative Report 2018/19

West Sussex County Council

Introduction to West Sussex

West Sussex County Council covers an area of around 768 square miles, with a population of around 870,000, comprising 70 electoral divisions. It is bordered by Hampshire to the west, East Sussex to the east, Surrey to the north and the English Channel to the south. It is a significant rural county, with urban centres and most people live in one of the four largest towns: Crawley and Horsham in the north and Bognor Regis and Worthing in the coastal areas. West Sussex has a range of scenery, and the highest point of the county is Blackdown in the Western Weald. It has over 300 square miles of national park and 100 square miles of Areas of Outstanding Natural Beauty including the South Downs National Park and the Sussex Downs. It has over 200 conservation areas and over 7,000 listed buildings. There are a number of stately homes in the county, including Goodwood, Petworth House and Uppark, along with both Arundel Castle and Bramber Castle.

West Sussex has a strong economy, worth around £21bn. Economic activity and employment rates are higher in West Sussex than both the South East and England as a whole, but wages are below the regional average.

The Council forms the upper tier of local government within West Sussex, providing a wide range of services such as social care, education, planning, libraries, waste management and trading standards to residents in the county. There are seven districts and boroughs and 159 parish and town councils, providing a further range of services to both businesses and residents.

West Sussex County Council's vision

The West Sussex Plan 2017-2022 sets out how the County Council plans to shape its services where we will focus on:

- giving our children and young people the best start in life,
- ensuring West Sussex is a prosperous place,
- our communities being strong, safe and sustainable,
- supporting you in later life to remain independent and
- being a council that works for our communities.

The plan is the Council's blueprint, setting out what we will deliver over the period 2017 to 2022 and our pledge to the people of West Sussex about what we will achieve for them up to 2022. The plan continues to reflect the focus and priorities of the authority and provides an overarching view of the Council's ambitions and political priorities for our communities.

The Council faces a number of challenges by 2022, influenced by a variety of factors including:

- The resident population of West Sussex is projected to increase to around 893,400 by 2022 (currently 869,700)
- About 35,000 babies will be born in West Sussex by 2022 (around 8,800 each year)
- The proportion of the county population that is over 65 years old will continue to rise, to around 26.5% (currently 24.5%)
- Around 17% of residents in West Sussex report living with long-term health problems or disabilities and this proportion is not expected to reduce

- The West Sussex population is about 58% urban and 42% rural which brings challenges for many services. For example, in social care population sparsity leads to higher delivery costs and makes it more difficult for commercial providers to keep their staff
- The median West Sussex house price is likely to rise to around £325,000 (currently £317,500), impacting the affordability of housing for our residents
- At the current rate of increase the median weekly earnings for a full-time employee resident in West Sussex will reach around £625. Currently the median weekly earnings in West Sussex is £574, which is significantly below the South East average of £614, although this gap has narrowed slightly in the last year and may continue to narrow by 2022

Further details of the West Sussex Plan can be found on our website: <https://www.westsussex.gov.uk/campaigns/the-west-sussex-plan>.

In addition, the Council has five core values which help shape how we engage day-to-day with our employees, customers and partners and play a crucial role in our ability to achieve our vision and our West Sussex Plan priorities. The five values are:

- Proud to be customer-centred – staff put the customer central to everything they do
- Listen and act upon - staff listen to each other and act on what they say
- Honest and realistic - staff are honest and realistic about what they can achieve
- Trust and support - staff trust and support each other to achieve their goals
- Genuinely valued - staff feel their contribution is valued and their achievements are recognised

Political and Democratic Structures

At the end of March 2019, the County Council was made up of 70 councillors (known as members), controlled by the Conservatives. The political composition was:

- Conservative: 56
- Liberal Democrat: 9
- Labour: 5

The Council follows the Leader and Cabinet model as its democratic structure, with functions allocated across the full Council itself, the Cabinet and a range of committees. Many functions are delegated from the Cabinet and committees to officers. The Council's Constitution explains how the County Council operates, how decisions are made and the procedures which are followed to make sure that these are efficient, transparent and accountable to local people. Further details can be found on the Council's website: <https://www.westsussex.gov.uk/about-the-council/how-the-council-works/council-structure/>.

Management Structure

In support of the democratic structure, the officer management structure of the Council is headed by an Executive Leadership Team (ELT), led by the Chief Executive, Nathan Elvery. As at March 2019, West Sussex County Council services were provided by three departments plus the Chief Executive's Office, as set out below:

Children, Adults, Families, Health and Education

- Provision of social care support for adults
- Provision of quality education for our residents
- Provision of children and families support, including schools, childcare, adoption, fostering and other services for children and families

Communities and Public Protection

- Communities, including connecting with and building community capacity across West Sussex, including community development and partnership support around community safety with the County's Library and Registration services
- Provision of Fire and Rescue services
- Public Protection, including Trading Standards and the Resilience and Emergencies Team
- Provision of relevant frameworks to enable our organisation to deliver the best possible customer experience and outcomes for our staff and residents

Economy, Infrastructure and Environment

- Economy, Planning and Place, including promoting economic development, strategic planning issues for the County and effective use of the Council's land and buildings
- Highways and Transport, covering repair and maintenance of our highways network as well as promotion and support of sustainable transport
- Energy, Waste and Environment, including ensuring that the actions and decisions taken today guarantee a better quality of life for everyone now and for generations to come

Chief Executive's Office

- Delivering public health outcomes for our communities
- Provision of organisational policy, process, infrastructure and framework for innovation and delivery for HR and Organisational Change
- Provision of financial, sourcing and analytical capabilities to drive the organisation to relentlessly focus on delivering better and cost-effective outcomes
- Provision of Information and Technology services to ensure IT, data and digital capability is effective and aligned with organisational objectives
- Provision of procurement strategy and support
- Provision of comprehensive legal advice to all services of the Council and to support major projects and policy development
- Facilitating the democratic business of the Council

Council Employees

At the end of March 2019 the Council employed 4,526 full time equivalents (5,152 people), excluding school-based employees, in both full and part time contracts. Key facts about our workforce include:

Gender – Across the Council, 68.3% of employees are female and 31.7% are male.

Age – The Council has an older age profile than the working age population of West Sussex, with 25.0% of employees aged 55+ and those aged 16–24 are particularly under-represented at only 3.9% of the workforce.

Ethnicity – 2.4% of the workforce are recorded as belonging to black and minority ethnic groups. However, 37.3% of employees are of unknown ethnicity, so the actual proportion could be higher or lower.

External Performance Assessment and Review

In October 2018, the Local Government Association (LGA) carried out a review of West Sussex County Council. During the review, a small team of local government officers and councillors spent time at the council as peers to provide challenge and share learning. The process involved engaging with a wide range of people connected with the County Council. The Corporate Peer Challenge report highlights positive findings and offers recommendations on how the Council can move forward and help shape the future of the local authority. The full report is available on the Council's website ([link here](#)).

More specifically, key service areas are also subject to independent external assessment and two such inspections were undertaken during 2018/19:

- In November 2018, Her Majesty's Inspectorate of Constabulary and Fire and Rescue Service (HMICFRS) undertook an inspection of our Fire and Rescue Service. The report was published on 20 June 2019 and rates the service as requiring improvement in areas of service effectiveness and efficiency and as inadequate in relation to supporting its people. An Improvement Board chaired by the Chief Executive has been established and an improvement plan is in development. As part of the outturn for 2018/19, a Fire Inspection Improvement reserve was established for £0.4m, funded from the contingency budget, to contribute towards the cost of delivering the improvement plan. The full report is available on the HMICFRS website ([link here](#)).
- Ofsted undertook an inspection of our Children's Services, with their findings being announced very recently in early May. The inspection took place over a three-week period in late February/early March and looked at three areas - the impact of leaders on social work practice with children and families, the experiences and progress of children who need help and protection and the experiences and progress of children in care and care leavers. In all three areas inspectors found services to be inadequate and as a result the overall effectiveness was judged to be inadequate. At the end of last year, the County Council was aware that services were fragile and announced a £5m investment programme to make urgent improvements. That work is still underway but as the inspectors have found, we are a long way from delivering the services vulnerable children and families of West Sussex deserve.

Improving outcomes for the most vulnerable children in West Sussex is the Council's top priority and in recognition of this:

- We have recruited a new Director of Children and Family Services with a track record of leading improvement in other local authorities.
- We have a plan in place to drive forward improvement and we welcome the scrutiny and continued support of the Department for Education in helping our organisation and our partners make the improvements which are necessary.
- A new improvement team will be in place to support the changes which are clearly required and ensure the quality of our social work practice is of the highest standard.
- We have also established an independent children's Improvement Board with an independent Chair to hold us fully to account on our progress.

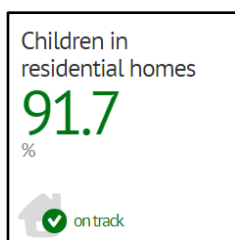
The Department for Education will appoint a commissioner to work with the Council. The full Ofsted report is available on the Ofsted website ([link here](#)) and future Ofsted monitoring reports will also be available publicly. This will ensure transparency in our improvement journey, and that we can be held accountable for our actions and progress in improving our services to support, protect and care for the children of West Sussex.

West Sussex Plan Performance for 2018/19

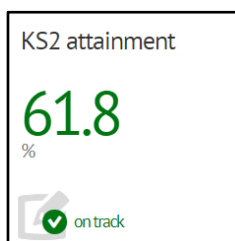
The Council measured its performance for 2018/19 against the West Sussex Plan, which was approved in October 2017. The Performance Framework supports this plan and sets out 67 measures to monitor performance against the five priority areas within the plan: Best Start in Life; A Prosperous Place; A Strong, Safe and Sustainable Place; Independence for Later Life and A Council that works for the Community.

Against these priorities we have successfully achieved or exceeded 36 targets, with a further 16 close to meeting the target, giving an overall total of 78%. There were 15 measures however which failed to meet the target. Key details of our performance in 2018/19 include:

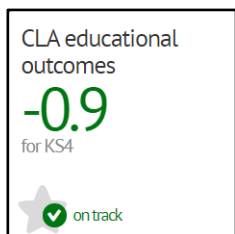
Best Start in Life



91.7% of West Sussex children are placed in residential homes rated good or outstanding. This compares to 84% for the previous year and exceeds our long term target of 90%. There are no children placed by West Sussex in residential homes which are rated as 'inadequate'.



61.8% of pupils attained the expected standard at Key Stage 2 in reading, writing and maths, compared to 55% last year. We exceeded our 2018/19 target of 61% and our rate of improvement is much greater than that achieved nationally.



The 2018 provisional results for Children Looked After achieving educational outcomes in line with their peers show West Sussex has significantly improved this year and exceeded our target of -1.18. Our results are better than those for both the national and South East position.

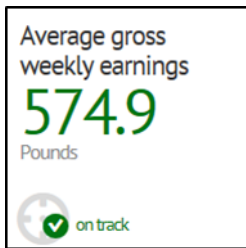


Year end results show 2.9% of children are subject to a Child Protection Plan (CPP) for 2 years or more, against a year-end target of 1.9%. This cohort continues to be scrutinised at a senior level on a monthly basis and any child not subject to care proceedings or Public Law Outline (PLO) will be considered at the weekly gateway meetings. This now includes children subject to a CPP for 16 months post the third Review Child Protection Conference to ensure a focus on pace with child protection planning.

A Prosperous Place



The five-year survival rate for those businesses started in 2012 has increased to 47%. This is higher than the England average (43.1%) and the South East region average (44.8%). Horsham has the highest five-year survival rate at 49.3%, and is the third highest amongst local authorities in the South East region. We are in the top quartile for statistical neighbours, exceeding our 2018/19 target.

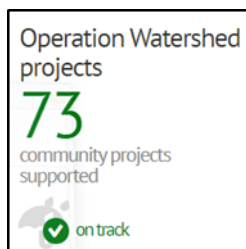


The average weekly earnings for full-time workers resident in West Sussex have increased from £554.10 to £574.90 in 2018. West Sussex continues to be within the top quartile compared with its statistical neighbours and has one of the highest percentage increases in earnings over the year in the South East at 4.2%, higher than the regional (2.8%) and the national (3.3%) averages.



There has been a drop of 33% in new apprenticeships across West Sussex to 4,790 against a target of 6,383. Nationally, new apprenticeships have also dropped by 33% and the South East average dropped by 27.9%. We will press Government to improve its Apprenticeship scheme and implement the recommendations made in the National Audit Office report of March 2019.

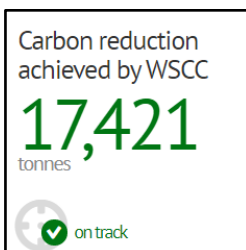
A Strong, Safe Sustainable Place



We have exceeded our target to provide 70 Flood Risk Reduction Projects across the county by 2022 and have already delivered 73 projects since 2017. This year we funded 21 projects to the value of £370,000.



A total of 4,131 high risk Safe & Well Visits were delivered throughout 2018/19, giving a total of 8,414 visits since the start of April 2017, exceeding our target. Over 4,500 pieces of smoke detection equipment were installed and the benefits are clear - 101 fires were reported via community linked fire alarms. In addition, 568 residents were signposted to partner agencies for support, and 62 were safeguarded as they were at risk from harm.



A total of 17,421 tonnes of carbon were emitted for 2018/19 against a target of 17,612 or less. This is a 46% reduction against our longer term target of reducing our carbon emissions by 50% by 2022. We continue to explore measures we can take to make savings including alternative fuels and LED lighting.



Rates of self-harm are significantly higher than the England average of 185.5 and the South East average of 195. Targeting people before they start to self-harm and promoting mental wellbeing across the population (with greater intensity to those groups at high risk of poor mental health or self-harm) may be the most effective approach to reducing self-harm. This includes 'whole school approaches' to build positive cultures and ethos around mental and emotional wellbeing.

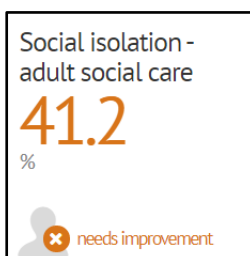
Independent for Longer in Later Life



We have met our target this year for the number of delayed transfers of care from hospital that are attributed to social care. This is a significant improvement from last year (5 per 100,000 population) and we have exceeded our target for eight months of this year.

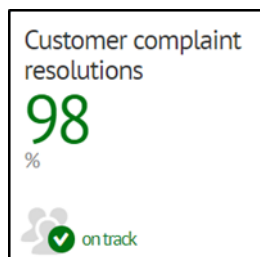


The latest performance for emergency admissions for hip fractures has improved to 568 per 100,000, down from 595 in the previous year. We continue to exceed our target to remain below 612 per 100,000, and we are better than the national average.

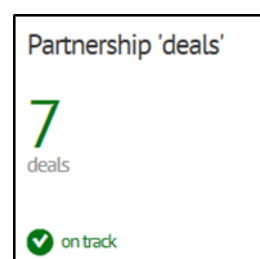


2017 shows results of 41.2% of social care users who have as much social contact as they would like against a target of 44%, (previous year 43%). The new approach includes developing Community Hubs, working with Public Health colleagues, the Fire and Rescue Service, changing and developing adult social care to help identify and support both customers and carers, providing spaces and areas where people can chat. Activities include; strategic reviews of West Sussex Social Support contracts, developing a bereavement pathway with the aim to reduce social isolation and ensure people are aware of all the different types of support.

A Council that works for the Community



Overall the annual performance of the County Council's response to recommendations from customer complaint resolutions is 99.4%, with 98% for the fourth quarter. This exceeds the target of 90%. There is one outstanding recommendation still in progress and once complete, will give an overall 100% performance.



All six Growth deals and one Health and Wellbeing deal have been signed, with a further five Health and Wellbeing deals in progress. We have exceeded our target to achieve six partnership deals between the County Council and our District and Borough partners by 2018/19. Additionally, we recently allocated £1m of central government funding to the Falls Prevention Initiative in the county to tackle winter pressures on social care and the NHS. Public Health are leading on this partnership with the districts and boroughs.

Full details of outcomes against all 67 of the targets can be found on the West Sussex Performance Dashboard - <https://performance.westsussex.gov.uk/>.

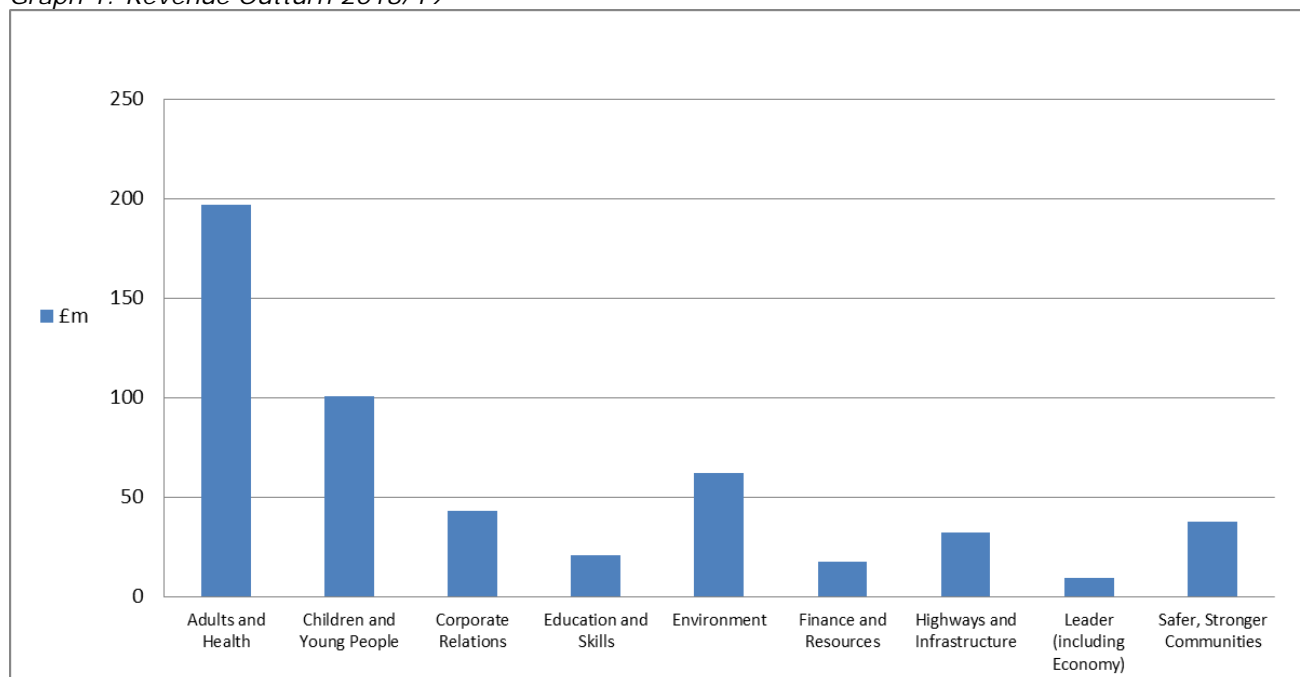
Financial Performance

The budget for 2018/19, agreed by County Council in February 2018, supported the objectives of the West Sussex Plan and was set against the background of continuing austerity in public finances. The budget aimed to support the delivery of members' vision and deliver the priorities of the plan.

Measures to balance the portfolio budgets for both 2018/19 and 2019/20 were developed as part of the budget process, on the basis of maximising efficiency, finding new ways of service provision and engaging partners in collaboration. The budget for 2018/19 assumed savings of £18.7m and by the year end, £16.9m was achieved as originally envisaged or was delivered by other means. The balance, £1.8m, was not delivered in the financial year and was reported as part of the portfolio overspending position as outlined below.

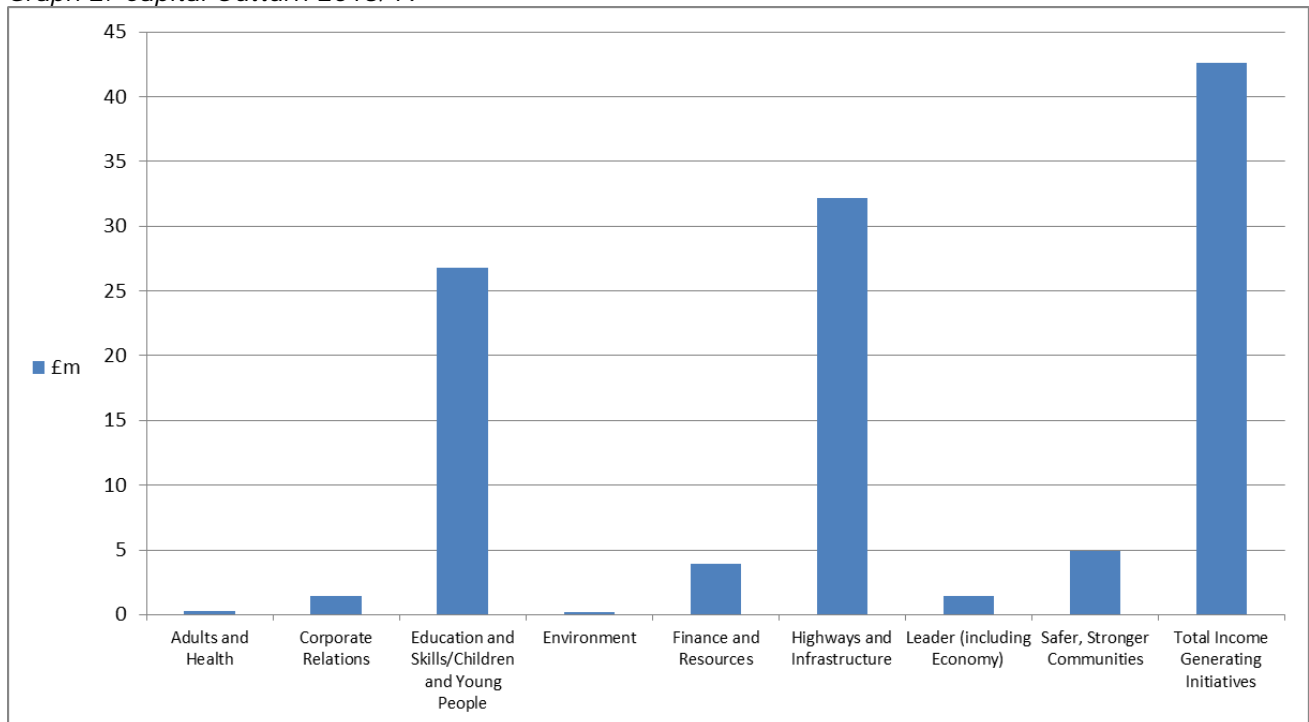
The net outturn is a balanced budget, with an outturn overspend of £5.4m within the portfolio budgets, after including £0.6m of carry forward requests. This was balanced through use of the contingency (£3.3m), along with an underspending on capital financing (£0.1m), additional section 31 Business Rates Grant (£1.1m) and part utilisation of the Business Rates Levy Account Surplus (£0.9m). Full details are set out in the outturn Total Performance Monitor. Graph 1 below illustrates the net outturn spend for the year, by portfolio:

Graph 1: Revenue Outturn 2018/19



Spending on the County Council's capital programme totalled £113.9m for the year, against the capital programme of £142.8m (as approved at County Council in December 2017 and adjusted for slippage from 2017/18), a total variation of £28.9m or 20.2%. Graph 2 below sets out the capital outturn for 2018/19, by portfolio:

Graph 2: Capital Outturn 2018/19



During the year, a large number of capital projects were completed across the county. The most noteworthy include:

- School Basic Need at various locations across West Sussex to provide an additional 536 primary, 360 secondary and 16 special school places
- Provision of a new Bramber Primary School Playing Field, Horsham, to enable the delivery of the PE curriculum on-site
- Improvements to the Science and Mathematics buildings at Oathall Community College, Mid Sussex
- New roof and windows at Sackville School, Mid Sussex
- A programme of improvements across the County to deliver Even Better Pavements in places where residents are most vulnerable to slips, trips and falls, helping them to remain active and independent
- Structural remodelling at Lancing Library, to improve the services for partners and customers
- Installation of three electric vehicle chargers at County Hall, Chichester, to support the new electric pool-car fleet vehicles
- Construction of a new A259 Cycle Path between Felpham and Littlehampton
- Construction of a new off-carriageway Worth Park Avenue Cycle Path linking up with Station Hill in Crawley
- Building modifications at Turners Hill Fire Station, Mid Sussex, to provide cleaning facilities for Fire Service breathing apparatus
- Construction of the Westhampnett gas extraction system on the former landfill site
- Growth Is Digital grant scheme to support businesses across the County to access superfast broadband services
- Conversion works to a Council-owned building in Chichester to provide accommodation for care leavers
- A programme of on-street parking meter replacement in Worthing
- A capital contribution to Chichester University to support the new Digital and Engineering Facility on the Bognor Regis campus

In 2018/19 a further three schools obtained Academy status, at which point the buildings ceased to be County Council assets (resulting in assets to the value of £5.8m being removed from the Balance Sheet). Furthermore, the Council has revalued the land these Academies occupy to reflect the restricted use to the authority (resulting in a further reduction of £5.2m to the Balance Sheet). As of March 2019 there are 68 schools with Academy status in the County, with a further 216 schools remaining under local authority control. There are no further academy conversions currently planned for the coming year.

Reserves and Balances

The Balance Sheet distinguishes between “usable” and “unusable” reserves. An analysis of the movement in reserve balances during 2018/19 is provided by the Movement in Reserves Statement, and is summarised below:

Table 1: Movement in Reserve Balances 2018/19

	Adjusted Balance at 1 April 2018 £000	2018/19 Movement £000	Balance at 31 March 2019 £000
General Fund	20,286	0	20,286
Earmarked Reserves	174,663	(11,350)	163,313
Capital Grants Unapplied Account	13,627	31,042	44,669
Total Usable Reserves	208,576	19,692	228,268
Unusable Reserves	601,304	5,566	606,870
Total Authority Reserves	809,880	25,258	835,138

The 1 April 2018 balances have been adjusted in accordance with the requirements of the new accounting standard IFRS 9 Financial Instruments.

Unusable reserves are held to offset the impact of accounting adjustments required by International Accounting Standards; for example, charges to the Comprehensive Income and Expenditure Statement in relation to depreciation, asset revaluation and the accrued pension liability. These reserves are not cash-backed and therefore are not available to finance the provision of services. Furthermore, with the exception of the General Fund the usable reserves are earmarked for specific purposes and are not available to support general revenue spending. The General Fund balance at 31 March 2019 is £20.3m, which (at 3.5% of the net expenditure budget for 2019/20) is considered to be a prudent buffer against the significant financial pressures affecting the Council. This will provide additional means for the County Council to protect itself from future demand pressures that could adversely impact on our financial position and strengthen the Council’s financial resilience. Earmarked reserves totalling £163.3m are held as at 31 March 2019, and a detailed analysis of this balance is provided in Note 3 to the accounts.

Under International Accounting Standard 19, the Council shows the total future costs of pension liabilities for both the Local Government Pension Scheme and Firefighters. This is a purely notional figure, as the County’s budget is constructed on the basis of actual contributions payable. The IAS19 notional liability of £818.6m is offset by a matching notional reserve ensuring there is no impact on the local taxpayer.

Future Capital Programme and Borrowing

The County Council has produced its first Capital Strategy and this was approved by full Council in February 2019. The strategy is the foundation for proper long-term planning of capital investment and how this links into the Council’s overall corporate objectives and strategic priorities. As part of the strategy, the five-year capital programme covering both core programme and income-generating initiatives was updated as follows:

Table 2: Summary of Capital Programme 2019/20 - 2023/24

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Core Programme:					
Adults and Health	1,492	1,539	1,700	1,495	128
Children and Young People	0	1,000	1,000	1,000	0
Corporate Relations	1,282	16,000	2,141	0	0
Education and Skills	31,324	30,442	38,875	18,896	15,062
Environment	1,176	3,064	2,300	0	0
Finance and Resources	6,994	16,361	17,462	15,993	13,705
Highways and Infrastructure	33,830	44,981	57,869	35,746	37,463
Leader (including Economy)	7,670	8,278	4,000	12,000	2,000
Safer, Stronger Communities	9,042	16,663	7,650	7,996	9,144
Total Core Programme	92,810	138,328	132,997	93,126	77,502
Income Generating Initiatives (IGIs) and Bold Ideas:					
Corporate Relations	2,370	1,000	0	0	0
Environment	2,700	13,000	7,800	14,924	9,036
Finance and Resources	10,115	18,000	20,000	10,076	8,729
Highways and Infrastructure	0	3,700	3,700	7,600	7,000
Leader (including Economy)	1,000	6,780	7,720	15,000	0
Total IGIs and Bold Ideas	16,185	42,480	39,220	47,600	24,765
Total Capital Programme	108,995	180,808	172,217	140,726	102,267
Financed By:					
Capital Receipts	3,850	3,750	7,750	22,250	36,852
Grants and Contributions	78,523	66,938	55,898	43,043	42,018
Borrowing	26,622	110,120	108,569	75,433	23,397
	108,995	180,808	172,217	140,726	102,267

The authority borrows prudentially for capital investment purposes. No new external borrowing was undertaken in 2018/19, and external debt repayments of £7.0m were made during the year. Outstanding Public Works Loans Board borrowing as at 31 March 2019 was £388.9m (excluding accrued interest), with an average interest rate of 4.6%. This borrowing should be seen in the context of the long term assets valued at £2.1 billion on the Balance Sheet.

In recognition of the borrowing need in the authority's future years' capital programme as outlined above, the Council took advantage of the historically low borrowing rates offered by PWLB and borrowed a further £50m in April 2019 on a 50-year maturity loan basis at 2.32%.

Performance and Financial Monitoring

Financial performance, workforce information and service performance are presented in the Total Performance Monitor and reported monthly to Cabinet. Select Committees also consider this and the Leader and the Cabinet Member for Finance and Resources ultimately approve any decisions sought as part of the monthly Total Performance Monitor. This process provides a regular challenge relating to the Council's performance.

Financial Outlook

The provisional local government finance settlement was announced in December 2018, with the final settlement at the end of January 2019. This formed the basis of the 2019/20 budget and beyond and confirmed expectations around a continuing period of austerity for local authority finances, with additional reductions in central government funding. For 2019/20, the budget was balanced by approving £23.4m of savings and generating £22.0m of additional income from an increase in council tax, with around £8.8m of the tax rise specifically supporting adult social care costs. Through taking these measures, the authority balanced the budget for 2019/20 without reliance on the use of reserves. The Government's finance settlement cancelled the expectation of "negative" Revenue Support Grant (RSG) in 2019/20, with zero allocated in 2019/20 compared to the minus £2.6m which was previously notified, although this is still substantially less than the £12.1m grant received in 2018/19. This finance settlement was the fourth and final year of the fixed settlement and there is far less certainty regarding the funding for future years.

Drawing on past experience, the Council has a good track record in delivering sustainable savings plans, and by the end of 2019/20 we will have delivered a programme of nearly £240m savings since 2010/11.

Looking further forward, the continuing squeeze in local authority funding, coupled with major spending pressures such as the growing number of older people needing care, translates into a forecast budget shortfall (or gap) of £45.6m between 2020/21 to 2022/23 (after an assumed 1.99% year on year council tax rise over the period). Of that shortfall, the gap for 2020/21 is estimated at £12.9m.

There is clearly a risk that the ambitious savings levels needed to balance the budget will not be achieved, or be delivered late. That risk is magnified by a variety of factors, including the uncertainties regarding local government finance and the significant efficiency reductions already actioned, as well as the recent announcement from Ofsted following their inspection of our children's services as mentioned earlier. The budget approved in February included £5.5m to address the demand pressures within children's social care, and a further £5.0m has been subsequently earmarked to fund the Ofsted requirements.

These risks will be managed in several ways. A general contingency of £3.4m provides a buffer against in-year pressures and covers any potential risks arising from the non-delivery of planned savings. Furthermore, reserves are more important than ever as a safeguard. The Budget Management Reserve stands at £30.1m at 31 March 2019, and this reserve is held to smooth fluctuations in funding levels or to offset delays in the delivery of savings. The Service Transformation Fund stands at £6.7m as at 31 March 2019, and ensures that related savings proposals are not held back through lack of funds to invest in delivering change.

There remains uncertainty surrounding the future government funding from 2020/21. The current three-year spending period has come to an end and there are yet no control totals for future years. The Government has committed to delivering a Spending Review over the summer subject to progress on Brexit. This leaves some room for doubt, and there is every possibility that control totals will not be available until the winter and will cover only one year. We also await the Government's Fair Funding Review of local authority financing and changes to the business rate retention scheme, both of which could significantly affect the funding settlement for the County Council.

The Fair Funding Review will set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best available evidence. West Sussex County Council engages with other County Councils through the County Councils' Network, local MPs and Government as policy development work on the new funding formula progresses, in an effort to ensure that the County Council is not disadvantaged. Government has previously given the aim of moving to a system of "at least" 75% funding from business rates proceeds for local authorities by 2020/21, an increase from the existing 50% received from this source. We await detailed proposals in consultation papers from Government. This change is intended to be financially neutral for local government financing, but should provide an opportunity to retain more local growth from business rate proceeds. With greater reliance on funding from business rates, should any economic downturn occur, lower proceeds from business rates would inevitably impact adversely on funding levels and the County Council must therefore plan and prepare for greater financial risks which go along with the greater opportunity.

The West Sussex bid, made jointly with all our District and Boroughs, to become a pilot area in 2019/20 for 75% business rate retention was accepted in late 2018. This offers a potential gain of up to £19.1m for one year, though the exact gain will be dependent on the local business rate yield during 2019/20. The funds will be used collaboratively with other authorities and pooled to make a strategic investment in the county's economic infrastructure. The funds will be applied in the main to enhance the digital infrastructure and connectivity for business and residents in the county.

Future Opportunities

In rising to its future financial challenges, the Council will seek to minimise the need to reduce or withdraw key services. It aims to do this by achieving efficiencies, generating additional income and through modernising and transforming its functions. For the past two years, the Council has focussed on making ourselves fit for the challenges ahead. This first phase has enabled us to build organisational capability to deliver the second phase of transformation, which we have named Whole Council Design. Whole Council Design focuses on three delivery themes – Customer, Community and One Council:

- The customer theme supports our West Sussex Way principle to be more effective and put our customers at the heart of everything we do. Most of the customer projects are designed to help us manage demand through channel shift and influencing behaviour.
- The community theme supports our ambition to build resilient communities and re-shaping the relationship between citizens and the state. One of our priorities under this theme is to deliver our community hubs strategy. By providing more services under one roof we can protect frontline services and rationalise our estate.
- The one council theme will ensure delivery of our West Sussex Way principles to do what works, share accountability and lead together as one team.

Whole Council Design also has three cross-cutting themes:

- Accelerated Activity – we will continue accelerated activity we started in April 2018 to build momentum and deliver change at pace.
- Digital – we will be digital by design to support our West Sussex Way principle to be more efficient. We know our customers are not all the same. We will make a variety of channels available for them to contact us and ensure our resources are prioritised for our most vulnerable customers.
- Culture – we will harness all the talent available to take our staff on the change journey. We want everyone in our organisation to understand the impact of changes we make in one area on another area and work collaboratively to solve problems.

Corporate Risks

The Risk Management Strategy has been reviewed and updated to ensure it continues to provide coherent and robust governance to support risk management across the Council. Corporate and Directorate risk registers are reviewed and updated monthly, with a clear mechanism for escalation and de-escalation provided.

The current key strategic risks and summary mitigating actions that are captured within the Corporate Risk Register are as follows:

Risk	Mitigation
Brexit – Impact on the Council and partners to deliver services	Data gathering and network liaison. Corporate Management Team planning sessions.
Recruitment and retention – Council and partners facing skills shortages	New and revised governance and strategies, data gathering and targeted recruitment projects.
Financial sustainability of Council – Central Government funding and budget balancing	Stakeholder engagement to influence funding decisions and initiatives.
Commissioned activity and contract effectiveness	Supply chain management, training and education, improved governance.
Cyber-security – Loss of and system failure	Robust IT governance and education of staff, collaborative working and periodic testing.
Health and Safety – Lack of governance and training leading to serious H&S incident	Robust Health and Safety governance, reporting systems and training.
Ofsted Report 2019 – Service failure if not addressed	Accelerated Improvement Plan being worked through to address concerns.
Social care provisions – Failure leading to personal and/or reputational harm	Protocol implementation and Resilience and Emergencies Team engagement.
Transformational pace and cultural change - fails to deliver the changes	Completion of project plans and programmes.
HMIC FRS improvement plan – failure to deliver service	Internal restructure, review and amendment of governance documents, Terian/FC20 project delivery.

All risks detailed above have been assessed by a suitably experienced person as having at least a high likelihood of occurring, and a major impact should it happen. These risks and their mitigating actions are reviewed and updated at least quarterly by the risk owner and Corporate Risk Manager. The Regulation, Audit and Accounts Committee receives quarterly updates on the risks and mitigation plans in place to address them.

West Sussex Statement of Accounts

The Statement of Accounts on the following pages sets out the Council's income and expenditure for the year, and its financial position at 31 March 2019. The format and content of the financial statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which in turn is underpinned by International Financial Reporting Standards. It comprises core and supplementary statements. The Core Statements are as follows:

Movement in Reserves Statement	Sets out the change in the authority's "net worth" over the year
Balance Sheet	Shows the value of the County's assets and liabilities at the year end, and how they are financed
Comprehensive Income & Expenditure Statement	Shows all the financial gains and losses experienced by the County over the year
Cash Flow Statement	Summarises movements of cash into and out of the authority over the year

The Expenditure and Funding Analysis is a note to the financial statements. However, it is positioned with the core statements as it provides a link from the portfolio-based analysis of the revenue outturn presented in the Narrative Report to the analysis within the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

A glossary of key terms is provided at the end of this publication.

Provisions and contingencies

The Council continues to hold both short and long term provisions which total £21.2m at 31 March 2019, of which £6.9m relates to the insurance provision and £3.8m relates to the Non-Domestic Rates (NDR) Appeals provision.

Changes to accounting policies

The County Council accounting policies have been updated to reflect accounting changes arising from the introduction of IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from contracts) from April 2018. The opportunity has also been taken to streamline the policies to reflect the recommended format in the Code and to update them to reflect feedback from last year's audit and other minor changes.

The Pension Fund policies have been updated to reflect minor changes to address previous omissions or provide clarification.

Conclusion

Through careful planning and management, West Sussex County Council has been able to close its accounts showing a strong financial position, which will support the Council in meeting its future challenges.

West Sussex Pension Fund

The Local Government Pension Scheme (LGPS) is a national defined benefit pension scheme administered by West Sussex County Council on behalf of 201 active employers and 75,191 members (contributors, pensioners and deferred).

The Annual Report and Financial Statements for the Pension Fund set out the benefit arrangements for the LGPS, the details of the governance structure in which it operates and the investment and administrative performance of the West Sussex LGPS. The report also sets out in detail the mandates which the equity and bond, property and private equity managers have been awarded and their short, medium and long term performance. It further considers how the Fund responds to its Corporate Governance responsibilities.

Administration

Responsibility for administration for the Pension Fund was transferred to Hampshire County Council with effect from 6 March 2019. Prior to this the administrative function was undertaken by Capita.

Funding

Every three years the Fund is required to undertake a full actuarial valuation of its assets and liabilities. The 2016 valuation showed that the Fund was 95% funded, and was recognised as the best funded open Local Authority LGPS fund in the country. The Fund is currently undertaking a valuation based on assets and liabilities as at 31 March 2019 with results due by 31 March 2020. It is estimated that as at 31 March 2019 the funding level exceeds 105%.

Assets

The Pension Fund invests in equities, bonds, property and private equity, as summarised below:

	2017/18 £m	2018/19 £m
Equities	1,977	2,165
Bonds	1,514	1,557
Direct Property	344	377
Private Equity	121	111
Cash or cash equivalents	102	99
Total	4,058	4,309

This mix of assets reflects the Pensions Panel's decision to remove investment risk following improvements in the Fund's funding position. The de-risking strategy has now been successfully applied and has reduced volatility within the portfolio which has helped reduce the risk of deficits emerging and provided some protections against increases in the monetary contributions required to the Fund.

During the year, the Fund's assets returned 7.06% compared to the market of 7.68%. However the Pension Fund is a long term investor, and as shown in the table below, has benefited from strong active management of the Fund's investments, which have provided higher returns, net of fees, to the Fund over the long term than the benchmark index. This helps manage the cost of benefits.

	12 months	3 years	10 years
Total Fund	7.06%	13.12%	12.83%
Benchmark	7.68%	11.19%	11.67%
Difference	-0.62%	1.93%	1.16%

In response to the Government's requirement that Administering Authorities "pool investments to significantly reduce costs while maintaining investment performance" the County Council is working with eleven like-minded LGPS funds under the name ACCESS (A Collaboration of Central, Eastern and Southern Shires). Whilst West Sussex has been working with others to deliver the pooling objectives, it has not transferred any investments into the pool.

Corporate Governance

The Pension Fund is a long term active shareholder. The Pensions Panel have instructed fund managers to engage with companies and vote on its behalf. The fund managers voted at 99% of domestic and 95% of overseas meetings during the year.

Director of Finance and Support Services

Statement of Responsibilities

The Chief Financial Officer's responsibilities:

The Director of Finance and Support Services is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code").

In preparing this Statement of Accounts, the Director of Finance and Support Services has:

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

The Director of Finance and Support Services 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 set out in the following pages presents a true and fair view of the financial position of the County Council as at 31 March 2019, and of its income and expenditure for the year ending on that date.

Katharine Eberhart
Director of Finance and Support Services
22 July 2019

The County Council's responsibilities:

The County Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Support Services;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

I confirm that the Statement of Accounts were considered and approved by the Regulation, Audit and Accounts Committee at its meeting on 22 July 2019 on behalf of West Sussex County Council.

Dr Nigel Dennis
Chairman of the Regulation, Audit and Accounts Committee
22 July 2019

MOVEMENT IN RESERVES STATEMENT

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

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2017	-18,335	-174,575	0	-5,741	-198,651	-470,106	-668,757
Movement in Reserves during 2017/18:							
Total Comprehensive Income and Expenditure	27,567	-	-	-	27,567	-168,731	-141,164
Adjustments between Funding and Accounting Basis (Note 2)	-29,633	-	0	-7,886	-37,519	37,519	0
(Increase)/Decrease before Reserve Transfers	-2,066	-	0	-7,886	-9,952	-131,212	-141,164
Transfers to/from Earmarked General Fund Reserves (Note 3)	115	-115	-	-	0	-	0
(Increase)/Decrease in 2017/18	-1,951	-115	0	-7,886	-9,952	-131,212	-141,164
Balance at 31 March 2018	-20,286	-174,690	0	-13,627	-208,603	-601,318	-809,921
Adjustment on Adoption of IFRS 9 Financial Instruments	-	27	-	-	27	14	41
Adjusted Opening Balance at 1 April 2018	-20,286	-174,663	0	-13,627	-208,576	-601,304	-809,880
Movement in Reserves during 2018/19:							
Total Comprehensive Income and Expenditure	-31,929	-	-	-	-31,929	6,671	-25,258
Adjustments between Funding and Accounting Basis (Note 2)	43,279	-	0	-31,042	12,237	-12,237	0
(Increase)/Decrease before Reserve Transfers	11,350	-	0	-31,042	-19,692	-5,566	-25,258
Transfers to/from Earmarked General Fund Reserves (Note 3)	-11,350	11,350	-	-	0	-	0
(Increase)/Decrease in 2018/19	0	11,350	0	-31,042	-19,692	-5,566	-25,258
Balance at 31 March 2019	-20,286	-163,313	0	-44,669	-228,268	-606,870	-835,138

The total General Fund of the Council is equal to the sum of the *General Fund Balance* and the *Earmarked General Fund Reserves* disclosed above. The total General Fund of the Council, including Earmarked General Fund Reserves, is therefore £183,599,000 as at 31 March 2019.

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between Funding and Accounting Basis'.

1 April 2018 £000	Notes	31 March 2019 £000
1,794,087 Property, Plant & Equipment	4	1,957,034
229 Heritage Assets	5	267
31,376 Investment Property	7	79,569
1,180 Intangible Assets	8	780
27,629 Long Term Investments	9	49,353
18,340 Long Term Debtors	9	20,326
1,872,841 Long Term Assets		2,107,329
182,097 Short Term Investments	9	74,302
2,535 Assets Held for Sale	10	7,507
177 Inventories	N/A	161
115,419 Short Term Debtors	11	106,229
43,940 Cash and Cash Equivalents	12	81,310
344,168 Current Assets		269,509
-15,764 Short Term Borrowing	9	-15,975
-155,311 Short Term Creditors	13	-118,456
-14,529 Short Term Provisions	14	-15,121
-2,814 Short Term PFI Liability	15	-2,883
-89 Short Term Finance Lease Liability	16	-93
-188,507 Current Liabilities		-152,528
-388,850 Long Term Borrowing	9	-381,834
-5,107 Long Term Provisions	14	-6,108
-105,505 Long Term PFI Liability	15	-99,479
-1,732 Long Term Finance Lease Liability	16	-1,639
-652,846 Pension Liability	17	-818,564
-62,829 Capital Grants Receipts in Advance	25	-79,481
-1,712 Other Long Term Liabilities	9	-2,067
-1,218,581 Long Term Liabilities		-1,389,172
809,921 Net Assets		835,138
-208,603 Usable Reserves	MIRS	-228,268
-601,318 Unusable Reserves	19	-606,870
-809,921 Total Reserves		-835,138

These accounts have been prepared in accordance with IFRS 9 Financial Instruments, which has been adopted by the CIPFA Code of Practice with effect from 1 April 2018. Further details on the impact of this new accounting standard are provided in Note 9 Financial Instruments. In accordance with the requirements of the Code, no restatement of the Balance Sheet has been made, and therefore opening 1 April 2018 balances are as reported in the published 2017/18 Statement of Accounts.

These financial statements replace the unaudited financial statements certified by the Director of Finance and Support Services on 31 May 2019.

Katharine Eberhart
Director of Finance and Support Services

22 July 2019

EXPENDITURE AND FUNDING ANALYSIS

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

The Expenditure and Funding Analysis is a note to the financial statements. However, it is positioned here as it provides a link from the portfolio-based analysis of the revenue outturn presented in the Narrative Report to the analysis within the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

2017/18 (Restated)				2018/19		
Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
190,304	3,474	193,778	Adults and Health	196,732	-5,877	190,855
88,746	5,777	94,523	Children and Young People	100,551	5,326	105,877
44,207	4,352	48,559	Corporate Relations	42,974	3,179	46,153
16,951	16,343	33,294	Education and Skills	20,727	-63,078	-42,351
62,439	2,426	64,865	Environment	62,265	-8,298	53,967
16,576	-862	15,714	Finance and Resources	17,546	30,891	48,437
34,747	24,955	59,702	Highways and Infrastructure	32,309	25,092	57,401
9,867	6,888	16,755	Leader (including Economy)	9,762	2,001	11,763
38,103	2,349	40,452	Safer, Stronger Communities	37,805	1,199	39,004
501,940	65,702	567,642	Net Cost of Services	520,671	-9,565	511,106
-504,006	-36,069	-540,075	Other Income and Expenditure	-509,321	-33,714	-543,035
-2,066	29,633	27,567	(Surplus) or Deficit	11,350	-43,279	-31,929
			-18,335 Opening General Fund Balance			-20,286
			Add (Surplus)/Deficit on General Fund Balance in Year			11,350
			Add Transfers to/(from) Earmarked General Fund Reserves in Year			-11,350
			-20,286 Closing General Fund Balance			-20,286

The total General Fund of the Council is equal to the sum of the *General Fund Balance* and the *Earmarked General Fund Reserves* as disclosed in note 3 to the accounts. The total General Fund of the Council, including Earmarked General Fund Reserves, is therefore £183,599,000 as at 31 March 2019.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2017/18 (Restated) ¹				2018/19		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
333,127	-139,349	193,778	Adults and Health	346,499	-155,644	190,855
163,190	-68,667	94,523	Children and Young People	178,881	-73,004	105,877
54,263	-5,704	48,559	Corporate Relations	50,909	-4,756	46,153
472,458	-439,164	33,294	Education and Skills	410,952	-453,303	-42,351
75,063	-10,198	64,865	Environment	64,158	-10,191	53,967
17,124	-1,410	15,714	Finance and Resources	51,290	-2,853	48,437
78,965	-19,263	59,702	Highways and Infrastructure	80,841	-23,440	57,401
17,171	-416	16,755	Leader (including Economy)	13,256	-1,493	11,763
52,723	-12,271	40,452	Safer, Stronger Communities	52,108	-13,104	39,004
1,264,084	-696,442	567,642	Cost of Services	1,248,894	-737,788	511,106
23,754	0	23,754	Other Operating Expenditure (Note 22)	10,072	0	10,072
90,160	-47,355	42,805	Financing and Investment Income and Expenditure (Note 23)	106,636	-52,380	54,256
0	-606,634	-606,634	Taxation and Non-Specific Grant Income (Note 24)	0	-607,363	-607,363
1,377,998	-1,350,431	27,567	(Surplus) or Deficit on Provision of Services	1,365,602	-1,397,531	-31,929
		-70,306	(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Chargeable to the Revaluation Reserve (Note 4)			-86,714
		-373	(Surplus) or Deficit on Revaluation of Available for Sale Financial Assets ²			-
		-	Fair Value Gains/(Losses) released from Financial Instruments Revaluation Reserve and recognised in Financing and Investment Income (Note 19)			11
		-98,052	Actuarial (Gains) and Losses on Remeasurement of Pension Scheme Assets and Liabilities (Note 17)			93,374
		-168,731	Other Comprehensive Income and Expenditure			6,671
		-141,164	Total Comprehensive Income and Expenditure			-25,258

¹ Details on restatement provided at Note 1 *Prior Period Adjustment*

² In accordance with the Code's requirements for the adoption of IFRS 9 Financial Instruments, the Available for Sale Financial Instruments Reserve has been abolished effective 1 April 2018 and therefore there is no equivalent transaction in 2018/19

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority 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 Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority'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 Authority.

2017/18 £000	2018/19 £000
27,567 Net (surplus) or deficit on the provision of services	-31,929
Adjustments to net surplus or deficit on the provision of services for non cash -115,991 movements (Note 34)	-28,437
Adjustments for items included in the net surplus or deficit on the provision of 70,541 services that are investing and financing activities (Note 35)	78,766
-17,883 Net cash flows from Operating Activities	18,400
16,539 Investing Activities (Note 36)	-72,871
12,060 Financing Activities (Note 37)	17,101
10,716 Net (increase)/decrease in cash and cash equivalents	-37,370
-54,656 Cash and cash equivalents at the beginning of the reporting period	-43,940
-43,940 Cash and cash equivalents at the end of the reporting period (Note 12)	-81,310

NOTES TO THE FINANCIAL STATEMENTS

1. Prior Period Adjustment

The Authority has made a prior year adjustment in preparing its 2018/19 Statement of Accounts. This is detailed below.

Segment Reporting in the Comprehensive Income and Expenditure Statement (and associated notes)

In accordance with the requirements of the *CIPFA Code of Practice on Local Authority Accounting*, the Authority presents its Comprehensive Income and Expenditure Statement (and associated notes) on a cabinet member portfolio basis to reflect local reporting arrangements. The Authority made a number of changes to its portfolio structure in August 2018, including the re-introduction of the Corporate Relations portfolio. The 2018/19 financial statements are therefore prepared using this revised portfolio structure. Furthermore, and in accordance with the requirements of *IAS1 Presentation of Financial Statements*, the 2017/18 comparators in the Comprehensive Income and Expenditure Statement (and associated notes) have also been restated on this revised reporting basis. The impact of this restatement is disclosed below.

Comprehensive Income and Expenditure Statement

Cabinet Member Portfolio Structure (pre August 2018)	2017/18 Net Expenditure £000	Cabinet Member Portfolio Structure (post August 2018)	2017/18 Net Expenditure (Restated) £000
Adults and Health	193,778	Adults and Health	193,778
Children and Young People	94,523	Children and Young People	94,523
Corporate Relations	0	Corporate Relations	48,559
Education and Skills	33,294	Education and Skills	33,294
Environment	63,564	Environment	64,865
Finance and Resources	61,633	Finance and Resources	15,714
Highways and Infrastructure	61,065	Highways and Infrastructure	59,702
Leader (including Economy)	17,307	Leader (including Economy)	16,755
Safer, Stronger Communities	42,478	Safer, Stronger Communities	40,452
Cost of Services	567,642	Cost of Services	567,642

Expenditure and Funding Analysis

Cabinet Member Portfolio Structure (pre August 2018)	2017/18 Net Expenditure Chargeable to the General Fund £000	Cabinet Member Portfolio Structure (post August 2018)	2017/18 Net Expenditure Chargeable to the General Fund (Restated) £000
Adults and Health	190,304	Adults and Health	190,304
Children and Young People	88,746	Children and Young People	88,746
Corporate Relations	0	Corporate Relations	44,207
Education and Skills	16,951	Education and Skills	16,951
Environment	61,414	Environment	62,439
Finance and Resources	60,193	Finance and Resources	16,576
Highways and Infrastructure	35,836	Highways and Infrastructure	34,747
Leader (including Economy)	10,393	Leader (including Economy)	9,867
Safer, Stronger Communities	38,103	Safer, Stronger Communities	38,103
Net Cost of Services	501,940	Net Cost of Services	501,940

Cabinet Member Portfolio Structure (pre August 2018)	2017/18 Adjustments between Funding and Accounting Basis £000	Cabinet Member Portfolio Structure (post August 2018)	2017/18 Adjustments between Funding and Accounting Basis (Restated) £000
Adults and Health	3,474	Adults and Health	3,474
Children and Young People	5,777	Children and Young People	5,777
Corporate Relations	0	Corporate Relations	4,352
Education and Skills	16,343	Education and Skills	16,343
Environment	2,150	Environment	2,426
Finance and Resources	1,440	Finance and Resources	-862
Highways and Infrastructure	25,229	Highways and Infrastructure	24,955
Leader (including Economy)	6,914	Leader (including Economy)	6,888
Safer, Stronger Communities	4,375	Safer, Stronger Communities	2,349
Net Cost of Services	65,702	Net Cost of Services	65,702

NOTES TO THE FINANCIAL STATEMENTS

This revised portfolio structure has also been reflected in the prior year comparators in notes 6 Capital Expenditure and Capital Financing and 21 Segmental Income.

The Balance Sheet is unaffected by this change, and therefore no 'third' balance sheet (providing comparators as at 1 April 2017) has been presented as part of this restatement. The Movement in Reserves Statement and Cash Flow Statement are also unaffected. There are no implications for the General Fund Balances or any other reserves arising from this change.

2. 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 Authority in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against:

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

2018/19	Usable Reserves		
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
• Pensions costs (transferred to or from the Pensions Reserve)	-72,344	-	-
• Financial instrument revaluations (transferred to the Financial Instruments Revaluation Reserve or, for equity investments, the Capital Adjustment Account)	-373	-	-
• Council tax and NDR (transferred to or from the Collection Fund Adjustment Account)	-2,028	-	-
• Holiday pay (transferred to the Accumulated Absences Account)	93	-	-
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	85,341	-	-72,024
Total Adjustments to Revenue Resources	10,689	-	-72,024
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	6,763	-6,763	-
Transfer of deferred sales proceeds from revenue to the Deferred Capital Receipts Reserve	708	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-21	21	-
Write down of finance lease debtor (transfer from Deferred Capital Receipts Reserve)	-226	-	-
Statutory provision for the repayment of debt (transfer to the Capital Adjustment Account)	20,689	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	4,677	-	-
Total Adjustments between Revenue and Capital Resources	32,590	-6,742	-
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	6,742	-
Application of capital grants to finance capital expenditure	-	-	40,982
Cash payments in relation to deferred capital receipts	-	0	-
Total Adjustments to Capital Resources	-	6,742	40,982
Total Adjustments	43,279	0	-31,042

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

2017/18	Usable Reserves		
	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
• Pensions costs (transferred to or from the Pensions Reserve)	-46,767	-	-
• Council tax and NDR (transferred to or from the Collection Fund Adjustment Account)	473	-	-
• Holiday pay (transferred to the Accumulated Absences Account)	-882	-	-
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	377	-	-68,845
Total Adjustments to Revenue Resources	-46,799	-	-68,845
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	1,696	-1,696	-
Transfer of deferred sales proceeds from revenue to the Deferred Capital Receipts Reserve	0	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	0	0	-
Write down of finance lease debtor (transfer from Deferred Capital Receipts Reserve)	-259	-	-
Statutory provision for the repayment of debt (transfer to the Capital Adjustment Account)	13,772	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	1,957	-	-
Total Adjustments between Revenue and Capital Resources	17,166	-1,696	-
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	1,696	-
Application of capital grants to finance capital expenditure	-	-	60,959
Cash payments in relation to deferred capital receipts	-	0	-
Total Adjustments to Capital Resources	-	1,696	60,959
Total Adjustments	-29,633	0	-7,886

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

3. 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 2018/19.

	Balance at 1 April 2017	Transfers Out 2017/18	Transfers In 2017/18	Balance at 31 March 2018	IFRS 9 Adjustment ¹	Adjusted 1 April 2018	Transfers Out 2018/19	Transfers In 2018/19	Balance at 31 March 2019
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adult Social Care and Health Demand Pressures	-1,754	1,020	0	-734	-	-734	668	0	-66
Adult Social Care Support Grant 2018/19	0	0	0	0	-	0	548	-2,065	-1,517
Adult Social Care Transformation Fund ²	0	1,575	-3,318	-1,743	-	-1,743	1,233	0	-510
Budget Management	-18,931	0	-7,773	-26,704	-	-26,704	0	-3,406	-30,110
Business Infrastructure	-2,858	1,671	0	-1,187	-	-1,187	481	0	-706
Capital Expenditure	-4,010	0	0	-4,010	-	-4,010	4,010	0	0
Capital Infrastructure	-12,100	72	0	-12,028	-	-12,028	0	0	-12,028
Care, Wellbeing and Education Risk	-1,921	1,921	0	0	-	0	0	0	0
Counselling Services to Schools	-1,000	617	0	-383	-	-383	0	-1	-384
Crawley Schools PFI	-6,976	0	-223	-7,199	-	-7,199	6,717	-117	-599
Dedicated Schools Grant (DSG)	-2,520	2,520	-5,489	-5,489	-	-5,489	2,050	-2,806	-6,245
Deprivation of Liberty Safeguarding	0	0	-1,000	-1,000	-	-1,000	139	0	-861
Early Intervention	-8,160	8,160	0	0	-	0	0	0	0
Economic Growth	0	0	0	0	-	0	0	-1,297	-1,297
Highways Commuted Sums	-2,669	0	-394	-3,063	-	-3,063	6	0	-3,057
Infrastructure Works Feasibility	0	0	-298	-298	-	-298	600	-1,650	-1,348
Insurance	-8,116	217	-150	-8,049	-	-8,049	2,693	0	-5,356
Interest Smoothing	-830	0	0	-830	27	-803	0	-275	-1,078
School Balances	-16,479	16,479	-14,995	-14,995	-	-14,995	14,995	-16,452	-16,452
Schools Sickness and Maternity Scheme	-2,002	0	-83	-2,085	-	-2,085	0	0	-2,085
Service Transformation	-13,341	4,392	-2,564	-11,513	-	-11,513	4,766	0	-6,747
Statutory Duties	0	0	-2,350	-2,350	-	-2,350	55	-142	-2,437
Strategic Economic Plan	-2,437	460	0	-1,977	-	-1,977	682	0	-1,295
Street Lighting PFI	-18,351	0	-791	-19,142	-	-19,142	0	-4,380	-23,522
Unapplied Revenue Grants	-1,153	354	-1,005	-1,804	-	-1,804	1,623	-162	-343
Waste Materials Resource Management Contract (MRMC)	-29,490	336	-62	-29,216	-	-29,216	1,300	-141	-28,057
Waste PFI	-12,417	28	-26	-12,415	-	-12,415	0	-64	-12,479
Other Earmarked Reserves	-7,060	4,787	-4,203	-6,476	-	-6,476	5,572	-3,830	-4,734
Earmarked Reserves	-174,575	44,609	-44,724	-174,690	27	-174,663	48,138	-36,788	-163,313

¹ The 1 April 2018 balance on the Interest Smoothing Reserve has been restated to finance a £0.027m 'expected credit loss' reduction in the carrying value of the Authority's financial assets, which has been recognised as an opening balance adjustment in accordance with the Code's requirements for the adoption of IFRS 9 Financial Instruments

² Previously known as Adult Social Care Grant Reserve

The **Adult Social Care and Health Demand Pressures** reserve is intended to support the Adults and Health portfolio in managing its demand pressures, particularly through a focus on prevention.

The **Adult Social Care Support Grant 2018/19** reserve holds the balance of monies allocated to the Council as announced in the Local Government Finance Settlement in February 2018 to support the provision of adult social care.

The **Adult Social Care Transformation Fund** holds the funding announced as part of the 2017/18 local government finance settlement. Spending decisions are taken through the Corporate Transformation Board, and funds are applied to pump-prime transformational investment in adult social care.

The **Budget Management** reserve is held to guard against uncertainty and volatility over future Local Government Finance Settlements, business rate income and localisation of Council Tax benefits, as well as guarding against the risk of non delivery of savings.

The **Business Infrastructure** reserve is intended to pump-prime local economic developments, through developing the broadband network, facilitating new business start-ups, and financing internal infrastructure improvements using local contractors where appropriate.

The **Capital Expenditure** reserve was established to support expenditure within the capital programme as part of the capital financing strategy and therefore reduce the underlying borrowing requirement.

The **Capital Infrastructure** reserve is held to support capital plans over the longer term, such as the A27 scheme, thus avoiding the need to borrow and incurring the associated long term capital financing costs.

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

- The **Care, Wellbeing and Education Risk** reserve was established as part of the 2016/17 budget to mitigate the financial risks associated with demand pressures and uncertainty regarding Government funding. The resource has subsequently been consolidated into the Service Transformation Reserve.
- The **Counselling Services to Schools** reserve was established using a 2016/17 contingency allocation, and is intended to support schools in their on-going provision of discretionary counselling services.
- The **Crawley Schools PFI, Street Lighting PFI and Waste PFI** reserves hold the surplus of government credits and other sources of finance over unitary charge payments and other expenditure in the early years of the respective contracts, to meet future expenditure over the life of the PFI arrangements. This equalises the costs to the taxpayer of building and maintaining the facilities over the duration of the contracts.
- The **Dedicated Schools Grant (DSG)** reserve holds the balance of ringfenced grant funding to be spent by and on behalf of schools. The balance on the reserve is detailed in Note 29.
- The **Deprivation of Liberty Safeguarding** reserve is held to support the Council in undertaking its statutory assessments of whether arrangements made for the care and/or treatment of an individual lacking capacity to consent amounts to a deprivation of liberty.
- The **Early Intervention** reserve was held to fund a programme which aims to assist vulnerable families requiring County Council support. Base budget provision to ensure ongoing support for the Council's early intervention programme was made as part of the 2017/18 budget setting process, and the balance on the reserve was released on this basis.
- The **Economic Growth** reserve is held to support the West Sussex Plan, ensuring that West Sussex remains a 'prosperous place' with a strong and vibrant economy through the delivery of the Economic Growth Plan.
- The **Highways Commuted Sums** reserve holds a balance of contributions received from developers in respect of future maintenance costs of non-standard highways infrastructure.
- The **Infrastructure Works Feasibility** reserve provides revenue funding for feasibility works to support the development of the Council's capital programme.
- The **Insurance** reserve is held in respect of the Authority's self-funding insurance scheme, and provides for the risk of unknown future claims (i.e. charges in excess of the known claims as provided for in the insurance provision). The value of the reserve is subject to regular review by independent insurance advisers to assess its validity in consideration of historical and market trends.
- The **Interest Smoothing** reserve is held to meet temporary shortfalls arising from fluctuations in interest rates, such as a reduction in investment returns or increased costs of borrowing.
- The **School Balances** reserve holds net underspending on locally managed school budgets.
- The **Schools Sickness and Maternity** reserve holds the accumulated surplus on the sickness and maternity insurance scheme operated by the Authority for its maintained schools.
- The **Service Transformation** reserve is held to meet the costs of major organisational transformation. It is used to fund short-term costs in order to deliver ongoing savings, and as a source of investment to finance improvements to services so that they become more efficient and provide better outcomes.
- The **Statutory Duties** reserve holds funding to meet any obligations over and above that which the Authority has made provision for, such as those relating to payments made outside of payroll, and to meet any costs associated with the implementation of the General Data Protection Regulation (GDPR) and Health and Safety requirements.
- The **Strategic Economic Plan** reserve is held to support the progression of the economic priorities within the Coast to Capital Local Enterprise Partnership.
- The **Unapplied Revenue Grants** reserve represents the unspent balance on revenue grants which are received for specific purposes but where there are no outstanding conditions on the grant which could require its repayment. The grant has therefore been recognised in full in the Comprehensive Income and Expenditure Statement in accordance with accounting standards, but the unapplied balance is held in a reserve to fund future expenditure plans relevant to the purpose of the grant.
- The **Waste Materials Resource Management Contract (MRMC)** reserve is the County Council's investment fund to meet the 25-year contract with Biffa Waste Services Ltd for the treatment and disposal of waste, including the development of appropriate facilities.
- **Other Earmarked Reserves** represents the cumulative balances and transactions on a number of smaller reserves which are individually immaterial.

NOTES TO THE BALANCE SHEET

4. Property, Plant and Equipment

Movements in 2018/19	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Surplus Assets £000	Assets under Construction £000	Total Property, Plant & Equipment £000	PFI Assets included in Property, Plant & Equipment £000
Cost or Valuation							
At 1 April 2018	1,334,266	121,984	604,417	44,710	24,963	2,130,340	172,552
Additions	18,714	10,402	32,081	253	16,676	78,126	4,605
Donations	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	49,345	0	0	2,268	0	51,613	1,536
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	76,946	0	0	225	0	77,171	0
Disposals	-389	-3,379	0	-1,540	0	-5,308	0
Derecognition - Academies	-6,280	0	0	0	0	-6,280	0
Derecognition - Finance Leases	0	0	0	0	0	0	0
Derecognition - Other	-3,300	-14,893	-30,998	0	0	-49,191	-469
Assets reclassified (to)/from Assets Held for Sale	0	0	0	-7,079	0	-7,079	0
Assets reclassified (to)/from Investment Property	0	0	0	20	-12,801	-12,781	0
Transfer in asset category	16,669	104	-104	636	-17,305	0	0
At 31 March 2019	1,485,971	114,218	605,396	39,493	11,533	2,256,611	178,224
Accumulated Depreciation and Impairment							
At 1 April 2018	-34,770	-46,361	-255,123	1	0	-336,253	-24,910
Depreciation charge	-24,350	-12,090	-31,894	0	0	-68,334	-5,533
Depreciation written out to the Revaluation Reserve on revaluation	35,080	0	0	21	0	35,101	3,677
Depreciation written out to the Surplus/Deficit on the Provision of Services on revaluation	23,449	0	0	0	0	23,449	0
Impairment (losses)/reversals recognised in the Revaluation Reserve	0	0	0	0	0	0	0
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0
Disposals	15	0	0	0	0	15	0
Derecognition - Academies	431	0	0	0	0	431	0
Derecognition - Finance Leases	0	0	0	0	0	0	0
Derecognition - Other	123	14,893	30,998	0	0	46,014	469
Depreciation written out on newly classified Assets Held for Sale	0	0	0	0	0	0	0
Depreciation written out on newly classified Investment Property	0	0	0	0	0	0	0
Transfer in asset category	22	-21	21	-22	0	0	0
At 31 March 2019	0	-43,579	-255,998	0	0	-299,577	-26,297
Net Book Value							
At 1 April 2018	1,299,496	75,623	349,294	44,711	24,963	1,794,087	147,642
At 31 March 2019	1,485,971	70,639	349,398	39,493	11,533	1,957,034	151,927

NOTES TO THE BALANCE SHEET

Comparative Movements in 2017/18	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Surplus Assets £000	Assets under Construction £000	Total Property, Plant & Equipment £000	PFI Assets included in Property, Plant & Equipment £000
Cost or Valuation							
At 1 April 2017	1,262,580	114,993	573,104	19,641	13,742	1,984,060	158,251
Additions	29,300	8,162	31,313	9	24,122	92,906	739
Donations	8,763	0	0	0	0	8,763	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	47,056	0	0	12,414	0	59,470	10,011
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	1,810	0	0	3,130	0	4,940	3,551
Disposals	-89	-1,171	0	0	0	-1,260	0
Derecognition - Academies	-17,889	0	0	0	0	-17,889	0
Derecognition - Finance Leases	-493	0	0	0	0	-493	0
Derecognition - Other	-5,322	0	0	-530	0	-5,852	0
Assets reclassified (to)/from Assets Held for Sale	-699	0	0	-506	0	-1,205	0
Assets reclassified (to)/from Investment Property	-566	0	0	7,466	0	6,900	0
Transfer in asset category	9,815	0	0	3,086	-12,901	0	0
At 31 March 2018	1,334,266	121,984	604,417	44,710	24,963	2,130,340	172,552
Accumulated Depreciation and Impairment							
At 1 April 2017	-34,427	-35,122	-223,885	0	0	-293,434	-19,764
Depreciation charge	-22,127	-11,239	-31,238	0	0	-64,604	-5,161
Depreciation written out to the Revaluation Reserve on revaluation	10,730	0	0	106	0	10,836	11
Depreciation written out to the Surplus/Deficit on the Provision of Services on revaluation	9,640	0	0	29	0	9,669	4
Impairment (losses)/reversals recognised in the Revaluation Reserve	0	0	0	0	0	0	0
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0
Disposals	12	0	0	0	0	12	0
Derecognition - Academies	732	0	0	0	0	732	0
Derecognition - Finance Leases	74	0	0	0	0	74	0
Derecognition - Other	445	0	0	0	0	445	0
Depreciation written out on newly classified Assets Held for Sale	17	0	0	0	0	17	0
Depreciation written out on newly classified Investment Property	0	0	0	0	0	0	0
Transfer in asset category	134	0	0	-134	0	0	0
At 31 March 2018	-34,770	-46,361	-255,123	1	0	-336,253	-24,910
Net Book Value							
At 1 April 2017	1,228,153	79,871	349,219	19,641	13,742	1,690,626	138,487
At 31 March 2018	1,299,496	75,623	349,294	44,711	24,963	1,794,087	147,642

NOTES TO THE BALANCE SHEET

Depreciation

Depreciation is provided on all Property, Plant and Equipment assets. An exception is made for assets without a determinable finite useful life (i.e. freehold land and heritage assets) and assets that are not yet available for use (i.e. assets under construction). New assets will be depreciated from 1 April of the year that follows the date of initial recognition.

The useful lives used in the calculation of depreciation are set out in Note 41 Accounting Policies.

Capital Commitments

The Authority has entered into a number of contracts prior to 31 March 2019 for the construction or enhancement of Property, Plant and Equipment. It has commitments totalling £32.1m to be paid in 2019/20 and thereafter (commitments at 31 March 2018 were £22.2m). The major commitments are:

Name of capital project	Programme duration	Outstanding Commitments £000
Felpham Community College	2018-2021	7,603
West Sussex Gigabit	2018-2021	5,648
Angmering School	2018-2021	4,633
A2300 Corridor Improvements	2018-2023	875
Steining Grammar School	2018-2020	604

Revaluations

The Authority carries out a rolling revaluation programme that ensures that all Property, Plant and Equipment required to be measured at current value is revalued at least every five years. Further detail on the Authority's revaluation programme and the measurement bases for its Property, Plant and Equipment assets can be found in Note 41 Accounting Policies.

The Authority undertook a number of valuations at 31 March 2019. Valuations were instructed by the Director of Finance and Support Services, and carried out by external independent valuers: Montagu Evans Chartered Surveyors, 5 Bolton Street, London, W1J 8BA. Valuations were undertaken in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS) and the CIPFA Code of Practice.

NOTES TO THE BALANCE SHEET

Fair Value Hierarchy

The Council's Surplus Property, Plant and Equipment assets are valued at fair value in accordance with the requirements of IFRS 13 Fair Value Measurement. All surplus assets have been subject to revaluation in 2018/19. A de minimis of £250,000 has been applied in the tables below.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets 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, either directly or indirectly

Level 3 – unobservable inputs for the asset

Details of the Authority's Surplus Assets, and information about the fair value hierarchy as at 31 March 2019, are as follows:

	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 March 2019 £000
Commercial	0	0	4,789	4,789
Office Units	0	3,557	1,673	5,230
Residential	0	0	24,817	24,817
Sub Total	0	3,557	31,279	34,836
De minimis	0	0	4,657	4,657
Total	0	3,557	35,936	39,493

Comparative figures as at 31 March 2018:

	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 March 2018 £000
Commercial	0	0	3,615	3,615
Office Units	0	3,438	1,583	5,021
Residential	0	0	32,279	32,279
Sub Total	0	3,438	37,477	40,915
De minimis	0	0	3,796	3,796
Total	0	3,438	41,273	44,711

NOTES TO THE BALANCE SHEET

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between the levels of the fair value hierarchy during the year.

Quantitative Information about Fair Value Measurement of Surplus Assets using Significant Unobservable Inputs – Level 3

	Fair Value as at 31 March 2019 £000	Valuation technique used to measure Fair Value	Unobservable inputs	Range (weighted average used)	Sensitivity
Commercial	2,789	Market Approach	Specialist commercial land sale comparables	£1,000,000 to £1,500,000 per hectare	Analysed similar commercial land sales and applied professional opinion of value to the site.
	2,000	Comparable approach	Industrial rent and yield comparables	£50,000 to £90,000 per annum	Analysed industrial rents and yields and made appropriate discounts depending on the size, quality, and location of the building. Applied market norms for both void periods and rent free periods.
Office Units	298	Comparable approach	Office comparables in local areas	Office rents between £10.00 - £22.50 per sq ft	Land values with residential potential analysed in and around local area. Discounted for location, planning consent, potential residential development size, access, change of use.
	1,375	Market Approach	Office comparables in local areas	Office rents between £9.50 - £11.00 per sq ft	Land values with residential potential analysed in and around local area. Discounted for location, planning consent, potential residential development size, access, change of use.

NOTES TO THE BALANCE SHEET

	Fair Value as at 31 March 2019 £000	Valuation technique used to measure Fair Value	Unobservable inputs	Range (weighted average used)	Sensitivity
Residential	11,624	Market Approach	Residential land sale comparables	£400,000 - £2,000,000 per hectare	Analysed land values with residential potential in and around local area. Discounted for location, planning consent, potential residential development size, access, and build costs.
	1,814	Market Approach	Land sale comparables	£250,000 - £3,100,000 per hectare	Analysed land values with residential potential in and around local area. Discounted for location, planning consent, potential residential development size, access, and build costs.
	1,004	Market Approach	Residential sales comparables	£200,000 - £500,000 per dwelling	Analysed land values with residential potential in and around local area. Discounted for location, planning consent, potential residential development size, access, and build costs.
	8,917	Market Approach	Residential sales values and land values	Land £15,000-£2,000,000 per hectare/ Dwellings £215,000 - £450,000	Valued as both a residential sales value and a land value. Discounted for type of property, size, layout of plot, location within the town, and condition. Discounts on the land for shape, size, type of land, future development opportunities.
	358	Market Approach	Residential comparables	£300 - £350 per sq ft	Carried out a development appraisal on the site, using comparable scheme evidence to provide a basis of value. Applied discounts to take into account planning constraints, location of the site, change of use.
	1,100	Comparable Method of Valuation / Market Approach	Land sales, residential sales	£1,150,000 - £1,400,000 per hectare	Analysed land values with residential potential in and around local area. Discounted for location, unusual nature and layout of the sites, planning consent, access, build costs and proximity to a school. Analysed commercial land comparables taking into account existing buildings on site, size and layout of site.

5. Heritage Assets

The Code of Practice on Local Authority Accounting in the United Kingdom requires Heritage Assets to be carried on an Authority's balance sheet at valuation (subject to materiality).

The Authority recognises one Heritage Asset on its balance sheet. Halnaker Windmill is a tower mill which stands on Halnaker Hill, northwest of Chichester. Originally built as the feudal mill of the Goodwood Estate, the surviving mill is thought to date from the 1740s. The carrying value of the mill on the Authority's balance sheet at 31 March 2019 is £267,000, which is inclusive of additional capital expenditure of £38,000 in 2018/19.

The Authority holds a number of other assets of historical, artistic and cultural significance, such as graded and listed buildings. However, where the asset serves an operational purpose it is not appropriate to account for it as a Heritage Asset. Such assets are accounted for within Property, Plant and Equipment.

However, the Authority does own a number of assets which do not serve any operational purpose, and are held principally for their contribution to knowledge and culture. Whilst these are therefore considered to be Heritage Assets, they have not been recognised on the balance sheet on the basis that it is not practicable to establish the fair value of the assets. The principal source of such assets is the Record Office in Chichester. The Office holds the written and recorded heritage of the county of West Sussex. This includes paper and parchment documents, books and files, maps and plans, photographs and cine films, and electronic records, the earliest documents dating back to the 8th century. The assets of the Office are not valued for insurance purposes, and whilst they are of significance to the local community, their value is not considered to be material in the context of the Authority's £2.1billion long term asset base.

NOTES TO THE BALANCE SHEET

6. 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 Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

CAPITAL EXPENDITURE AND CAPITAL FINANCING

	Restated		2018/19	
	2017/18			
	£000	£000	£000	£000
<u>Capital Financing Requirement</u>				
Balance brought forward at 1 April		558,425		575,904
Capital Investment for the Year by Portfolio:				
Adults and Health	394		317	
Children and Young People / Education and Skills	46,299		26,798	
Corporate Relations	2,026		3,141	
Environment	11,745		5,407	
Finance and Resources	4,151		39,158	
Highways and Infrastructure	31,082		32,190	
Leader (including Economy)	533		1,951	
Safer, Stronger Communities	1,797		4,934	
Waste PFI Notional Investment	739		4,605	
		98,766		118,501
Source of Finance:				
Capital Receipts	-1,696		-6,742	
External Contributions	-4,447		-3,105	
External Contributions applied to REFCUS	-364		-999	
Specific Grants	-56,512		-37,877	
Specific Grants applied to REFCUS	-2,539		-2,138	
Revenue Contribution to Capital Outlay	-1,957		-4,677	
		-67,515		-55,538
Sums set aside from revenue (MRP)		-13,772		-20,689
Balance carried forward at 31 March		575,904		618,178
Change in Capital Financing Requirement		17,479		42,274

REFCUS expenditure of £5.33m is included within portfolio totals in 2018/19 (2017/18 £5.668m)

	2017/18	2018/19
	£000	£000
Explanation of change in CFR:		
Increase in underlying need to borrow	30,512	58,358
Assets acquired under PFI contracts	739	4,605
Less the total of the Minimum Revenue Provision	-13,772	-20,689
	17,479	42,274

NOTES TO THE BALANCE SHEET

Reconciliation of the Capital Financing Requirement to the Balance Sheet

	31 March 2018	31 March 2019
	£000	£000
Capital Financing Requirement	<u>575,904</u>	<u>618,178</u>
Property Plant & Equipment (Note 4)	1,794,087	1,957,034
Heritage Assets (Note 5)	229	267
Investment Property (Note 7)	31,376	79,569
Intangible Assets (Note 8)	1,180	780
Equity Investments (Note 9) ¹	21	4
Other Long Term Liabilities (Note 9) ²	-1,712	-2,067
Assets Held for Sale (Note 10)	2,535	7,507
Available for Sale Financial Instruments Reserve (Note 19) ¹	179	-
Capital Adjustment Account (Note 19)	-895,494	-990,726
Revaluation Reserve (Note 19)	-356,497	-434,190
	<u>575,904</u>	<u>618,178</u>

¹ Shareholding in the UK Municipal Bond Agency plc, initially categorised as an Unquoted Equity Investment in 2014/15 (held at cost). Subsequently re-classified as a Quoted Equity Investment and held at fair value, with resulting revaluation losses charged initially to the Available for Sale Financial Instruments Reserve and, subsequent to its abolition upon the Code's adoption of IFRS 9 Financial Instruments, the Capital Adjustment Account.

² Deferred income to be released to the Comprehensive Income and Expenditure Statement over the remaining term of the Recycling and Waste Handling Private Finance Initiative.

NOTES TO THE BALANCE SHEET

7. Investment Property

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

2017/18 £000	2018/19 £000
-472 Rental income from investment property	-360
0 Direct operating expenses arising from investment property	0
66 (Gains) and losses on sale of investment property	10
-325 Change in fair value of investment property	-415
-731 Net (gain)/loss	-765

There are no restrictions on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

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

2017/18 £000	2018/19 £000
38,076 Balance at 1 April	31,376
Additions:	
0 Purchases	34,890
42 Subsequent expenditure	117
-66 Disposals of Investment Properties	-10
325 Net gains from fair value adjustments	415
Transfers:	
-6,900 (To)/from Property, Plant and Equipment	12,781
-101 (To)/from Assets Held for Sale	0
31,376 Balance at 31 March	79,569

Revaluation of Investment Property is undertaken by external independent valuers: Montagu Evans Chartered Surveyors of 5 Bolton Street, London, W1J 8BA in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Manual.

NOTES TO THE BALANCE SHEET

Fair Value Hierarchy

The Council's Investment Property assets are valued at fair value in accordance with the requirements of IFRS 13 Fair Value Measurement. All Investment Property assets have been subject to revaluation in 2018/19. A de minimis of £250,000 has been applied in the tables below.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets 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, either directly or indirectly

Level 3 – unobservable inputs for the asset

Details of the Authority's Investment Property, and information about the fair value hierarchy as at 31 March 2019, are as follows:

	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 March 2019 £000
Agricultural	0	0	3,603	3,603
Commercial	0	0	59,075	59,075
Residential	0	0	11,378	11,378
Sub Total	0	0	74,056	74,056
De minimis	0	0	5,513	5,513
Total	0	0	79,569	79,569

Comparative figures as at 31 March 2018:

	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 March 2018 £000
Agricultural	0	0	3,376	3,376
Commercial	0	0	11,031	11,031
Residential	0	0	11,708	11,708
Sub Total	0	0	26,115	26,115
De minimis	0	0	5,261	5,261
Total	0	0	31,376	31,376

NOTES TO THE BALANCE SHEET

Transfers between Levels of the Fair Value Hierarchy

There were no transfers between the levels of the fair value hierarchy during the year.

Quantitative Information about Fair Value Measurement of Investment Properties using Significant Unobservable Inputs – Level 3

	Fair Value as at 31 March 2019 £000	Valuation technique used to measure Fair Value	Unobservable inputs	Range (weighted average used)	Sensitivity
Agricultural	3,105	Market Approach	Agricultural land sales	£16,000 - £65,000 per hectare	Analysed land values for other agricultural land sales across the county and placed a land value on the site area. Allowances for location, development potential, layout of the site, access issues, size of the site, and demand in the area. Deductions for any lease in place.
	498	Income Approach	Agricultural rents and yields	£45,000 to £55,000 per annum	Analysed comparable sites and applied an opinion of a capitalisation yield on the received income.
Commercial	48,229	Income Approach	Commercial rents and yields	£600,000 to £1,500,000 per annum	Analysed comparable sites and applied an opinion of a capitalisation yield on the received income.
	10,480	Income Approach	Commercial income streams	Not applicable	Analysed other assets let to secure risk free organisations to arrive at an investment yield. This income by this yield has then been capitalised.
	366	Market Approach	Car parking space values	£5,000 per space	Analysed car parking space values in the local area, valued on the basis of 558 spaces. Discounted by 30 years to represent the current Management Agreement in place expiring in 30 years.

NOTES TO THE BALANCE SHEET

	Fair Value as at 31 March 2019 £000	Valuation technique used to measure Fair Value	Unobservable inputs	Range (weighted average used)	Sensitivity
Residential	7,601	Market Approach	Residential land sale comparables / residential land values	£400,000 to £1,500,000 per hectare	Land values analysed with residential potential in and around the local area. Discounted for location, planning consent, potential residential development size, access, build cost, finance, contingency and agency fees.
	495	Income Approach	Residential rental and sales values	£30,000 - £35,000 per annum	Valued as a smallholding with a variety of outbuildings on site. Discounts for size of buildings, size of site, location within the county, demand, market conditions, and previous sales values.
	589	Market Approach	Residential sales	£550,000 to £800,000 per dwelling	Valued as a smallholding with a variety of outbuildings on site. Discounts for size of buildings, size of site, location within the county, demand, market conditions, and previous sales values.
	2,397	Market Approach	Residential sales and land values	£15,000 - £21,000 per hectare for land and £205,000 - £320,000 per dwelling	Discounted for type of property, size, layout of plot, location within the local area, and condition. Discounted on the land for shape, size, type of land, future development opportunities.
	296	Market Approach	Residential sales comparables	£350,000 to £475,000	Residential sales values analysed in and around local area. Discounts made to take into account location, site layout, condition, parking, number of bedrooms, style of property.

NOTES TO THE BALANCE SHEET

8. Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that 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. The intangible assets relate to purchased licenses.

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 Authority. The current licenses have been assigned a useful life of 10 years.

The carrying amount of the intangible asset is amortised on a straight-line basis. The amortisation of £400,000 charged to revenue in 2018/19 was charged to the Finance and Resources portfolio in the Net Cost of Services. The movement on Intangible Asset balances during the year is as follows:

	2017/18 £000	2018/19 £000
Balance at 1 April		
- Gross carrying amounts	4,580	4,580
- Accumulated amortisation	-2,900	-3,400
Net carrying amount at start of year	<u>1,680</u>	<u>1,180</u>
Purchases	0	0
Amortisation for the period	-500	-400
Balance at 31 March	<u>1,180</u>	<u>780</u>
Comprising:		
Gross carrying amounts	4,580	3,583
Accumulated amortisation	<u>-3,400</u>	<u>-2,803</u>
	<u>1,180</u>	<u>780</u>

9. Financial Instruments and Nature and Extent of Risks arising from Financial Instruments

The definition of a financial instrument is: "Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity".

Financial Assets: A Financial Asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during 2018/19 are classified in accordance with the Code of Practice as follows:

Amortised cost (financial assets whereby the Council's business model is to collect contractual cash flows with intention of holding to maturity; such cash flows being solely payments of principal and interest) comprising:

- Cash held at Lloyds Bank plc (including school bank accounts)
- Fixed-term deposits with banks and building societies
- Call/notice bank accounts
- Certificate of deposits, bonds (senior unsecured) & covered bonds issued by banks and building societies
- British Government securities (not held for trading) including Treasury Bills, Gilts & other securities
- Loans to other UK local authorities (by way of fixed-term investments or bonds issued by an authority)
- Corporate bonds issued by companies (non-bank)
- Money market funds that preserve investment value through a constant or low volatility net asset valuation
- Loans to third parties (not made for the delivery of Council services)
- Trade receivables (debtors) for goods and services delivered

Fair value through profit or loss (financial assets whose contractual payments are not solely payments of principal and interest; such assets incurring fair value gains and/or losses over the lifetime of the investment) comprising:

- Externally managed pooled funds (collective investment schemes) including multi-asset, property and ultra-short dated bond funds
- Equity investment in the UK Municipal Bond Agency

At 31 March 2019 the Council did not have (or elect to hold) any investments to be measured at fair value through other comprehensive income. Balances in bank call accounts and money market funds (both instant access) are shown under 'Cash and Cash Equivalents' in the Balance Sheet as they represent highly liquid investments that are readily convertible to known amounts of cash.

Financial Liabilities: A Financial Liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

The Council's non-derivative financial liabilities (measured at amortised cost) held during the year comprised:

- Long-term borrowing from the Public Works Loan Board (PWLB)
- Short-term borrowing from the Chichester Harbour Conservancy (and its associated charities)
- Overdraft facility with Lloyds Bank plc
- Private Finance Initiative (PFI) contracts
- Finance leases on land and buildings
- Trade payables (creditors) for goods and services received

The Council's Treasury Management Strategy approves temporary borrowing for cash flow purposes from UK local authorities and financial institutions authorised by the Prudential Regulation Authority (PRA) to operate in the UK. Excluding the Council's main provider of banking service (Lloyds) where overdraft facilities exist, no such borrowing was taken during 2018/19. Additionally the Council holds cash on behalf of the Chichester Harbour Conservancy as part of the Harbour's own investment strategy. This is presented as short term borrowing as the amount held is available for repayment back to the Chichester Harbour Conservancy on any given notice.

At 31 March 2019, the Council did not hold any derivative financial liabilities, for example forward contracts on fixed rate investments where interest rates had moved in the other party's favour since the contract was agreed.

Transaction Costs:

During 2018/19 transactions costs relating to the Council's financial instruments (loans and investments) have been charged in full to the Comprehensive Income and Expenditure Statement.

NOTES TO THE BALANCE SHEET

a. Financial Instruments Balances

The financial assets and liabilities disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long Term		Current	
	Adjusted		Adjusted	
	1 April 2018 £000	31 March 2019 £000	1 April 2018 £000	31 March 2019 £000
<u>Financial Assets</u>				
Investments (including accrued interest)	17,883	10,011	166,983	74,002
Cash and cash equivalents	0	0	44,615	81,815
Trade Debtors	18,330	20,326	46,949	33,304
Amortised cost	<u>36,213</u>	<u>30,337</u>	<u>258,547</u>	<u>189,121</u>
Fair value through other comprehensive income	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Pooled funds (including accrued interest)	9,693	39,338	15,115	300
Equity investments	21	4	0	0
Fair value through profit and loss	<u>9,714</u>	<u>39,342</u>	<u>15,115</u>	<u>300</u>
Total Financial Assets	<u>45,927</u>	<u>69,679</u>	<u>273,662</u>	<u>189,421</u>
Soft loans provided ¹	247	235	20	20

¹ Included within trade debtors total.

	Long Term		Current	
	1 April 2018 £000		31 March 2019 £000	
	1 April 2018 £000	31 March 2019 £000	1 April 2018 £000	31 March 2019 £000
<u>Financial Liabilities</u>				
Borrowing ¹ (principal amount)	-388,850	-381,834	-11,639	-11,977
Accrued interest (PWLb)	0	0	-4,125	-3,998
PFI liability	-105,505	-99,479	-2,814	-2,883
Finance lease liability	-1,732	-1,639	-89	-93
Other long-term liabilities	-1,712	-2,067	0	0
Trade Creditors	0	0	-81,393	-83,518
Cash and cash equivalents	0	0	-675	-505
Amortised cost	<u>-497,799</u>	<u>-485,019</u>	<u>-100,735</u>	<u>-102,974</u>
Fair value through profit and loss	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Financial Liabilities	<u>-497,799</u>	<u>-485,019</u>	<u>-100,735</u>	<u>-102,974</u>

¹ The County Council began long-term borrowing during 2000/01 (no new borrowing arranged during 2018/19). All loans are scheduled to be repaid between 2018 and 2058.

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under 'Current Liabilities' or 'Current Assets'. This would include accrued interest on long term liabilities and investments that are payable and/or receivable in 2019/20.

(i) Reclassification and Remeasurement of Financial Assets at 1 April 2018

The effect of the Council's reclassification of financial assets following the adoption of IFRS9 (Financial Instruments) by the Code of Practice on Local Authority Accounting, and the associated remeasurement of carrying amounts then required, are shown below:

NOTES TO THE BALANCE SHEET

	New Classifications at 1 April 2018			
	Carrying Amount at 1 April 2018 £000	Amortised Cost £000	Fair Value through Other Comp. Income £000	Fair Value through Profit & Loss £000
<u>Previous Classifications:</u>				
Available for Sale (AfS)	105,478	80,649	0	24,829
Loans and Receivables	214,152	214,152	0	0
Reclassified amounts at 1 April 2018		294,801	0	24,829
Remeasurements at 1 April 2018 (previously long term AfS)		-28	0	0
Remeasurements at 1 April 2018 (previously short term AfS)		14	0	0
Expected credit loss (ECL) allowance - long term financial investments		-4	0	0
Expected credit loss (ECL) allowance - short term financial investments		-13	0	0
Expected credit loss (ECL) allowance - loans to third parties		-10	0	0
Remeasured amounts at 1 April 2018		294,760	0	24,829

	Movement on Reserves at 1 April 2018	
	£000	£000
Clear balance on Available for Sale Financial Instruments Reserve	-461	
Impact on Financial Instruments Revaluation Reserve ¹	296	
Impact on Capital Adjustment Account ²	179	
Net impact on Unusable Reserves		14
Impact on General Fund Balance (Interest Smoothing Reserve)		27
Total impact of remeasurements		41

¹ During 2018/19 the Ministry of Housing, Communities and Local Government (MHCLG) introduced a statutory override for English local authorities (effective from 1 April 2018 for an initial 5-year period up to 31 March 2023) whereby fair value movements on qualifying pooled funds are accounted for through the financial instruments revaluation reserve. The Council has adopted this accounting policy from 1 April 2018 for its externally managed pooled funds.

² From 1 April 2018 the Council's equity holding in the UK Municipal Bond Agency (previously treated as available for sale) is classified as fair value through profit and loss. In accordance with the Code of Practice fair value movements relating to capital expenditure are reversed from the Comprehensive Income and Expenditure Statement into the capital adjustment account.

(ii) Effect of Financial Asset Reclassification and Remeasurement on the Balance Sheet

The impact of how new balances at 1 April 2018 for financial assets have been incorporated into the Council's Balance Sheet is shown below:

	Amortised Cost £000	Fair Value through Other Comp. Income £000	Fair Value through Profit & Loss £000	Total Balance Sheet Carrying Amount £000
<u>New Classifications at 1 April 2018:</u>				
Non-current (long-term) investments	17,883	0	9,714	27,597
Long-term debtors	18,330	0	0	18,330
Current (short-term) investments	211,598	0	15,115	226,713
Current debtors	46,949	0	0	46,949
	294,760	0	24,829	319,589

NOTES TO THE BALANCE SHEET

(iii) Application of Classification Requirements at 1 April 2018

The following judgements were made by the Council in reclassifying financial instruments at 1 April 2018:

- Fixed term bank deposits, call and notice bank accounts, investments with other UK local authorities and trade debtors (with a total carrying amount of £214.152m) were reclassified from loans and receivables to amortised cost; such financial assets are being held as part of the Council's business model to collect contractual cash flows (solely payments of principal and interest).
- The following Bonds, British Government Securities and Certificate of Deposits (as shown below) with a total carrying amount of £41.834m were reclassified from available for sale to amortised cost; as the fact that these investments have a quoted market price is no longer relevant to its classification and given the investments are being held as part of a business model to collect contractual cash flows (solely payments of principal and interest):

	1 April 2018 Carrying Amount £000
- British Government Securities (London County Consolidated Stock)	6
- Nationwide Building Society (3-Year Covered Bond)	7,909
- Toronto-Dominion Bank (Certificate of Deposits)	14,948
- UBS AG (Senior Unsecured Bond)	8,502
- Yorkshire Building Society (Covered Bond)	10,469
	41,834

- Investments held in short-term Money Market Funds (that operate under a 'constant' or 'low volatility' net asset valuation) with a carrying amount of £38.814m, were reclassified from available for sale to amortised cost. These funds are similar to other solely payments of principal and interest (SPPI) investments and are being held as part of a business model to collect contractual cash flows.
- Investments in externally managed pooled funds and a shareholding in the UK Municipal Bond Agency (with a total carrying amount of £24.829m) were reclassified from available for sale to fair value through profit and loss as there are no contractual payments comprising both interest and principal.

(iv) Soft Loans

In accordance with the 2018/19 Code of Practice, where loans are advanced at below market (commercial) rates they are classified as 'soft loans'. The County Council made one such loan during March 2015; a twenty-year loan advanced to the Littlehampton Harbour Board (LHB) for the purchase of a multi-purpose vessel at a borrowing rate of 2.56%.

The Council estimates that, had interest been charged to the LHB at market rates (assumed as 4% above the prevailing Bank of England base interest rate, averaging 0.67% throughout 2018/19) interest receivable would be increased by £5,500. However, as per the Council's accounting policy for soft loans as detailed at Note 41, this loan is considered to be below the de minimis level for full disclosure in the financial statements.

The position relating to soft loans at 31 March 2019 is therefore:

	2017/18 £000	2018/19 ¹ £000
Balance brought forward	290	267
Loan advance	0	0
Repayments Received	-20	-20
Interest charged to Comprehensive I&E Statement (CIES)	7	7
Expected credit loss allowance (movement charged to CIES) ¹	-	1
Soft Loans Total (within trade debtors)	277	255

¹ In accordance with the Code's requirements for the adoption of IFRS 9 Financial Instruments, the opening 1 April 2018 balance has been adjusted to include an expected credit loss at that date and no restatement of 2017/18 comparators has been made

NOTES TO THE BALANCE SHEET

(v) Other

During 2018/19, with regard to financial instruments the County Council had no unusual movements, reclassification of instruments (further to those required upon the adoption of IFRS 9 on 1 April 2018), derecognition of instruments or defaults and breaches.

b. Financial Instruments - Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	2017/18 ¹			2018/19		
	Financial Liabilities	Financial Assets		Financial Liabilities	Financial Assets	
		Fair Value through			Fair Value through	
	Amortised Cost	Amortised Cost	Profit and Loss	Amortised Cost	Amortised Cost	Profit and Loss
	£000	£000	£000	£000	£000	£000
<u>Interest:</u>						
Expense	-27,154	0	0	-39,577	0	0
Income	0	1,714	550	0	2,280	948
Total Interest	-27,154	1,714	550	-39,577	2,280	948
<u>Fair value gains/losses:</u>						
Equity	-	-	-	0	0	-17
Multi-asset income funds	-	-	-	0	0	299
Property funds	-	-	-	0	0	-655
Ultra-short dated bond funds	-	-	-	0	0	89
Total fair value gains/losses	-	-	-	0	0	-284
<u>Other:</u>						
Fee expense (brokerage)	-	-	-	0	0	-38
ECL allowance (prior year reversal)	-	-	-	0	27	0
ECL allowance at 31 March	-	-	-	0	-15	0
Total fair value gains/losses	-	-	-	0	12	-38
Total gains and losses recognised in Surplus or Deficit on Provision of Services (CIES)	-27,154	1,714	550	-39,577	2,292	626

¹ In accordance with the Code's requirements for the adoption of IFRS 9 Financial Instruments, prior year comparators have not been restated to charge the impact of fair value gains/losses and expected credit losses to the Surplus or Deficit on Provision of Services

c. Financial Instruments - Fair Values

The basis for recurring fair value measurements are:

- Level 1 - Fair value is derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the measurement date (for example bond prices).
- Level 2 - Fair value is calculated from inputs other than quoted prices that are observable for the asset or liability (for example interest rates or yields for similar instruments).
- Level 3 - Fair value is determined using unobservable inputs for the asset or liability.

(i) Fair Value of Financial Assets

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

NOTES TO THE BALANCE SHEET

Financial Assets (measured at fair value through profit and loss)	Fair Value Level	Valuation technique used to measure Fair Value	Original Invested Value £000	2017/18 Fair Value £000	2018/19 Fair Value £000
Fidelity Multi-Asset Income Fund	1		7,500	0	7,728
Hermes Property Unit Trust	1		10,000	0	9,504
Investec Diversified Income Fund	1	Unadjusted quoted prices in active markets for identical shares (see note below) ¹	7,500	0	7,571
Local Authorities' Property Fund	1		10,000	9,693	9,843
Lothbury Property Trust	1		5,001	0	4,692
Payden Sterling Reserve Fund	1		15,000	15,011	0
Accrued interest (pooled funds)	1		n/a	104	300
Shareholding in the UKMBA Plc	3	Discounted cash flow (see note below) ²	200	21	4
			55,201	24,829	39,642

¹ The Council's fair value measurement of its multi-asset income, property and ultra-short dated bond pooled funds is based directly from quoted market prices at 31 March 2019, as obtained from the respective fund managers. For property funds the Council values its investments at the bid/redemption price representing the value that units can be sold (in accordance with the Code of Practice).

² Shares in the UK Municipal Bond Agency (UKMBA) plc have been valued from the company's net assets as shown within their latest audited balance sheet (no assumptions made regarding future profits).

(ii) Financial Assets and Liabilities that are not measured at Fair Value (but Fair Value disclosures are required)

Except for the financial assets carried at fair value through profit and loss, all other financial assets and financial liabilities (including trade debtors and creditors) held by the Council are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For Public Works Loan Board (PWLB) loans, New Loan Rates effective at 31 March 2019 from the PWLB (discounted by the 0.2% "Certainty Rate" available to local authorities) have been applied to provide the fair value under PWLB debt redemption procedures; as set out in PWLB Interest Rate Notice No. 127/19.
- The fair values of PFI schemes and finance lease liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA rated corporate bond yield.
- For long-term investments, covered bonds and other securities, prevailing (benchmark where applicable) market rates have been used to provide the fair value at 31 March 2019.
- The fair value of other financial instruments (including those with a maturity of less than 12 months), trade debtors and trade creditors, is assumed to approximate the carrying amount (no fair value hierarchy level).

Financial Liabilities	Fair Value Level	2017/18		2018/19	
		Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
PWLB borrowing (including accrued interest)	2	-399,991	-496,359	-392,848	-498,662
PFI and finance lease liabilities	2	-110,140	-192,342	-104,094	-207,977
Other liabilities (Waste PFI deferred income)		-1,712	-1,712	-2,067	-2,067
Short-term (non-PWLB) borrowing		-4,623	-4,623	-4,961	-4,961
Trade creditors ¹		-81,393	-81,393	-83,518	-83,518
Bank current accounts		-675	-675	-505	-505
Total Financial Liabilities		-598,534	-777,104	-587,993	-797,690

¹ Excludes receipts in advance (£12.706m at 31 March 2019) and statutory creditors (£22.232m at 31 March 2019) including HM Revenue & Customs (Tax/National Insurance pay-over; Construction Industry Tax Deduction Scheme (CITDS); tax deducted from interest payments; SMP overpayments), Teachers Pensions, government department accruals and council tax prepayments.

NOTES TO THE BALANCE SHEET

The fair value of financial liabilities 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 in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2019) arising from a commitment to pay interest to lenders above current market rates.

	Fair Value Level	2017/18		2018/19	
		Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Assets (held at amortised cost)					
British government securities (LT investment)	1	11	6	11	6
Bank covered bond	1	7,872	7,909	7,880	7,915
Other long-term investments	2	10,028	10,062	10,137	10,169
Short-term investments (less than 1-year to maturity)		166,955	166,955	65,985	65,985
Cash & cash equivalents		44,615	44,615	81,815	81,815
Trade debtors ¹		65,279	65,279	53,630	53,630
Total Financial Assets		294,760	294,826	219,458	219,520

¹ Excludes payments in advance (£31.513m at 31 March 2019) and statutory debtors (£41.412m at 31 March 2019) including HM Revenue & Customs (VAT repayment), government department accruals, council tax arrears and provision for doubtful debts.

The fair value of financial assets is higher than the carrying amount because the Council's investment portfolio includes one fixed rate loan with another UK local authority, and one 3-year bank covered bond, where the interest rate receivable is higher than the rates available for similar investments (or actual market price with regard to the covered bond) at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2019) attributable to the commitment to receive interest above current market rates.

d. Nature and Extent of Risk Arising From Financial Instruments

(i) 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 rates, stock market movements or foreign currency exchange rates.

(ii) Overall Procedures for Managing Risk

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

Risk management is carried out by a central treasury management team, under policies approved by County Council in the annual Treasury Management Strategy. 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).

(iii) Credit Risk

Credit risk arises from investments with banks and other institutions, as well as credit exposures to the Council's customers. This risk is minimised through the annual investment strategy (as set out within the Treasury Management Strategy) which requires that such investments are not made with organisations unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services.

NOTES TO THE BALANCE SHEET

The annual investment strategy also considers maximum monetary amounts and time limits in respect of each organisation (dependent on the creditworthiness of the entity and the secured/unsecured nature of the investment); details as contained within the Treasury Management Strategy report published on the Council's website.

The rating criteria for new investments with organisations (excluding non-UK banks) to be considered of high credit quality was set at those having a long-term credit rating of A- (or equivalent rating across the three rating agencies) or higher. For non-UK commercial entities the minimum sovereign long-term rating was set at AA+ (with non-UK banks required to hold a credit rating of A+ or higher). The maximum non-UK investment exposure at any point of time being set at £90m (£30m per individual country). Recognising that credit ratings are imperfect predictors of default, the Council continued to use other means of assessing an organisation's credit worthiness over and above sole reliance on credit ratings when selecting appropriate investment counterparties; including credit default swap (CDS) prices, share prices, media coverage and any other such information pertaining to an organisation's financial standing.

The annual investment strategy further approved investments in BBB+ rated corporate (non-bank) organisations up to a maximum duration of 100 days; and the Royal Bank of Scotland (ring-fenced part of the bank) up to a maximum of 364 days given the part nationalised status of the bank. The total level of internally managed investments with corporates (non-bank) rated below A- being limited to a maximum of £30m and investments with RBS made on an unsecured basis being limited to a maximum of £15m (such investments being classified as 'non-specified' in accordance with MHCLG Investment Guidance).

Throughout 2018/19 the Council continued to make use of an HSBC custodian service provided by King & Shaxson Ltd, thereby diversifying its investment portfolio into financial instruments approved within the annual investment strategy; namely covered bonds, certificate of deposits (CDs) and corporate bonds. Additionally, investments in externally managed pooled funds (including multi-asset income, property and ultra-short dated bond funds) were approved for Council investment.

The table below summarises the fair value/amortised cost of the Council's investment portfolio at 31 March 2019 and confirms that all investments were made in line with the Council's approved credit rating criteria:

Counterparty	Credit rating criteria met when investment placed	Credit rating criteria met on 31 March 2019	Balance invested at 31 March 2019				Total
			Up to 1 month	> 1 month; < 6 months	> 6 month; < 1 Year	> 1 year	
			£000	£000	£000	£000	
Bank Unsecured: ¹							
-UK Bank	YES	YES	16,742	14,791	0	0	31,533
-Non-UK Bank	YES	YES	0	10,083	5,021	0	15,104
-Building societies	YES	YES	0	0	0	0	0
-Money market funds	YES	YES	80,095	0	0	0	80,095
Bank Secured ²	YES	YES	7,880	0	0	0	7,880
Non-bank	YES	YES	0	0	0	0	0
Local authorities	YES	YES	21,205	0	0	10,000	31,205
Pooled funds ³	n/a	n/a	300	0	0	39,338	39,638
Other	n/a	n/a	0	0	0	15	15
			126,222	24,874	5,021	49,353	205,470

¹ The Council's exposure to credit risk in relation to its unsecured investments in banks, building societies and money market funds at 31 March 2019 (£126.7m) cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sums will be specific to each 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 31 March 2019 that such risks were likely to materialise.

NOTES TO THE BALANCE SHEET

² The credit quality of £7.9m of the Council's investments is enhanced by collateral held in the form of covered bonds (bank secured); collateralised by UK residential mortgages. For these investments the collateral significantly reduces the likelihood of the Council suffering a credit loss on these investments.

³ The Council's investments in multi-asset income and property funds (not subject to minimum credit rating criteria) is approved on the basis of a long-term investment duration (minimum three and five years respectively).

The table below summarises the credit risk exposures of the Council's investment portfolio by credit rating:

	Long Term		Short Term	
	2017/18	2018/19	2017/18	2018/19
	£000	£000	£000	£000
AAA (Covered Bonds, Pooled Funds/MMFs)	7,872	0	64,298	87,975
AA+	0	0	0	0
AA (including UK Government)	11	11	0	0
AA- (Assumed UK Local Authority Rating)	10,000	10,000	109,116	38,029
A+	0	0	8,506	14,791
A	0	0	44,689	0
A-	0	0	0	15,022
Multi-Asset Income Funds	0	15,299	0	76
Property Funds	9,693	24,039	104	224
UK Municipal Bond Agency ¹	21	4	0	0
Total	27,597	49,353	226,713	156,117

¹ Bonds issued by the Agency are expected to receive investment grade credit ratings given that participants (and shareholders of the Agency) are primarily individual local authorities.

(iv) Amounts Arising from Expected Credit Losses

In relation to the Council's financial investments held at amortised costs, where risk is mitigated through the creditworthiness policies contained within the annually approved Treasury Management Strategy (as summarised above), the Council has applied a 12-month expected credit loss model to its investments (where required by the Code of Practice) thereby reducing the carrying amounts as disclosed in the Balance Sheet.

Additionally, the Council held one third party loan outstanding with the Littlehampton Harbour Board which is considered as low credit risk given that annual repayments continue to be deducted from precepts paid by the Council to the Harbour Board. As a consequence the Council has applied a 12-month expected credit loss model to this loan in 2018/19.

Expected Credit Loss Allowance (Trade Debtors): The Council does not generally allow credit for its trade debtors, however £24.7m of the total £53.6m debtor balance is past its due date for payment. The amount overdue at 31 March 2019, none of which has been impaired, can be analysed by age as follows:

	£000
Up to one month overdue	1,926
Greater than one month up to three months	3,310
Greater than three months up to six months	3,205
Greater than six months up to one year	3,958
Greater than one year up to two years	5,774
Greater than two years up to five years	5,007
More than five years	1,502
Total	24,682

NOTES TO THE BALANCE SHEET

Included within the £24.7m trade debtor balance that is past its due payment date, the Council has identified that £1.697m is potentially at risk of being irrecoverable. This is based on debt which is more than one year old and reflects the likelihood of recovery reduces as the age of the debt increases, with anticipated recovery of 90% of debts aged between one and two years old and only 5% likely recovery of debts over six years old. At 31 March 2019, none of this liability has actually been impaired due to continued negotiations between the Council's Legal Services team and the relevant debtors.

Movement in Expected Credit Loss Allowances	2017/18 ¹	2018/19	Movement
	£000	£000	£000
Financial investments held at amortised cost (12-month ECL)	-	-6	-6
Loan to the Littlehampton Harbour Board (12-month ECL)	-	-9	-9
Provision for bad debts (Lifetime ECL model; detailed above)	-1,733	-1,697	36
Provision for council tax & business rate debts	-10,882	-11,236	-354
Total	-12,615	-12,948	-333

¹ In accordance with the Code's requirements for the adoption of IFRS 9 Financial Instruments, prior year comparators have not been restated

Collateral (Trade Debtors): The Council initiates a legal charge on property where, for instance, clients require the assistance of the Council's Adult Services but cannot afford to pay immediately; the total debt relating to such cases at 31 March 2019 was £7.3m.

(v) Liquidity Risk

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

The Council has ready access to borrowings at favourable rates from the money markets to cover any day-to-day cash flow need. Additionally, whilst the Public Works Loan Board 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. As a consequence there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The maturity analysis of financial assets (including accrued interest and any expected credit loss adjustments) is as follows:

	2017/18	2018/19
	£000	£000
Less than one year	226,713	156,117
Between one and two years	17,872	10,000
Between two and three years	0	0
More than three years	9,725	39,353
Financial Assets Total	254,310	205,470

Trade debtors (£53.6m) are not included in the table above.

(vi) Refinancing Risk

The Council maintains significant debt and investment portfolios and is therefore exposed to the risk that it will need to refinance a proportion of its investments and borrowings at a time of unfavourable interest rates. Whilst the cash flow procedures employed by the Council 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 long-term financial liabilities and long-term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council's 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

NOTES TO THE BALANCE SHEET

- 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 the Council's financial liabilities (excluding accrued interest) with the maximum limits for fixed interest rates maturing in each period is as follows:

	Minimum Approved Limit	Maximum Approved Limit	2017/18 £000	2018/19 £000
Less than 1 year	0%	25%	11,639	11,977
Between 1 and 5 years	0%	35%	27,563	20,563
Over 5 years to 10 years	0%	40%	74,913	74,913
Over 10 years to 15 years	0%	70%	194,143	246,343
Over 15 years to 20 years	0%	30%	52,231	15
Over 20 years to 25 years	0%	30%	0	15,000
Over 25 years to 30 years	0%	30%	15,000	0
More than 30 years	0%	30%	25,000	25,000
Financial Liabilities Total			400,489	393,811

(vii) Market Risk

Interest Rate Risk

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

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

Borrowings are not carried at fair value on the Council's balance sheet, so nominal gains and losses on fixed rate debt would not impact the Comprehensive Income and Expenditure Statement. 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.

The Council has a number of strategies for managing interest rate risk. The annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure.

The central treasury team will monitor markets and forecast interest rates within the year to adjust exposures appropriately. For instance, during periods where economic circumstances make it favourable (including continued periods of low interest rates) fixed rate investments may be taken for longer durations to secure better long term returns; similarly the drawing of long term fixed rate borrowings may be postponed.

At 31 March 2019 the Council held no variable long term borrowings, but held 70% (£144.1m) of its investment portfolio in variable rate bank call/notice accounts, money market funds, bank floating rate notes, pooled funds (collective investment schemes) and equities.

NOTES TO THE BALANCE SHEET

During 2018/19 total interest of £1.769m has been charged to the Comprehensive Income and Expenditure Statement in respect of all the Council's variable rate investments, representing a 1.27% interest rate of return on an average investment portfolio of £139.0m. If all applicable rates had been 1% higher the financial impact would have been a £1.4m increase in interest charged to the Comprehensive Income and Expenditure Statement.

Price Risk

The market prices of the Council's fixed/variable rate bond investments and units held in ultra-short dated bond funds during 2018/19 are governed by prevailing interest rates; the market risk associated with these investments is managed alongside interest rate risk.

At 31 March 2019 the Council held £39.6m (including accrued interest) in multi-asset income and property pooled funds which is subject to price variations. During 2018/19 the price movements in these funds did not impact the General Fund Balance due to statutory regulations currently in force to ameliorate the impact of fair value movements (for example, without current regulations and based on the Council's £24.2m investment in property funds, a 5% fall in commercial property prices would result in a £1.2m loss being recognised in the Surplus or Deficit on the Provision of Services).

Additionally, the Council held a shareholding in the UK Municipal Bond Agency Plc; currently there is no active trading in these shares and the Council's investment is exposed to the ongoing sustainability of the company.

Inflationary Risk

Inflationary risk relates to the diminution of the spending powers of the Council's cash holdings, or the potential escalation of financial liabilities if linked to inflation indices. Throughout 2018/19 the Council achieved a 1.09% return on its investment portfolio as compared against average UK CPI inflation of 2.27% during the same period. With low investment rates set to continue at a time when inflation is forecast to remain around 2% in 2019 (through to 2023) the Council will seek to partially mitigate the resulting inflationary risks through its prescribed cash flow procedures; including the identification of reserves that may be set aside for the continued use of longer-term (higher yielding) investments, for example externally managed multi-asset income and property pooled funds. The Council does not currently hold any inflation linked borrowings.

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.

NOTES TO THE BALANCE SHEET

10. Assets Held for Sale

2017/18 £000	2018/19 £000
1,400 Balance outstanding 1 April	2,535
Assets newly classified as held for sale:	
1,188 - Property, Plant and Equipment	7,892
101 - Investment Property	0
Assets declassified as held for sale:	
0 - Property, Plant and Equipment	-813
-154 Revaluation gains/(losses)	-606
0 Assets sold	-1,501
2,535 Balance outstanding at 31 March	7,507

11. Short-Term Debtors

2017/18 £000	2018/19 £000
9,533 Central government bodies	25,019
24,085 Other local authorities	15,606
10,995 NHS bodies	4,384
70,806 Other entities and individuals	61,220
115,419 Total	106,229

12. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

2017/18 £000	2018/19 £000
44,615 Cash held by the Authority	81,815
-675 Bank current accounts	-505
43,940 Total	81,310

13. Short-Term Creditors

2017/18 £000	2018/19 £000
-18,228 Central government bodies	-16,585
-6,992 Other local authorities	-9,112
-4,359 NHS bodies	-4,119
-125,732 Other entities and individuals	-88,640
-155,311 Total	-118,456

NOTES TO THE BALANCE SHEET

14. Provisions

Provisions are made where an event has taken place that gives the Authority 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.

	Balance at 1 April 2018 £000	Amounts used in 2018/19 £000	Additional provisions made in 2018/19 £000	Balance at 31 March 2019 £000
<u>Long-Term</u>				
Insurance	-3,968	1,120	-2,419	-5,267
Fire Pensions Opt-Out	-976	288	0	-688
Teachers' Pension Scheme	-163	10	0	-153
Total Long-Term Provisions	-5,107	1,418	-2,419	-6,108
<u>Short-Term</u>				
Employee Benefits	-9,541	9,541	-9,448	-9,448
NDR Appeals	-2,726	2,726	-3,791	-3,791
Insurance	-1,687	1,212	-1,120	-1,595
Loss of Office	-444	444	-287	-287
Tax Liabilities	-131	131	0	0
Total Short-Term Provisions	-14,529	14,054	-14,646	-15,121
Grand Total Provisions	-19,636	15,472	-17,065	-21,229

Long Term Provisions - Descriptions

The **Insurance** provision is maintained to meet claims and liabilities related to the partial self-funding of the County Council's insurance, including Property, Vehicle and Liability risks. The balance represents unpaid claims estimated at 31 March 2019. This provision has been reconciled to remove amounts for part-settled claims. The claims provided for are expected to settle at various intervals over the next number of years (but not within one year).

The **Fire Pensions Opt-Out** provision is held to finance additional employer liabilities in respect of the Firefighters' Pension Scheme. A number of employees were given incorrect advice which led to them opting out of the scheme in 2011/12. This resulted in an additional pension liability over and above that which can be funded by the Firefighters' Pension Scheme. The provision represents the gross additional liability to be met by the County Council over the next three years. This amount is offset by amounts owed by the Firefighters' Pension Scheme in respect of lump sum payments (held within debtors on the balance sheet), which are recoverable by the Authority upon retirement.

The **Teachers' Pension Scheme** provision is for additional employer contributions to the Teachers' Pension Scheme (administered by the Department for Education), which the Authority is obliged to make over a number of years as a result of its restructuring of the Learning Service (and subsequent redundancies) in 2011.

Short Term Provisions - Descriptions

The **Employee Benefits** provision represents accrued leave not taken at balance sheet date, in accordance with chapter 6 of the CIPFA Code of Practice. It is anticipated that staff will take any leave entitlement accrued at the balance sheet date in the subsequent financial year.

As part of the introduction of the localised business rates system on 1 April 2013, a liability was assumed by **NDR** (Non-Domestic Rates) billing authorities for refunding ratepayers who successfully appeal against the rateable value of their properties. This includes the liability in respect of appeals against amounts paid to central government prior to that date. As a precepting authority, West Sussex is liable for a share of any successful appeals, and this provision represents the Authority's estimate of its cumulative liability based upon the total liabilities estimated by its individual billing authorities.

The **Insurance** provision is maintained to meet claims and liabilities related to the partial self-funding of the County Council's insurance, including Property, Vehicle and Liability risks. The balance represents unpaid claims estimated at 31 March 2019. This provision has been reconciled to remove amounts for part-settled claims. The short-term element of the provision represents the value of claims estimated to be settled within one year.

The **Loss of Office** provision provides for the cost of redundancies to which the Authority was committed at the balance sheet date. All obligations are expected to be settled in 2019/20.

The Authority held a provision for **Tax Liabilities** payable to HMRC, relating to a potential obligation for employer's National Insurance payable on remuneration made outside of payroll. The provision was released in 2018/19 as it is not possible to estimate the value of any settlement with any certainty.

15. Private Finance Initiatives and Similar Contracts

Crawley Schools PFI

In January 2004, the County Council entered into a 30 year PFI contract with Crawley Schools Ltd for the provision of three new/replacement secondary schools in Crawley. The contractor is responsible for maintaining and operating the buildings for the duration of the contract. At the end of the contract period the assets will revert to the ownership of the County Council.

The Unitary Charge is net of capital contributions of £28.6m that were paid by the County Council in 2004/05 and 2005/06, and offset by government grant linked to notional credit approvals of £131m, which is payable over the period of the contract. The balance of the Unitary Charge is met by contributions from schools' delegated budgets.

During 2008/09 the facilities at Thomas Bennett (one of the three schools in the original PFI contract) were developed and incorporated into an extension of the PFI agreement with Crawley Schools Ltd. The unitary charge payment increased in 2009/10 to reflect the extended facilities coming into use and will be met by government grant and contributions from the school's delegated budgets.

In September 2012 Thomas Bennett obtained Academy status at which point the building ceased to be a County Council asset (resulting in £19.1m being removed from the Authority's balance sheet). Subsequent to the academisation of Thomas Bennett, the Authority remains the contracted partner and the analysis of PFI commitments in note (iii) below includes the unitary charge payable to the contractor in relation to this school.

Recycling and Waste Handling PFI

In March 2004 the County Council entered into a 25-year PFI contract with Viridor Waste Management Ltd for recycling and waste handling. The annual charge is offset by government grant linked to notional credit approvals of £25m, with the balance being funded from the waste management budget. A contract variation was entered into in January 2019, extending the agreement by a further four years.

Throughout the contract the contractor is responsible for the replacement of equipment at the facilities. The lifecycle costs incurred to date have been included in the balance sheet on the basis of the actual provision. As at 31 March 2019 £15.4m of lifecycle costs remained to be delivered. The payments to the contractor for the lifecycle costs are on a consistent basis across the life of the contract.

At the end of the contract period all assets will revert to County Council ownership.

Street Lighting PFI

In December 2009 the County Council reached financial close on a 25-year contract with Tay Valley Lighting for the provision and maintenance of streetlights. The contract commenced on 1 April 2010. The annual charge is offset by government grant linked to notional credit approvals of £78.5m, with the balance being funded from the Highways and Transport budget.

The contract initially allowed for a 5-year installation programme ending on 31 March 2015, this however was extended to 31 March 2017 to ensure all the installations were fully complete.

At the end of the contract period all assets revert back to the ownership of the County Council and must have a minimum of 5 years useful life remaining.

NOTES TO THE BALANCE SHEET

Note (i) – Value of Assets held under PFI contract

	Opening Balance at 1 April 2018 £000	Additions £000	Depreciation £000	Revaluation £000	Closing Balance at 31 March 2019 £000
Crawley Schools PFI					
Ifield Community College	23,444	0	-603	4,505	27,346
Oriol High School	30,048	0	-751	3,845	33,142
Recycling & Waste PFI					
Infrastructure	6,596	0	-351	0	6,245
Land and Buildings	13,699	3,871	-379	-3,137	14,054
Plant and Equipment	4,335	734	-805	0	4,264
Street Lighting PFI	69,520	0	-2,644	0	66,876
Total PFI Assets	147,642	4,605	-5,533	5,213	151,927

Note (ii) – Value of Liability resulting from PFI Contract

	Opening Balance at 1 April 2018 £000	Increase due to Investment £000	Repayment of Liability £000	Closing Balance at 31 March 2019 £000
Crawley Schools PFI	-31,376	0	5,528	-25,848
Recycling & Waste PFI	-12,904	-4,605	3,664	-13,845
Street Lighting PFI	-64,039	0	1,370	-62,669
Total Liability	-108,319	-4,605	10,562	-102,362

Note (iii) – Payments due under PFI Contracts

	Repayment of Liability £000	Interest £000	Service Charges £000	Total £000
Within one year	2,883	11,139	25,449	39,471
Within two to five years	14,370	42,625	112,343	169,338
Within six to ten years	28,334	47,381	162,343	238,058
Within eleven to fifteen years	44,945	33,343	151,538	229,826
Within sixteen to twenty years	11,830	3,342	12,769	27,941
Total	102,362	137,830	464,442	704,634

NOTES TO THE BALANCE SHEET

16. Leases

Authority as Lessee

Finance Leases

The Council has acquired a number of buildings and vehicles under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

1 April 2018 £000	31 March 2019 £000
24,270 Other Land and Buildings	30,197
0 Vehicles, Plant, Furniture and Equipment	0
24,270	30,197

The Authority is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

1 April 2018 £000	31 March 2019 £000
1,821 Finance Lease Liability	1,732
1,239 Finance costs payable in future years	1,150
3,060 Minimum lease payments	2,882

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	1 April 2018 £000	31 March 2019 £000	1 April 2018 £000	31 March 2019 £000
No later than one year	178	178	89	93
Later than one year and not later than five years	712	712	402	422
Later than five years	2,170	1,992	1,330	1,217
	3,060	2,882	1,821	1,732

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

Operating Leases

The future minimum lease payments due under non-cancellable leases in future years are:

1 April 2018 £000	31 March 2019 £000
1,052 Not later than one year	1,260
2,005 Later than one year and not later than five years	2,184
214 Later than five years	454
3,271	3,898

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £1.677m. Of this total, £0.895m was chargeable to the Highways and Infrastructure portfolio, £0.407m was chargeable to the Safer, Stronger Communities portfolio, and £0.367m was chargeable to the Finance and Resources portfolio. A small balance of £0.008m was charged to other portfolios.

NOTES TO THE BALANCE SHEET

Authority as Lessor

Finance Leases

As at the reporting date, the Authority has leased out ten properties on finance leases. The Authority has a gross investment in the leases, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the properties when the lease comes to an end. The minimum lease payments comprise the long-term debtor for the interest in the property acquired by the lessee and the finance income that will be earned by the Authority in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

1 April 2018 £000	31 March 2019 £000
7,570 Finance lease debtor	7,344
3,909 Unearned finance income	3,639
0 Unguaranteed residual value of property ¹	0
11,479 Gross investment in the lease	10,983

¹ Due to the length of these leases it is assumed that there is no residual value at the end of term

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	1 April 2018 £000	31 March 2019 £000	1 April 2018 £000	31 March 2019 £000
	No later than one year	496	496	226
Later than one year and not later than five years	1,984	1,984	985	1,020
Later than five years	8,999	8,503	6,359	6,090
	11,479	10,983	7,570	7,344

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

Operating Leases

Assets leased out by the County Council under operating leases include:

- Land leased for grazing
- Smallholdings
- Staff Housing
- Small Industrial Units

The future minimum lease payments receivable under non-cancellable leases in future years are:

1 April 2018 £000	31 March 2019 £000
564 Not later than one year	1,085
775 Later than one year and not later than five years	840
52 Later than five years	248
1,391	2,173

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

17. Defined Benefit Pension Schemes

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a requirement to disclose these commitments at the time that employees earn their future entitlement.

The Authority participates in two post-employment schemes:

- Local Government Pension Scheme – West Sussex County Council participates in the Local Government Pension Scheme, and acts as an administering authority. This is a funded defined benefit career-average salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The scheme is open to all employees of West Sussex County Council, with the exception of firefighters and teachers and Public Health staff who have transferred to the Authority on NHS terms and conditions.
- Uniformed Firefighters – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. The scheme is administered by the Home Office, which sets the contribution rate chargeable to the accounts.

Transactions Relating to Post-Employment Benefits

The cost of retirement benefits are recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement (see Note 2). The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund via the Movement in Reserves Statement during the year.

NOTES TO THE BALANCE SHEET

	Local Government Pension Scheme		Uniformed Firefighters	
	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000
<u>Comprehensive Income and Expenditure Statement</u>				
<i>Cost of Services:</i>				
Current service cost	77,678	77,614	7,203	6,931
Past service cost (including curtailments)	1,278	12,787	34	15,008
(Gain)/loss from settlements	-1,121	-213	0	0
<i>Financing and Investment Income and Expenditure:</i>				
Interest cost on defined benefit obligation	53,513	57,149	9,752	10,315
Interest income on plan assets	-44,619	-49,102	0	0
<i>Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services</i>	86,729	98,235	16,989	32,254
<i>Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement:</i>				
Remeasurement (gains) and losses	-88,644	97,671	-9,408	-4,297
<i>Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</i>	-1,915	195,906	7,581	27,957

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	-86,729	-98,235	-16,989	-32,254
<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>				
Employers' contributions payable to scheme	48,097	49,651		
Retirement benefits payable to pensioners			8,854	8,494

Assets and Liabilities in Relation to Post-Employment Benefits

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

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Uniformed Firefighters	
	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000
Opening balance at 1 April	-2,044,784	-2,094,358	-375,993	-374,720
Current service cost	-77,678	-77,614	-7,203	-6,931
Interest cost	-53,513	-57,149	-9,752	-10,315
Contributions by scheme participants	-11,806	-12,152	-1,609	-1,692
Remeasurement gains and (losses):				
Actuarial gains/(losses) arising from changes in demographic assumptions	0	0	3,908	27,682
Actuarial gains/(losses) arising from changes in financial assumptions	38,638	-176,267	6,465	-27,120
Other experience	430	-949	-965	3,735
Past service cost (including curtailments)	-1,278	-12,787	-34	-15,008
Transfers to/(from) other authorities	0	0	0	0
Benefits paid	50,494	53,262	10,463	10,186
Liabilities extinguished on settlements	5,139	1,364	0	0
Closing balance at 31 March	-2,094,358	-2,376,650	-374,720	-394,183

NOTES TO THE BALANCE SHEET

Reconciliation of the movements in the fair value of the scheme (plan) assets:

	Local Government Pension Scheme		Uniformed Firefighters	
	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000
Opening balance at 1 April	1,716,646	1,816,232	0	0
Interest income on plan assets	44,619	49,102	0	0
Remeasurement gains and (losses):				
Return on plan assets (excluding interest income)	49,576	79,545	0	0
Contributions by scheme participants	11,806	12,152	1,609	1,692
Employer contributions	48,097	49,651	8,854	8,494
Benefits paid	-50,494	-53,262	-10,463	-10,186
Transfers (to)/from other authorities	0	0	0	0
Settlements	-4,018	-1,151	0	0
Closing balance at 31 March	1,816,232	1,952,269	0	0

Scheme History

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Present value of liabilities:					
Local Government Pension Scheme	-1,814,815	-1,697,262	-2,044,784	-2,094,358	-2,376,650
Uniformed Firefighters	-350,653	-315,563	-375,993	-374,720	-394,183
Fair value of assets:					
Local Government Pension Scheme	1,359,123	1,396,312	1,716,646	1,816,232	1,952,269
Uniformed Firefighters	0	0	0	0	0
Surplus/(deficit) in the scheme:					
Local Government Pension Scheme	-455,692	-300,950	-328,138	-278,126	-424,381
Uniformed Firefighters	-350,653	-315,563	-375,993	-374,720	-394,183
Total	-806,345	-616,513	-704,131	-652,846	-818,564

The liabilities show the underlying commitments that the Authority has in the long run to pay post-employment (retirement) benefits. The total liability of £818.564m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- The deficit on the Local Government Pension Scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary, Hymans Robertson LLP.
- Finance is only required to be raised to cover Uniformed Firefighters' benefits when the pensions are actually paid.

The total contribution expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2020 is £46.644m. Payments (net of employee contributions) in respect of the Uniformed Firefighters scheme for the year to 31 March 2020 are projected to be £7.747m.

NOTES TO THE BALANCE SHEET

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

Both the Local Government Pension Scheme and Uniformed Firefighters liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2016.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Uniformed Firefighters	
	2017/18 £000	2018/19 £000	2017/18 £000	2018/19 £000
Mortality assumptions:				
Longevity at 65 for current pensioners:				
▪ Men	23.6	23.6		
▪ Women	25.0	25.0		
Longevity at 60 for current pensioners:				
▪ Men			29.5	27.3
▪ Women			31.5	29.4
Longevity at 65 for future pensioners:				
▪ Men	26.0	26.0		
▪ Women	27.8	27.8		
Longevity at 60 for future pensioners:				
▪ Men			30.8	28.4
▪ Women			32.8	30.6
Rate of increase in salaries	3.1%	3.2%	3.4%	3.5%
Rate of increase in pensions	2.4%	2.5%	2.4%	2.5%
Rate of inflation			3.4%	3.5%
Rate for discounting scheme liabilities	2.7%	2.4%	2.7%	2.4%

For the Local Government Pension Scheme, 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.

For the Uniformed Firefighters scheme, it is assumed that future retirements elect to take 90% of the maximum additional tax free cash up to HMRC limits.

The Uniformed Firefighters arrangements have no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2018	31 March 2019
	%	%
Equity Securities	70%	47%
Debt Securities	2%	3%
Private Equity	4%	3%
Real Estate	8%	9%
Investment Funds and Unit Trusts	14%	35%
Cash and Cash Equivalents	2%	3%
	100%	100%

McCloud

When the Local Government and Firefighters' Pension Scheme benefit structures were reformed in 2014 and 2015 respectively, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from this time by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme.

In December 2018 the Court of Appeal upheld a ruling ("McCloud/Sargeant") that transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the Local Government Pension Scheme (and other public service schemes) as well. The UK Government requested leave to appeal to the Supreme Court but this was denied at the end of June 2019. Therefore Local Government and Firefighters' Pension Scheme benefits accrued from 2014/2015 may need to be enhanced so that all eligible members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections.

Quantifying the impact of the judgement at this stage is very difficult because it will depend on the compensation awarded, members' future salary increases, length of service and retirement age, and whether (and when) members withdraw from active service. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression. Based on a given set of actuarial assumptions, the Government Actuary's Department (GAD) has estimated that the impact could be to increase active member liabilities by 3.2% for the Local Government Pension Scheme as a whole, and 5% for the Firefighters' Pension Scheme.

The Council's actuary has adjusted GAD's estimates to better reflect the schemes' local assumptions, particularly those for salary increases and withdrawal rates. The revised estimate results in an increase in active member liabilities of approximately £10.950m (Local Government Pension Scheme) and £13.958m (Firefighters' Pension Scheme) as at 31 March 2019. This is presented as a past service cost in the 2018/19 reconciliation of scheme liabilities.

GMP

Guaranteed Minimum Pension (GMP) was accrued by members of the Local Government and Firefighters' Pension Schemes between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However, overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men's and women's benefits.

As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility leads to increased costs for schemes (including the Local Government and Firefighters' Pension Schemes) and hence scheme employers.

The actuary has carried out calculations in order to estimate the impact that the GMP indexation changes will have on the pension fund liabilities. The estimate assumes that the permanent solution eventually agreed will be equivalent in cost to extending the interim solution to all members reaching state pension age from 6 April 2016 onwards.

The estimated impact of GMP indexation is to increase the total liabilities by approximately £0.676m (Local Government Pension Scheme) and £1.036m (Firefighters' Pension Scheme). This is presented as a past service cost in the 2018/19 reconciliation of scheme liabilities.

18. Pension Schemes Accounted for as Defined Contribution Schemes

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

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of 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 2018/19, the County Council paid £25.089m to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. Employer contributions of £24.965m were made in 2017/18 (16.48% of pensionable pay). The contributions due to be paid in the 2019/20 financial year are estimated to be £32.4m, reflecting a planned increase in the employer contribution rate to 23.68% effective September 2019.

NOTES TO THE BALANCE SHEET

19. Unusable Reserves

1 April 2018	IFRS 9 Adjustment ¹	Adjusted 1 April 2018		31 March 2019
£000	£000	£000		£000
9,541	-	9,541	Accumulated Absences Account	9,448
461	-461	-	- Available for Sale Financial Instruments Reserve	-
-	296	296	Financial Instruments Revaluation Reserve	663
-895,494	179	-895,315	Capital Adjustment Account	-990,726
-4,605	-	-4,605	Collection Fund Adjustment Account	-2,577
-7,570	-	-7,570	Deferred Capital Receipts Reserve	-8,052
652,846	-	652,846	Pensions Reserve	818,564
-356,497	-	-356,497	Revaluation Reserve	-434,190
-601,318	14	-601,304	Total Unusable Reserves	-606,870

¹ 1 April 2018 balances have been adjusted as per the Code's requirements for the adoption of IFRS 9 Financial Instruments. In accordance with these requirements, the Available for Sale Financial Instruments Reserve has been abolished effective 1 April 2018. For assets classified as fair value through profit and loss, owing to statutory overrides accumulated gains and losses have been transferred into the newly established Financial Instruments Revaluation Reserve or, in the case of equity investments, to the Capital Adjustment Account.

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund 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 be neutralised by transfers to or from the Account.

2017/18		2018/19	
£000		£000	£000
8,659	Balance at 1 April		9,541
-8,659	Settlement or cancellation of accrual made at end of the preceding year	-9,541	
9,541	Amounts accrued at the end of the current year	9,448	
	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		-93
9,541	Balance at 31 March		9,448

Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains gains arising from increases in the value of investments that are measured at fair value through other comprehensive income. Additionally, owing to a statutory override, the Authority transfers all fair value movements recognised in the Surplus or Deficit on the Provision of Services relating to its pooled investment funds (categorised as fair value through profit or loss) into this reserve.

Accumulated gains and losses are written out of the reserve and recognised in the General Fund when the instrument is sold or matures.

2017/18 ¹		2018/19	
£000		£000	£000
	- Balance at 1 April		296
	- Upward revaluation of investments	-449	
	- Downward revaluation of investments	805	
			356
	Accumulated gains and (losses) on assets sold and maturing assets		
	- written out to the Comprehensive Income and Expenditure Statement		11
	- Balance at 31 March		663

¹ Reserve established 1 April 2018 through adoption of IFRS 9 Financial Instruments, therefore no prior-year comparators

NOTES TO THE BALANCE SHEET

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 Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains 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 2 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2017/18 £000	2018/19 ¹	
	£000	£000
-880,292 Balance at 1 April		-895,315
<i>Reversal of items relating to capital expenditure debited/credited to the Comprehensive Income and Expenditure Statement:</i>		
64,604 Charges for depreciation of non current assets	68,334	
500 Charges for amortisation of intangible assets	400	
0 Charges for impairment of non current assets	0	
Revaluation (gains) / losses on Property, Plant and Equipment and		
-14,455 Assets Held for Sale	-100,014	
- Revaluation (gains) / losses on equity investments	17	
5,668 Revenue Expenditure Funded from Capital Under Statute (REFCUS)	5,330	
Amounts written off on disposal or sale as part of the gain/loss on		
24,297 disposal to the Comprehensive Income and Expenditure Statement	15,830	
-155 Release of deferred income from Private Finance Initiatives	355	
-8,763 Gains from Donated Assets	0	
71,696		-9,748
-5,286 Adjusting amounts written out of the Revaluation Reserve		-9,021
Net written out amount of the cost of non current assets		
66,410 consumed in the year		-18,769
<i>Capital financing applied in the year:</i>		
-1,696 Use of the Capital Receipts Reserve to finance new capital expenditure	-6,742	
Application of grants to capital financing from the Capital Grants		
-60,959 Unapplied Account	-40,982	
-2,903 Capital grants and contributions applied to REFCUS	-3,137	
Statutory provision for the financing of capital investment charged		
-13,772 against the General Fund balance	-20,689	
-1,957 Revenue Contribution to Capital Outlay	-4,677	
-81,287		-76,227
Movements in the market value of Investment Properties debited/		
-325 credited to the Comprehensive Income & Expenditure Statement		-415
-895,494 Balance at 31 March		-990,726

¹ Opening 1 April 2018 balance has been adjusted as per the Code's requirements for the adoption of IFRS 9 Financial Instruments

NOTES TO THE BALANCE SHEET

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2017/18	2018/19	
£000	£000	£000
-4,132 Balance at 1 April		-4,605
4,132 Settlement or cancellation of accrual made at end of the preceding year	4,605	
<u>-4,605</u> Amounts accrued at the end of the current year	<u>-2,577</u>	
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements		2,028
<u>-4,605</u> Balance at 31 March		<u>-2,577</u>

Deferred Capital Receipts Reserve

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

2017/18	2018/19	
£000	£000	
-7,829 Balance at 1 April		-7,570
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the		
0 Comprehensive Income and Expenditure Statement		-708
259 Write down of Finance Lease debtor		226
0 Transfer to the Capital Receipts Reserve upon receipt of cash		0
<u>-7,570</u> Balance at 31 March		<u>-8,052</u>

NOTES TO THE BALANCE SHEET

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 Authority 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 Authority makes employer's contributions to pension funds or eventually pays 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 Authority 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.

2017/18	2018/19
£000	£000
704,131 Balance at 1 April	652,846
-98,052 (Gains)/losses on remeasurement of pension assets/liabilities	93,374
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	130,489
103,718 Employer's pensions contributions and direct payments to pensioners payable in the year	-58,145
<u>652,846</u> Balance at 31 March	<u>818,564</u>

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. 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.

2017/18	2018/19	
£000	£000	£000
-291,477 Balance at 1 April		-356,497
-75,165 Upward revaluation of assets	-110,912	
Downward revaluation of assets and revaluation losses not charged to the Surplus/Deficit on the Provision of Services	24,198	
4,859 Impairment losses not charged to the Surplus/Deficit on the Provision of Services	0	
<u>0</u>	<u>0</u>	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		-86,714
-70,306 Difference between fair value depreciation and historical cost depreciation	4,790	
3,702 Accumulated gains on assets sold or scrapped	4,231	
<u>1,584</u> Amount written off to the Capital Adjustment Account		<u>9,021</u>
<u>-356,497</u> Balance at 31 March		<u>-434,190</u>

NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

20. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2018/19

Adjustments from General Fund to Comprehensive Income and Expenditure Statement	Adjustments for Capital Purposes ¹ £000	Net Pensions Adjustments ² £000	Other Differences ³ £000	Total Adjustments £000
Adults and Health	-8,346	4,515	-2,046	-5,877
Children and Young People	-60	5,344	42	5,326
Corporate Relations	1,426	1,730	23	3,179
Education and Skills	-67,069	11,957	-7,966	-63,078
Environment	-2,255	490	-6,533	-8,298
Finance and Resources	3,065	28,394	-568	30,891
Highways and Infrastructure	31,045	1,009	-6,962	25,092
Leader (including Economy)	861	358	782	2,001
Safer, Stronger Communities	1,015	185	-1	1,199
Net Cost of Services	-40,318	53,982	-23,229	-9,565
Other Income and Expenditure	-77,613	18,362	25,537	-33,714
Difference between General Fund Deficit and Comprehensive Income and Expenditure Surplus	-117,931	72,344	2,308	-43,279

NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

Adjustments between Funding and Accounting Basis 2017/18 (Restated)

Adjustments from General Fund to Comprehensive Income and Expenditure Statement	Adjustments for Capital Purposes ¹ £000	Net Pensions Adjustments ² £000	Other Differences ³ £000	Total Adjustments £000
Adults and Health	2,037	4,716	-3,279	3,474
Children and Young People	284	5,416	77	5,777
Corporate Relations	2,526	1,853	-27	4,352
Education and Skills	4,556	12,701	-914	16,343
Environment	3,377	534	-1,485	2,426
Finance and Resources	-1,722	1,237	-377	-862
Highways and Infrastructure	29,992	1,088	-6,125	24,955
Leader (including Economy)	5,169	276	1,443	6,888
Safer, Stronger Communities	2,039	300	10	2,349
Net Cost of Services	48,258	28,121	-10,677	65,702
Other Income and Expenditure	-65,801	18,646	11,086	-36,069
Difference between General Fund Surplus and Comprehensive Income and Expenditure Deficit	-17,543	46,767	409	29,633

¹ Adjustments for Capital Purposes

This column adds in depreciation, impairment, revaluation gains and losses and Revenue Expenditure Funded by Capital Under Statute in the **services** line, and for:

- **Other Operating Expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets, and for revaluation gains and losses on Assets Held for Sale.
- **Financing and Investment Income and Expenditure** – adjusts for revaluation gains and losses on Investment Property.
- **Taxation and Non-Specific Grant Income** – credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year and for gains on donated assets.

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

² Net Pensions Adjustment

Net change for the removal of pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:

- For **services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For **Financing and Investment Income and Expenditure** the net interest on the defined benefit liability is charged to the CIES.

³ Other Differences

Other Differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For **services** an adjustment for the accumulated absences provision recognised in accordance with proper accounting practices but which is not chargeable under statute.
- For **Financing and Investment Income and Expenditure**, an adjustment for revaluation gains and losses on financial instruments, which are not chargeable to the General Fund.
- The charge under **Taxation and Non-Specific Grant Income** represents the difference between what is chargeable under statutory regulations for Council Tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices. This is a timing difference as any difference will be brought forward in future Collection Fund surpluses and deficits.
- All other reclassifications between the Net Cost of Services and Other Income and Expenditure required under proper accounting practices, including the allocation of PFI and Finance Lease interest and income and expenditure relating to Investment Property, are also included in this column.

NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

21. Segmental Income

Revenue from external customers can be analysed by portfolio as follows:

Services	Restated 2017/18 £000	2018/19 £000
Adults and Health	-47,973	-54,004
Children and Young People	-1,590	-1,554
Corporate Relations	-1,744	-2,262
Education and Skills	-6,468	-6,745
Environment	-3,020	-3,738
Finance and Resources	-2,166	-2,331
Highways and Infrastructure	-8,473	-9,115
Leader (including Economy)	-56	-3
Safer, Stronger Communities	-3,310	-3,427
Total income analysed on a segmental basis	-74,800	-83,179

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

22. Other Operating Expenditure

2017/18	2018/19
£000	£000
1,065 Levies	1,096
154 Assets Held for Sale (Gains)/Losses on Revaluation	606
-448 (Profit) / loss on sale of assets	-656
17,157 Loss on derecognition of Academy Schools	5,849
5,407 Loss on derecognition of other assets	3,177
419 Assets derecognised under finance leases	0
23,754 Total	10,072

23. Financing and Investment Income and Expenditure

2017/18	2018/19	
£000	£000	£000
27,154 Interest payable and similar charges	39,577	
-2,264 Interest receivable and similar income	-2,918	
		36,659
63,265 Pensions: interest cost on defined benefit obligation	67,464	
-44,619 Pensions: interest income on plan assets	-49,102	
		18,362
-472 Investment properties: income and expenditure	-360	
66 Investment properties: (gain)/loss on disposal	10	
-325 Investment properties: changes in fair value	-415	
		-765
42,805 Total		54,256

24. Taxation and Non Specific Grant Income

2017/18	2018/19
£000	£000
-408,077 Council tax income	-434,162
-79,781 Non domestic rates ¹	-84,863
-27,693 Revenue Support Grant	-12,122
-13,475 Other non-ringfenced government grants ¹	-4,192
-8,763 Gains from Donated Assets	0
-68,845 Capital grants and contributions	-72,024
-606,634 Total	-607,363

¹ 2017/18 'Non domestic rates' comparator includes Section 31 Business Rates Cap Grant (previously classified within 'Other non-ringfenced government grants')

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

25. Grant Income

The County Council credited the following grants to the Comprehensive Income & Expenditure Statement:

Grants credited to Taxation and Non Specific Grant Income (see Note 24)	2017/18 ¹		2018/19	
	£000	£000	£000	£000
<u>Non Domestic Rates (MHCLG)</u>				
Business Rates Levy: National Surplus Redistribution	0		-1,197	
Section 31 Business Rates Cap Grant	-2,389		-4,878	
Top-Up to Baseline Funding Level	<u>-3,651</u>		<u>-3,910</u>	
		-6,040		-9,985
<u>Revenue Support Grant (MHCLG)</u>				
Upper Tier Funding	-24,717		-10,036	
Fire and Rescue Funding	<u>-2,976</u>		<u>-2,086</u>	
		-27,693		-12,122
<u>Other Non-Ringfenced Government Grants</u>				
Brexit Preparations Grant (MHCLG)	0		-87	
Education Services Grant (DfE)	-2,192		0	
New Burdens Grant (MHCLG)	-13		0	
New Homes Bonus Grant (MHCLG)	-5,016		-4,105	
Transition Grant (MHCLG)	<u>-6,254</u>		<u>0</u>	
		-13,475		-4,192
<u>Capital Grants and Contributions</u>				
Basic Need Grant (DfE)	-24,651		-23,560	
Capital Maintenance Grant (DfE)	-8,131		0	
Devolved Formula Capital Grant (DfE)	-1,570		-1,563	
Flood Resilience and Pothole Action Fund (DfT)	-967		-2,571	
Healthy Pupils Capital Grant (DfE)	0		-752	
Highways Incentive Block (DfT)	-1,059		-6,012	
Highways Maintenance Grant (DfT)	-12,200		-8,282	
Integrated Transport Grant (DfT)	-3,734		-2,801	
LEP Local Growth Fund Capital Grant (MHCLG)	-8,249		-7,896	
Local Full Fibre Networks Challenge Fund (DCMS)	0		-2,010	
National Productivity Investment Fund (DfT)	-2,783		0	
Roads Fund (DfT)	0		-3,389	
School Conditions Allocation (DfE)	0		-7,908	
West Sussex Safer Roads (DfT)	0		-2,160	
Section 106 Contributions	-4,423		-2,641	
Other Grants and External Contributions	<u>-1,078</u>		<u>-479</u>	
		-68,845		-72,024
Total		<u>-116,053</u>		<u>-98,323</u>

¹ The prior year comparator has been revised to exclude amounts receivable from billing authorities in relation to the local operation of Business Rates and which do not therefore represent grant income

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Grants Credited to Services	2017/18		2018/19	
	£000	£000	£000	£000
<u>Adults and Health</u>				
Adult Social Care Support Grant (MHCLG)	-3,318		-2,065	
Improved Better Care Fund (MHCLG)	-7,414		-15,517	
Independent Living Fund (DoH)	-4,589		-4,444	
Local Reform and Community Voices Grant (DoH)	-458		-465	
Public Health Grant (DoH)	-15,748		-13,143	
Winter Pressures (MHCLG)	0		-3,303	
Other	-551		-471	
		-32,078		-39,408
<u>Children and Young People</u>				
Adoption Support Fund (DfE)	-1,248		-1,398	
Asylum Seekers (HO)	-3,188		-3,104	
Dedicated Schools Grant (DfE)	-44,303		-47,255	
Public Health Grant (DoH)	-12,713		-13,448	
Troubled Families (DfE)	-1,760		-1,752	
Youth Justice Board Youth Offending Teams (MoJ)	-557		-557	
Other	-735		-454	
		-64,504		-67,968
<u>Education and Skills</u>				
Adult and Community Learning - Skills Funding Agency (BIS)	-2,908		-3,052	
Basic Need Capital Grant (DfE) <i>applied to REFCUS</i>	-2,097		-1,258	
Dedicated Schools Grant (DfE)	-357,852		-370,640	
Extended Rights to Free Travel Grant (DfE)	-349		-457	
Primary PE & Sports Equipment Grant (DfE)	-2,766		-3,441	
Private Finance Initiative (MHCLG)	-4,532		-4,532	
Pupil Premium (DfE)	-13,584		-14,059	
School Improvement Monitoring and Brokering Grant (DfE)	-439		-773	
SEND Reform Grant (DfE)	-1,026		0	
Sixth Form Funding - Education Funding Agency (DfE)	-16,035		-15,781	
Teachers' Pay (DfE)	0		-1,661	
Universal Infant Free School Meals Grant (DfE)	-7,580		-7,297	
Other	-228		-637	
		-409,396		-423,588
<u>Environment</u>				
Private Finance Initiative (MHCLG)	-2,124		-2,124	
Other	0		-110	
		-2,124		-2,234
<u>Finance and Resources</u>				
One Public Estate Capacity Grant (CO)	-490		0	
Other	-148		-162	
		-638		-162
<u>Highways and Infrastructure</u>				
Bus Service Operators Grant (DfT)	-436		-436	
Private Finance Initiative (MHCLG)	-6,069		-6,069	
Other	-182		-253	
		-6,687		-6,758
<u>Leader (including Economy)</u>				
Coast to Capital LEP Core Funding (MHCLG)	0		-500	
LEP Local Growth Fund Capital Grant (MHCLG) <i>applied to REFCUS</i>	-100		-653	
		-100		-1,153
<u>Safer, Stronger Communities</u>				
Fire Revenue Grant (MHCLG)	-835		-839	
Public Health Grant (DoH)	-6,010		-7,563	
Other	-470		-264	
		-7,315		-8,666
Total		-522,842		-549,937

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The County 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 may require the monies to be returned to the giver. The balances at year end are as follows:

Capital Grants Receipts in Advance	2017/18	2018/19
	£000	£000
Devolved Formula Capital Grant (DfE)	-1,128	-3,843
Early Years Capital Fund (DfE)	-438	0
Flood Resilience and Pothole Action Fund (DfT)	-2,162	-772
LEP Local Growth Fund Capital Grant (MHCLG)	0	-3,784
Roads Fund (DfT)	-2,425	-2,694
SEND Special Provision Funding (DfE)	0	-833
Social Care Capital Grant (DoH)	-1,839	-1,839
Section 106 Contributions	-52,863	-62,484
A Place to Live	-851	-650
Other Grants and External Contributions	-1,123	-2,582
	<u>-62,829</u>	<u>-79,481</u>

Key to Central Government Departments

BIS	Department for Business, Innovation and Skills
CO	Cabinet Office
DCMS	Department for Culture, Media and Sport
DfE	Department for Education
DfT	Department for Transport
DoH	Department of Health
HO	Home Office
MHCLG	Ministry of Housing, Communities and Local Government
MoJ	Ministry of Justice

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

26. External Audit Costs

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts:

	2017/18 £000	2018/19 £000
Fees payable to EY with regard to external audit services carried out by the appointed auditor for the year	121	92
Fees payable in respect of other services provided by EY during the year	0	0
Total	121	92

The Authority incurred further costs of £4,375 in 2018/19 (2017/18 £4,250) in relation to grant certification services provided by another audit firm.

27. Members' Allowances

The Authority paid the following amounts to members of the Council during the year:

	2017/18 £000	2018/19 £000
Basic Allowances	791	812
Other Allowances	333	360
Travel and Subsistence	67	62
Total	1,191	1,234

28. Environment Agency Services

Precepts payable to the Environment Agency in respect of flood defence for 2018/19 totalled £0.306m (2017/18 £0.295m).

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

29. Dedicated Schools Grant

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

Details of the deployment of DSG receivable for 2018/19 are as follows:

Notes	Central Expenditure £000	ISB £000	Total £000
A Final DSG for 2018/19 before academy recoupment			-582,309
B Academy figure recouped for 2018/19			163,878
Total DSG after academy recoupment for 2018/19			<u>-418,431</u>
Adjustment to 2017/18 early years allocation			536
Total DSG after academy recoupment and other adjustments			<u>-417,895</u>
Plus: Brought forward from 2017/18			-5,489
Less: Agreed carry forward to 2019/20			<u>3,440</u>
Total DSG available for distribution			<u>-419,944</u>
C Agreed initial budgeted distribution in 2018/19	-98,167	-320,182	-418,349
In year adjustments	-878	-717	-1,595
Final budgeted distribution for 2018/19	<u>-99,045</u>	<u>-320,899</u>	<u>-419,944</u>
Less: Actual central expenditure	96,240		96,240
D Less: Actual ISB deployed to schools		320,899	320,899
(Under)/overspend on distributed funds	-2,805	0	-2,805
Plus: Agreed carry forward to 2019/20			-3,440
Total balance on DSG reserve at 31 March 2019			<u><u>-6,245</u></u>

Notes

- (A) Final DSG figure before any amount has been recouped from the Authority.
- (B) Figure recouped from the Authority for the conversion of maintained schools into academies and high needs (post-16) places within special schools.
- (C) Budgeted distribution of DSG as agreed with Schools Forum, January 2018.
- (D) The ISB is regarded for DSG purposes as being spent by the Authority when it is deployed to a school's budget share.

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

30. Expenditure and Income Analysed by Nature

The Authority's expenditure and income is analysed as follows:

Expenditure/Income	2017/18 £000	2018/19 £000
Expenditure		
Employee benefits expenses	540,679	575,382
Other service expenses	672,910	705,398
Depreciation, amortisation and impairment	50,324	-31,695
Interest payments	90,419	107,041
Precepts and levies	1,065	1,096
(Gain)/loss on the disposal of non-current assets	22,601	8,380
Total Expenditure	1,377,998	1,365,602
Income		
Fees, charges and other service income	-174,072	-188,211
Interest and investment income	-46,883	-52,020
Income from Council Tax and Non-Domestic Rates	-485,469	-519,025
Gains from Donated Assets	-8,763	0
Government grants and contributions	-635,244	-638,275
Total Income	-1,350,431	-1,397,531
(Surplus)/Deficit on the Provision of Services	27,567	-31,929

In accordance with the requirements of CIPFA's Code of Practice, these single entity financial statements include all income, expenditure, assets and liabilities of the Authority's maintained schools. Consequently, the analysis of income and expenditure presented by this note includes transactions incurred by the Authority's maintained schools as if they were income and expenditure of the Authority itself.

Staff at voluntary aided and foundation schools are not employees of the Authority, as at these schools the governing body is considered to be the employer. Employee expenses of £67.487m in 2018/19 (£67.010m in 2017/18) in relation to staff employed at the Authority's voluntary aided and foundation schools are included within *Employee benefits expenses* above.

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

31. Officers' Remuneration

Bandings Disclosure

The Authority's employees (including senior employees) receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

2017/18			2018/19	
Non schools	School based	Bandings	Non schools	School based
124	123	£50,000 - £54,999	156	136
54	105	£55,000 - £59,999	50	100
25	58	£60,000 - £64,999	32	57
20	44	£65,000 - £69,999	29	46
9	16	£70,000 - £74,999	8	26
6	6	£75,000 - £79,999	5	8
1	6	£80,000 - £84,999	2	4
2	3	£85,000 - £89,999	5	5
3	5	£90,000 - £94,999	2	2
2	5	£95,000 - £99,999	1	6
1	1	£100,000 - £104,999	2	1
1	1	£105,000 - £109,999	2	1
3	1	£110,000 - £114,999	3	2
3	0	£115,000 - £119,999	1	1
1	1	£120,000 - £124,999	1	0
2	1	£125,000 - £129,999	5	1
2	0	£130,000 - £134,999	1	0
2	0	£135,000 - £139,999	2	0
0	0	£140,000 - £144,999	1	0
0	0	then		
0	0	£155,000 - £159,999	1	0
0	0	£160,000 - £164,999	1	0
0	0	then		
1	0	£190,000 - £194,999	1	0
262	376	Total	311	396

The number of staff with remuneration above £50,000 in 2018/19 was 707, an increase from 638 in 2017/18.

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Senior Officer Disclosure

The remuneration payable to the Authority's senior employees for 2018/19 was as follows:

		Amounts payable in period 1 April 2018 - 31 March 2019								
Post title (as at 31 March 2019)	Post holder ¹	Salary, fees and allowances £	Bonuses £	Expense allowances £	Compensation for loss of employment £	Benefits in Kind £	Total remuneration (excluding pension contributions) ² £	Employer's pension contribution £	Total remuneration (including pension contributions) £	
Chief Executive	Nathan Elvery	190,000				20	190,020	46,930	236,950	
Executive Director of Communities & Public Protection		140,000		18,606			158,606	34,580	193,186	
Executive Director Children, Adults, Families, Health and Education	Kim Curry	150,000		10,800		29	160,829	6,175	167,004	
Executive Director of Economy, Infrastructure & Environment		140,000					140,000	34,580	174,580	
Director of Law & Assurance		115,000					115,000	28,405	143,405	
Director of Finance, Performance & Procurement		125,000		299			125,299	30,875	156,174	
Director of Human Resources & Organisational Change ³		104,417		4,500			108,917	25,791	134,708	
Director of Public Health		130,000					130,000	18,694	148,694	
Director of Fire Service Operations & Chief Fire Officer		129,247					129,247	28,210	157,457	
Director of Public Protection & Deputy Chief Fire Officer		126,000					126,000	27,342	153,342	
Director of Communities		115,000		12,113			127,113	28,405	155,518	
Director of Education and Skills ⁴		46,444				61	46,505	11,472	57,977	
Director of Education and Skills ⁵		36,668					36,668	9,057	45,725	
Director of Children & Family Services ⁶		138,261					138,261	25,374	163,635	
Interim Director of Children & Family Services ⁷		Post holder not directly employed by West Sussex County Council - please see footnote below								
Director of Adults' Services ⁸		18,710					18,710	4,621	23,331	
Interim Director of Adults' Services ⁹		Post holder not directly employed by West Sussex County Council - please see footnote below								
Interim Director of Adults' Services ¹⁰		Post holder not directly employed by West Sussex County Council - please see footnote below								
Director of Adults' Services ¹¹		29,234					29,234	7,221	36,455	
Director of Economy, Planning & Place ¹²		32,581					32,581	8,047	40,628	
Director of Energy, Waste & Environment		110,000				5	110,005	27,170	137,175	
Director of Highways & Transport		109,000		11,750			120,750	27,170	147,920	

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Notes to 2018/19 Senior Officer Remuneration Disclosure

- ¹ In accordance with the relevant legislation, senior officers are only identified by name where they have an annual salary of £150,000 or greater
- ² This column excludes employer's pension contributions from the definition of remuneration, and as such can be read in conjunction with the Officers' Remuneration banding disclosure
- ³ Director of Human Resources & Organisational Change from 3 April 2018
- ⁴ Director of Education and Skills to 3 September 2018
- ⁵ Director of Education and Skills from 1 December 2018
- ⁶ Director of Children & Family Services to 1 February 2019; salary includes payment in lieu of notice
- ⁷ Interim Director of Children & Family Services from 19 November 2018
- ⁸ Director of Adults' Services to 28 May 2018
- ⁹ Interim Director of Adults' Services to 4 July 2018
- ¹⁰ Interim Director of Adults' Services from 5 July to 19 December 2018
- ¹¹ Director of Adults' Services from 7 January 2019
- ¹² Director of Economy, Planning & Place to 9 July 2018

The following posts formed part of the Authority's senior officer structure for the period, but the post holders were not directly employed by West Sussex County Council and so their costs are not included in the table above:

Payments of £99,461 have been made to Tile Hill for the services of the Interim Director of Children & Family Services from 19 November 2018

Payments of £72,375 have been made to Penna Plc for the services of the Interim Director of Adults' Services to 4 July 2018

Payments of £66,110 have been made to Penna Plc for the services of the Interim Director of Adults' Services from 5 July to 19 December 2018

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The remuneration payable to the Authority's senior employees for 2017/18 was as follows:

Post title (as at 31 March 2018)	Post holder ¹	Amounts payable in period 1 April 2017 - 31 March 2018					Total remuneration (excluding pension contributions) ² £	Employer's pension contribution £	Total remuneration (including pension contributions) £	
		Salary, fees and allowances £	Bonuses £	Expense allowances £	Compensation for loss of employment £	Benefits in Kind £				
Chief Executive	Nathan Elvery	190,000				50	190,050	46,930	236,980	
Deputy Chief Executive, Executive Director Communities & Public Protection and Chief Fire Officer ³	Sean Ruth	32,753				456	33,209	6,076	39,285	
Executive Director Communities & Public Protection ⁴		31,989					31,989	7,901	39,890	
Executive Director Children, Adults, Families, Health and Education ⁵		109,140				6	109,146	25,935	135,081	
Executive Director Children, Adults, Families, Health and Education ⁶	Kim Curry	37,500		5,044		7	42,551	0	42,551	
Executive Director Economy, Infrastructure & Environment		140,000					140,000	34,580	174,580	
Director of Law & Assurance		115,000					115,000	28,405	143,405	
Director of Finance, Performance & Procurement		123,347		1,793			125,140	30,467	155,607	
Director of Transformation, Customer and Support Services ⁷		66,774					66,774	15,501	82,275	
Interim Director of Human Resources & Organisational Change ⁸		Post holder not directly employed by West Sussex County Council - please see footnote below								
Director of Public Health ⁹		31,801				3	31,804	4,573	36,377	
Director of Fire Service Operations & Chief Fire Officer ¹⁰		129,200				3,643	132,843	28,036	160,879	
Director of Public Protection and Deputy Chief Fire Officer ¹¹		126,000				617	126,617	26,973	153,590	
Director of Communities		113,347					113,347	27,997	141,344	
Director of Education and Skills		110,000				20	110,020	27,170	137,190	
Director of Children and Family Services		123,763					123,763	30,570	154,333	
Director of Adults' Services		119,382		17,189			136,571	29,487	166,058	
Director of Economy, Planning & Place		120,000		12,190			132,190	29,640	161,830	
Director of Energy, Waste & Environment ¹²		92,258				5	92,263	22,788	115,051	
Director of Highways & Transport		110,000		8,037			118,037	27,170	145,207	

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Notes to 2017/18 Senior Officer Remuneration Disclosure

- ¹ In accordance with the relevant legislation, senior officers are only identified by name where they have an annual salary of £150,000 or greater
- ² This column excludes employer's pension contributions from the definition of remuneration, and as such can be read in conjunction with the Officers' Remuneration banding disclosure
- ³ Deputy Chief Executive, Executive Director Communities & Public Protection and Chief Fire Officer to 12 June 2017
- ⁴ Executive Director Communities & Public Protection from 9 January 2018
- ⁵ Executive Director Children, Adults, Families, Health and Education to 31 December 2017
- ⁶ Executive Director Children, Adults, Families, Health and Education from 1 January 2018
- ⁷ Director of Transformation, Customer and Support Services to 17 October 2017
- ⁸ Interim Director of Human Resources & Organisational Change from 4 September 2017
- ⁹ Director of Public Health from 3 January 2018
- ¹⁰ Director of Fire Service Operations and Chief Fire Officer from 13 June 2017, previously Director of Operations and Acting Deputy Chief Fire Officer
- ¹¹ Director of Public Protection and Deputy Chief Fire Officer from 13 June 2017, previously Acting Director of Public Protection
- ¹² Director of Energy, Waste & Environment from 30 May 2017

The following post formed part of the Authority's senior officer structure for the period, but the post holder was not directly employed by West Sussex County Council and so their costs are not included in the table above:

Payments of £105,182 were made to Penna PLC for the services of the Interim Director of Human Resources & Organisational Change from 4 September 2017

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Exit Packages

The Authority terminated, or made provision to terminate, the contracts of a number of employees in 2018/19. Total liabilities of £2.511m were incurred for the period (£3.626m in 2017/18).

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band (b + c)		(e) Total cost of exit packages in each band	
	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19
£0 - £20,000	40	71	68	35	108	106	£903,943	£747,022
£20,001 - £40,000	9	7	23	16	32	23	£898,317	£646,293
£40,001 - £60,000	3	3	15	7	18	10	£888,914	£501,503
£60,001 - £80,000	1	0	6	1	7	1	£479,972	£67,555
£80,001 - £100,000	0	1	0	4	0	5	£0	£442,966
£100,001 - £150,000	0	0	1	1	1	1	£138,467	£106,024
£150,001 - £200,000	0	0	2	0	2	0	£316,652	£0
Total	53	82	115	64	168	146	£3,626,265	£2,511,363

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

32. Pooled Budgets

The Authority has entered into a number of pooled budget arrangements with the NHS and other local authorities for the provision of integrated health and social care. Memo accounts, demonstrating the funds provided by each partner and expenditure incurred against these funds, are presented below. Detail on the Authority's accounting treatment for each of the arrangements is provided in the summary of accounting policies at Note 41.

Learning Disabilities

An agreement under section 75 of the National Health Service Act 2006, this pooled budget (hosted by West Sussex County Council) seeks to exploit the benefits of Health Act flexibilities by means of integrated provision and lead commissioning. The budget is a means to enhance partnership working under the governance of the West Sussex Partnership Board, merging financial resources between the County Council and NHS Coastal, Crawley and Horsham & Mid-Sussex Clinical Commissioning Groups.

	2017/18		2018/19	
	£000	£000	£000	£000
Funding provided to the pooled budget:				
West Sussex County Council	-	70,412	-	77,725
West Sussex Clinical Commissioning Groups (CCGs)	-	16,036	-	17,702
		- 86,448		- 95,427
Expenditure met from the pooled budget:				
West Sussex County Council	74,188		78,523	
West Sussex Clinical Commissioning Groups (CCGs)	16,896		17,883	
		91,084		96,406
Net (surplus)/deficit arising on the pooled budget during the year		4,636		979
Authority's share of the net (surplus)/deficit		3,776		797

Mental Health

This Section 75 agreement under the National Health Service Act 2006 provides for a pooled budget. This seeks to exploit the benefits of Health Act flexibilities by means of integrated provision and lead commissioning via the enhancement of joined up working in health and social care. The budget, hosted by NHS, is a means to achieve partnership working under the governance of the Joint Commissioning Board, merging financial resources between the Clinical Commissioning Groups and the County Council.

	2017/18		2018/19	
	£000	£000	£000	£000
Funding provided to the pooled budget:				
West Sussex County Council	-	8,464	-	8,711
West Sussex Clinical Commissioning Groups (CCGs)	-	55,999	-	57,633
		- 64,463		- 66,344
Expenditure met from the pooled budget:				
West Sussex County Council	8,544		8,861	
West Sussex Clinical Commissioning Groups (CCGs)	56,528		58,623	
		65,072		67,484
Net (surplus)/deficit arising on the pooled budget during the year		609		1,140
Authority's share of the net (surplus)/deficit		80		150

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Better Care Fund

The County Council has entered into a pooled budget arrangement with Coastal West Sussex CCG, Horsham and Mid Sussex CCG and Crawley CCG for the pooling of resources with all commissioning partners to provide a joint programme of work to deliver better outcomes for patients and improve services. The Council acts as host and banker in the arrangement, but shares control jointly with each partner.

	2017/18		2018/19	
	£000	£000	£000	£000
Funding provided to the pooled budget:				
West Sussex County Council	-	8,957	-	9,568
West Sussex Clinical Commissioning Groups (CCGs)	-	38,129	-	38,854
		- 47,086		- 48,422
Expenditure met from the pooled budget:				
West Sussex District and Boroughs		7,079		7,690
West Sussex County Council		25,333		25,350
West Sussex Clinical Commissioning Groups (CCGs)		14,909		15,373
		47,321		48,413
Net (surplus)/deficit arising on the pooled budget during the year		235	-	9
Underspending brought forward	-	234	-	18
Interest earned on cash balances	-	19	-	90
		- 18		- 117
Balance carried forward		-		117

The use of any underspend on the pooled budget is determined by the Joint Commissioning Strategy Group. Underspends may be returned to partners or reinvested in other schemes.

In addition to the pooled funds disclosed above, the Authority receives a further Improved Better Care Fund (iBCF) grant allocation directly from central government. Whilst the iBCF is intended to support the wider BCF programme, these monies are not subject to the joint control arrangements of the BCF, and so are not accounted for as part of the pooled budget. West Sussex County Council received an iBCF allocation of £14.4m in 2018/19, of which £11.5m has been recognised in the Comprehensive Income and Expenditure Statement for the period (in addition to £4.0m carried forward from 2017/18). The balance of £2.9m has been carried forward as a receipt in advance, as there are outstanding conditions on the grant which will only be met when the funds are applied.

33. Related Parties

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently, or might have secured the ability to limit another party's ability to bargain freely with the Authority.

Central Government

Central government has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides a significant proportion of its funding in the form of grants, and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills). The total of grants received from government departments is set out in the subjective analysis of income and expenditure in Note 30. Grants receivable for the period are further detailed in Note 25.

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in Note 27.

A survey of the related party interests of members and their immediate family members was carried out in preparing this Statement of Accounts. Interests were declared by members who held the following positions with organisations that have transacted with the Council during the year:

- Director and Trustee of Crawley Open House, and also a member of the Executive Committee of South-East Employers. In 2018/19 goods and services to the value of £342,075 and £25,849 respectively were commissioned from these organisations.
- Director and Trustee of Coastal West Sussex MIND. In 2018/19, the Authority commissioned goods and services to the value of £226,353 from this entity and received income of £888.

All contracts were entered into in full compliance with the Authority's standing orders for procurement.

Officers

A survey of the related party interests of Senior Officers and their immediate family members was carried out in preparing this Statement of Accounts.

An interest was declared by the Executive Director of Economy, Infrastructure & Environment, who is a Trustee and Non-Executive Director of Transform Housing and Support. During the 2018/19 financial year, the Council made payments totaling £27,563 to this entity.

The Director of Children and Family Services, who left the Authority during the year, had previously declared an interest relating to her husband's employment by MacIver Maher Ltd, who transact with the County Council. During the 2018/19 financial year the Council made payments of £30,500 to MacIver Maher Ltd.

All contracts were entered into in full compliance with the Authority's standing orders for procurement.

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Other Public Bodies

The West Sussex Pension Fund is administered by West Sussex County Council. Consequently there is a strong relationship between the Council and the Pension Fund.

In 2018/19 the Council incurred costs of £1.1m (2017/18 £1.1m) in relation to the administration of the Fund, and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund, and contributed £57.5m to the Fund in 2018/19 (2017/18 £54.9m). All monies owing to and due from the Fund have been accounted for in the year.

Part of the Pension Fund cash holdings are invested in the money market by the treasury management operations at West Sussex County Council, in line with the Fund's Treasury Management Policy. During the year to 31 March 2019, the Fund had a daily average investment balance of £50.0m held in Sterling (31 March 2018 £49.7m), earning interest of £0.31m (2017/18 £0.13m) in these funds at a rate of return of 0.62% (2017/18 0.27%). Additionally, the Fund has earned interest of £0.13m (2017/18 £0.03m) on investments held in foreign currency.

Entities Controlled or Significantly Influenced by the Authority

Under the West Sussex County Council Act 1972, West Sussex County Council and Arun District Council (ADC) each appoint four members to the Littlehampton Harbour Board. The Act provides that the Harbour Board should meet its expenses from receipts but that any deficiency is made good from its own internal reserve fund and a precept, shared equally, on the County Council and ADC. During 2018/19 the precept on the County Council was £0.146m (2017/18 precept £0.102m).

The Authority has identified interests in two other entities, West Sussex Music Trust and Aspire Sussex Ltd. However, the Authority has judged that it does not have significant influence over either entity. Further details are provided in Note 42.

In accordance with the requirements of the Code of Practice, these "single entity" financial statements include all income, expenditure, assets and liabilities of the Authority's maintained schools. Whilst the Authority has responsibility for distributing funding to its maintained schools, under the local management of schools the responsibility for spending this budget is delegated to the governing body of the school concerned. The Authority is therefore restricted in the extent to which it controls the income, expenditure, assets and liabilities included in its financial statements which relate to its maintained schools. At the reporting date, the Authority operated 216 maintained schools (219 at 31 March 2018). Non-current assets with a net book value of £1,085m (£927m at 31 March 2018) were recognised in relation to these schools.

NOTES TO THE CASH FLOW STATEMENT

34. Cash Flow Statement - Adjustments to net surplus/deficit on the provision of services for non-cash movements

	2017/18	2018/19
	£000	£000
Charges for depreciation of non current assets	-64,604	-68,334
Charges for amortisation of intangible assets	-500	-400
Revaluations gains/losses on Property, Plant and Equipment and Assets Held for Sale charged to the Surplus/Deficit on Provision of Services	14,455	100,014
Impairment of non current assets	0	0
Movements in the market value of Investment Property	325	415
Amount of assets written off on disposal or sale as part of the gain/loss on disposal charged to the Surplus/Deficit on Provision of Services	-24,297	-15,830
Gains upon recognition of Donated Assets	8,763	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-103,718	-130,489
Employer's pension contributions and direct payments to pensioners payable in year	56,951	58,145
(Increase) / decrease in creditors	-10,153	36,855
Increase / (decrease) in debtors	6,708	-7,204
Increase / (decrease) in inventories	-30	-16
Contributions (to) / from provisions	109	-1,593
Net adjustments for non-cash movements	-115,991	-28,437

35. Cash Flow Statement - Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities

	2017/18	2018/19
	£000	£000
Proceeds from the sale of Property, Plant and Equipment, Investment Property, Intangible Assets and Assets Held for Sale	1,696	6,742
Capital grants and contributions recognised in the Comprehensive Income and Expenditure Statement	68,845	72,024
	70,541	78,766

36. Cash Flow Statement – Investing Activities

	2017/18	2018/19
	£000	£000
Purchase of Property, Plant and Equipment, Investment Property and Heritage Assets	92,359	108,566
Net position of short-term and long-term investments	5,990	-86,019
Proceeds from the sale of Property, Plant and Equipment, Investment Property, Intangible Assets and Assets Held for Sale	-1,696	-6,742
Capital grants and contributions recognised in the Comprehensive Income and Expenditure Statement	-68,845	-72,024
Net position on capital grants and contributions receipts in advance	-11,269	-16,652
Net cash flows from investing activities	16,539	-72,871

37. Cash Flow Statement – Financing Activities

	2017/18	2018/19
	£000	£000
Repayment of PFI and finance lease liabilities	5,296	10,296
Net position of short and long term borrowing	6,764	6,805
Net cash flows from financing activities	12,060	17,101

38. Events after the Balance Sheet date

In December 2018, the Court of Appeal upheld a ruling ("McCloud/Sargeant") that transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the Local Government Pension Scheme (and other public service schemes) as well. The UK Government requested leave to appeal to the Supreme Court, but this was denied at the end of June 2019.

The Authority recognises this denial of leave to appeal as an adjusting post balance sheet event. The Authority has revised its estimate of its net pension liability to provide for the potential obligations arising from this ruling.

Further detail on this ruling and how the impact on the Authority's pension liability has been estimated is provided at Note 17 Defined Benefit Pension Schemes.

39. Contingent Assets

West Sussex County Council currently has no material contingent assets.

40. Contingent Liabilities

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

West Sussex County Council recognises the following contingent liabilities:

- (1) A potential liability exists in respect of the insolvency of Independent Insurance Company Ltd, and its failure to enter into a scheme of arrangement with its creditors. This liability is ongoing but cannot be quantified. Known claims are provided for in the Insurance provision (see Note 14), but there is a risk of new claims arising from the period when the Independent Insurance Company provided cover to the Council (September 1992 to September 2000). An Insurance reserve (see Note 3) is maintained to provide for the risk of unknown future claims.
- (2) A potential liability exists in relation to any future costs of maintaining six closed landfill sites in the County. The Authority is responsible for monitoring these sites to ensure that they are being maintained correctly, and that there is no harm being caused to the surrounding environment. No provision has been recognised in the accounts as it is not currently possible to measure the size of any such obligation with sufficient reliability.
- (3) A potential liability exists in relation to NHS Trusts who are seeking mandatory charitable relief on business rates. Should this appeal be successful NHS Trusts will be entitled to an 80% discount, backdated for a period of six years. This cost would be split between MHCLG and Local Government. Whilst a general provision for Non-Domestic Rates Appeals is recognised based on the provisions held by the Council's billing authorities (see Note 14), no specific provision has been made for NHS Trust charitable appeals at this stage as an obligation requiring settlement is not considered to be probable. However, the Authority has earmarked funding in a reserve (see Note 3) for the eventuality of any successful appeals.

NOTES TO THE FINANCIAL STATEMENTS

- (4) A financial claim has been made in relation to the procurement of the Authority's high value highways maintenance contract. The legal process does not yet have a timetable for its conclusion but will require resolution through the court process or agreement. Whilst the potential value of the claim is known, the likelihood of resolving the claim at that value or a lower value cannot be estimated with any certainty at this stage.
- (5) The Council is on notice of the potential for claims associated with the possible exposure of a small number of individuals to harm during some building work undertaken for the Council. An investigation identified a low risk but the likelihood of future claims and any necessary provision for their resolution cannot be assessed at this time.

41. Accounting Policies**(i) General Principles**

The Statement of Accounts summarises the Authority's transactions for the reported financial year and its position at the end of the reporting period. The Authority is required by the Accounts and Audit Regulations 2015 to prepare an annual Statement of Accounts in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom ('the Code') for the relevant reporting period, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

(ii) Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, 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 Authority, that the cost of the item can be measured reliably, and that it exceeds the Authority's de minimis threshold. 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.

The Authority applies a de minimis level of £10,000 for the capitalisation of expenditure on Property, Plant and Equipment. Items of expenditure below this de minimis level are charged to the relevant service within the Comprehensive Income and Expenditure Statement in the reporting period it is incurred. A lower de minimis of £2,000 applies to expenditure funded by the Devolved Formula Capital Grant, as per the West Sussex Scheme for Financing Schools.

Recognition - Schools

In accordance with the Code, the Authority recognises school assets on its balance sheet only where it controls the flow of future service potential. Community and voluntary controlled school assets are therefore recognised on the balance sheet as the Authority directly employs the staff, sets the admissions criteria and is the freeholder of the premises at these schools. Foundation schools are off-balance sheet as the school's governing body sets the admissions criteria, holds the freehold and has responsibility for the maintenance of the assets. Buildings at voluntary aided schools are off-balance sheet for the same reasons, but land is held on-balance sheet as the Authority retains the statutory responsibility for the maintenance of this.

A number of schools in the County now hold Academy status. Although the Authority retains the freehold of the land and short-term operating leases are granted to enable the Academies access to the sites where building work is underway, once any building work has been completed on these sites a 125 year lease for the land is granted. As a result, the land is revalued to reflect its minimal value due to its restricted use. As legal ownership of the building transfers to the Academy, all building assets relating to Academies are removed from the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Authority does not capitalise borrowing costs.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account via the Movement in Reserves Statement.

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

- Infrastructure and short-lived assets such as vehicles, plant and equipment – depreciated historical cost
- Assets under construction – historical cost
- Surplus assets – fair value, estimated at the highest and best use from a market participant's perspective
- All other assets – current value, determined as the amount that would be paid for the asset in its existing use.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.

The Code requires that assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount does not materially differ from their current value at year-end, but as a minimum every five years. The Authority undertook a full revaluation of all its non-current assets at 1 April 2013, and has subsequently adopted a rolling approach to revaluations to ensure that all assets are subject to revaluation at least once every five years. Assets not subject to revaluation in any given year are tested for indexation to ensure that the carrying value does not become materially misstated between formal valuations.

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 that Statement).

Where decreases in value are identified, they are accounted for as follows:

- 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 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, 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 as follows:

- 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 in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line 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.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets. An exception is made for assets without a determinable finite useful life (i.e. freehold land and heritage assets) and assets that are not yet available for use (i.e. assets under construction). New assets are depreciated from 1 April of the year that follows the date of initial recognition. Depreciation is calculated on the following bases:

- Buildings – on a straight line basis over a period of 60 years (new builds post 1 April 2008) or 35 years (builds pre 1 April 2008)
- Vehicles, plant, furniture and equipment – individual useful life on a straight line basis as estimated by a suitably qualified officer
- Infrastructure – straight line basis over a period of 25 years for major road developments and 15 years for structural maintenance of carriageways and bridges (useful lives for other infrastructure assets to be estimated by a suitably qualified officer).

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.

Componentisation

Where a 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.

Componentisation of an asset is not required where depreciating the item would not result in a material misstatement of either the depreciation charges or carrying amount of the asset. As a result the Authority has determined that assets with a gross carrying value below a de minimis of £10m shall not be considered for componentisation.

For assets which are subject to componentisation, the Council has established the following significant components (based upon similar useful lives). This is in addition to the host asset component (main building structure), which retains its existing useful life:

- Building Roof and Externals (40 year useful life)
- Building Mechanicals and Electricals (25 year useful life)

NOTES TO THE FINANCIAL STATEMENTS

At the point of componentisation, any accumulated revaluation gains (held in the Revaluation Reserve) or impairment losses (held in the Capital Adjustment Account) associated with componentised assets are attributed to the building's host structure component, as it is considered unlikely that the roof/externals and mechanicals/electricals will have given rise to revaluation gains and losses independently of the structure of the building.

Subsequent valuations obtained under the Authority's rolling revaluation programme shall be applied separately to the building components in accordance with the certificates provided by the external valuers, with gains and losses being recognised in the Revaluation Reserve and Capital Adjustment Account in accordance with the requirements of the Code.

Disposals and Non-Current Assets Held for Sale

Surplus assets are subject to formal reporting requirements declaring the asset surplus and a surplus declaration date of 1 April is applied irrespective of the date of the actual report. An asset will be subsequently classified as held for sale at the end of the financial year provided it has been officially declared surplus through cabinet member decision and it complies with the following qualification criteria outlined within IFRS 5:

- The asset is available for immediate sale
- Sale of the asset is highly probable
- The sale is actively marketed
- The sale is expected to be completed within one year of classification.

The asset will be revalued immediately before being reclassified as an Asset Held for Sale and then carried at the lower of this amount and fair value less costs of sale. 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 the Provision of Services. Depreciation is not charged on Assets Held for Sale.

Should the period required to complete the sale extend beyond one year, the asset will continue to be classed as an Asset Held for Sale provided the asset is still being actively marketed and the delay in completion is due to circumstances beyond the control of the Authority, for example:

- Economic downturn
- Buyer/Third party conditions of sale.

If an asset no longer meets the criteria to be classified as an Asset Held for Sale, it is reclassified back to non-current assets and valued at the lower of the carrying amount before it was classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had it not been classified as held for sale, and the recoverable amount at the date of the decision not to sell.

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.

NOTES TO THE FINANCIAL STATEMENTS

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts, while amounts below this are credited to revenue. The balance of receipts remains within the Capital Receipts Reserve, and can then only be used for new capital investment (or set aside to reduce the Authority's underlying need to borrow i.e. the Capital Financing Requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

Statutory arrangements allow costs of disposals to be financed by capital receipts, capped to 4% of the capital receipt. Costs incurred prior to the sale are carried forward and offset in the year of disposal.

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 via the Movement in Reserves Statement.

A direction provided by the Secretary of State for Housing, Communities and Local Government under the Local Government Act 2003 provides for additional flexibility on the use of capital receipts until March 2022. Under this direction, authorities may apply capital receipts received in the years to which the direction applies to meet the revenue costs of transformation projects which deliver ongoing savings. The Authority does not currently have plans to make use of this flexibility. Any future application of this flexibility shall require the advance endorsement of full Council.

(iii) Investment Property

Investment Properties are assets 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, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, Investment Properties are valued at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains or 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.

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 in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

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.

(iv) Charges to Revenue for Non-Current Assets

Services are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible assets attributable to the service.

NOTES TO THE FINANCIAL STATEMENTS

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. These transactions are therefore reversed out from the General Fund Balance via the Movement in Reserves Statement to the Capital Adjustment Account.

The Authority is however required by the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended in 2008) to make a prudent annual contribution from revenue towards the reduction in its overall borrowing requirement, the CFR (Capital Financing Requirement). This contribution is referred to as the Minimum Revenue Provision (MRP).

In accordance with statutory guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG), the Authority adopts separate calculations for borrowing that was supported by central government and for unsupported, "self-financed" borrowing. The respective methodologies are as follows:

Supported Borrowing

The Authority adopted a revised MRP calculation for its supported borrowing (including pre-April 2008 unsupported borrowing) effective 1 April 2016. MRP is made on all such outstanding borrowing as at 31 March 2016 on a 2% annuity basis over a repayment period of 40 years from that date.

Unsupported Borrowing

The Authority has adopted the Asset Life (Annuity) Method (MHCLG guidance option 3b) for the repayment of unsupported borrowing undertaken since 1 April 2008. This method provides MRP on an annuity basis over a repayment period equal to the estimated life of the asset for which the borrowing was undertaken, up to a maximum of 50 years. The annuity rates applied are based upon the average Public Works Loan Board rates (for a loan duration equal to the asset life) in the year the borrowing was undertaken.

MRP – Finance Lease and PFI

In line with MHCLG regulations to mitigate the impact of the move to IFRS on the Council's revenue account, it is the policy of West Sussex County Council to make an annual MRP charge equal to the portion of the payment taken to the Balance Sheet to reduce the liability.

(v) Intangible Assets

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

Intangible assets are measured initially at cost, and amortised over their useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. Under statute, amortisation is not permitted to impact on the General Fund balance, and therefore this charge is reversed out through the Movement in Reserves Statement and posted to the Capital Adjustment Account.

(vi) Government Grants and Contributions

Government grants and third party contributions and donations are recognised as due to the Authority where there is reasonable assurance that:

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

NOTES TO THE FINANCIAL STATEMENTS

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (receipts in advance). 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-ringfenced 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 to the Capital Grants Unapplied Account via the Movement in Reserves Statement. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have applied to fund capital expenditure.

(vii) Revenue Expenditure Funded from Capital Under Statute (REFCUS)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, 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.

(viii) 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.

The Authority as Lessee

Finance Leases

Property, Plant and Equipment held under finance leases is recognised on the Balance Sheet at the beginning 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 Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

NOTES TO THE FINANCIAL STATEMENTS

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting 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 Authority as Lessor

Finance Leases

Where the Authority leases an asset out on a finance lease, the existing asset of Property, Plant or Equipment is written out of the Balance Sheet as a disposal and a long-term debtor representing the Authority's net investment in the lease is recognised instead.

As a disposal, the writing out of the asset and the recognition of the long-term debtor is accounted for as part of the gain or loss on disposal of non-current assets in the Comprehensive Income and Expenditure Statement with the debtor representing the sale proceeds.

Under statute, the gain or loss recognised in the Comprehensive Income and Expenditure Statement is reversed out of the General Fund balance and posted to the Deferred Capital Receipts Reserve (proceeds) and Capital Adjustment Account (disposal) via the Movement in Reserves Statement. Deferred capital receipts are released to the Capital Receipts Reserve as the lease debtor is settled.

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).

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet and 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).

IFRS Transitional Rules

In accordance with regulations issued upon the implementation of IFRS, amounts receivable under leases that changed from operating leases to finance leases (or vice versa) are accounted for as if the status of the lease had not changed, in that:

- Amounts receivable under operating leases that became finance leases on transition to IFRS continue to be credited to the General Fund balance as revenue income
- Amounts receivable for principal payments under finance leases that became operating leases on transition to IFRS continue to be treated as capital receipts.

NOTES TO THE FINANCIAL STATEMENTS

In both cases, the leases are accounted for in accordance with the current provisions of the Code, with adjustments to the General Fund balance being made in the Movement in Reserves Statement.

(ix) Private Finance Initiative (PFI) 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 Authority 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 Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment. The Authority has three PFI schemes on its Balance Sheet - Crawley Schools, Recycling and Waste Handling and Street Lighting.

The original recognition of these assets at fair value was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Authority. 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 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
- Payments towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- Lifecycle replacement costs – 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.

(x) Accruals of Income and Expenditure

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

In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

NOTES TO THE FINANCIAL STATEMENTS

Where income or expenditure is to be recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. The Council has applied a de minimis threshold of £10,000 for all manual accruals of income and expenditure.

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. An examination of debtors outstanding at 31 March has been made and a provision has been included for doubtful debts. This includes a provision for general doubtful debts, which is reviewed annually.

Under local management, the accounts for schools have been closed down at a slightly earlier date. These accounts have been closed prior to the full reconciliation of individual school accounts with the result that creditors, debtors and schools reserves are shown on an estimated basis.

(xi) Overheads and Support Services

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

(xii) Reserves

The County 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 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 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 Authority – these reserves are explained in the relevant policies.

(xiii) 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 Authority 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 Authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settling 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 Authority settles the obligation.

(xiv) Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority 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 Authority.

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 are disclosed in a note to the accounts.

(xv) Financial Instruments

a) Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority 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 most of the borrowings that the Authority has, 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.

b) Financial Assets

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

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI) - the Authority has currently not designated any financial asset into this category.

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

Financial Assets Measured at Amortised Cost:

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Authority 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.

NOTES TO THE FINANCIAL STATEMENTS

For most of the financial assets held by the Authority, 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. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Code includes a number of provisions for the accounting of soft loans (loans made to voluntary organisations at below market rates), primarily relating to the recognition of foregone interest. The Authority's policy is to apply the materiality concept of the Code, and so has decided not to adopt any of these provisions for soft loans below £500,000. Any such loans are therefore accounted for as per other assets measured at amortised cost as set out in the previous paragraph.

Expected Credit Loss Model:

The Authority recognises expected credit losses on all of its financial assets held at amortised cost (or FVOCI when applicable) either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables held by the Authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses. No loss allowance is recognised for assets where the counterparty is central government or a local authority whereby relevant statutory provisions prevent default.

In addition to financial investments, whereby risk is mitigated through the creditworthiness policy contained within the annually approved Treasury Management Strategy, the Authority may agree loans to third parties (organisations or individuals) when considered to be of an economic or social benefit to the local area. The Authority will assess the expected credit loss by loan (or group of loans where considered to be of similar nature) on a 12-month or lifetime loss model dependent on the risk level applied to the loan(s).

Financial Assets Measured at Fair Value through Profit or Loss:

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

In November 2018 the Ministry of Housing, Communities and Local Government announced a statutory override applicable to English Local Authorities regarding fair value movements on pooled investments funds, covering a five year period commencing 1 April 2018. During the period of the statutory override, the Authority will transfer all fair value movements recognised in the Surplus or Deficit on the Provision of Services relating to pooled investment funds to the unusable Financial Instruments Revaluation Reserve.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

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.

(xvi) Cash and Cash Equivalents

Cash and Cash Equivalents represents cash in hand and cash equivalents, defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are not held for the purposes of an investment gain, but rather are retained so that the Authority has monies available to settle its liabilities. The Authority therefore recognises as cash equivalents only those deposits held for the purposes of cash management and repayable without penalty on notice of not more than 24 hours.

Deposits made for the purposes of securing an investment gain are classified as Short Term Investments.

Bank overdrafts form an integral part of the Authority's cash management and are therefore consolidated within net Cash and Cash Equivalents as presented in the Authority's core financial statements.

(xvii) Schools

The Code confirms that the balance of control for local authority maintained schools (as identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. Therefore schools' transactions, cash flows and balances are recognised in the single entity financial statements of the Authority as if they were the transactions, cash flows and balances of the Authority.

(xviii) Council Tax and Non-Domestic Rates

Billing authorities act as agents, collecting council tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation 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 Balance Sheet includes the Authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

(xix) Value Added Tax

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

(xx) Employee Benefits

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 (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) 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 Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy, and are charged on an accruals basis to the Comprehensive Income and Expenditure Statement when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

(xxi) Post-employment Benefits

Employees of the council may be members of four separate pension schemes:

- the Local Government Pension Scheme, administered by West Sussex County Council;
- the Firefighters' Pension Scheme, administered by West Sussex County Council;
- the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- the National Health Service (NHS) Pension Scheme, administered by the NHS.

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

However, the arrangements for the Teachers' and NHS Pension Schemes mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The schemes are therefore accounted for as if they were defined contribution schemes, and therefore no liability for future payments of benefits is recognised in the Balance Sheet. The employer contributions payable to the respective scheme administrators is recognised as an in-year expense against the appropriate service line in the Comprehensive Income and Expenditure Statement.

The Local Government Pension Scheme and The Firefighters' Pension Scheme

The Local Government and Firefighters' Pension Schemes are accounted for as defined benefit schemes:

NOTES TO THE FINANCIAL STATEMENTS

- The liabilities of the respective schemes attributable to the Authority 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 projected earnings for current employees).
- Liabilities are discounted to their value at current prices, using an appropriate discount rate.

The assets of the Local Government Pension Scheme attributable to the Authority are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value

The change in the net pensions liability is analysed into the following components:

Service cost, comprising:

- 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 as a result of a scheme amendment or curtailment 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
- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

Remeasurements, comprising:

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- 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 – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

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 to be charged with the amount payable by the Authority 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 earned by employees.

(xxii) Early Retirement Costs

The County Council's policy is to charge the full costs of early retirement to the relevant service at the earliest date. The Local Government Pension Scheme allows authorities to spread these costs over three years, but in keeping with the policy aim, these are recognised in full in the year they are incurred. This discretion does not exist for the Firefighters' Pension Scheme, where regulation requires that the costs are spread over three years to smooth the volatility of variable numbers of ill-health retirements.

(xxiii) Senior Officer Remuneration

The Code contains requirements for the disclosure of the remuneration of higher paid officers. However, these requirements are derived from (and supplemented by) the overarching requirements of the Accounts and Audit Regulations:

- For England – regulation 7 of the Accounts and Audit Regulations 2015 (as specified in Schedule 1 SI 2015/234)

There are two related disclosures required by the regulations:

- Figures for the number of officers whose remuneration was £50,000 or more, grouped in £5,000 bands (starting at £50,000)
- The individual remuneration of senior employees.

Disclosure of senior officers' remuneration is made on an accruals (rather than cash) basis in line with the definition of remuneration provided by the regulations, which states that remuneration is to include "all amounts paid to or receivable by a person..."

The regulations dictate that the disclosure of remuneration by category must be made by reference to individuals, with the following proviso:

- Where the senior employee or relevant police officer's salary is £150,000 or more per year, they must be identified by name and job title
- Where the senior employee's salary is less than £150,000, only their job title must be disclosed.

(xxiv) Prior Period Adjustments and Changes in Accounting Estimates

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 Authority'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.

(xxv) Fair Value Measurement

The Authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings 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 Authority measures 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 Authority 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 Authority 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 Authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority 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.

(xxvi) Joint Operations and Other Pooled Budgets

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

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

In April 2015 the West Sussex Better Care Fund was established. This is a joint operation between the Authority and three NHS Clinical Commissioning Groups to provide integrated health and social care support within the area. West Sussex County Council acts as host in the arrangement, but shares control with each partner and as such accounts only for its share of the Fund's income, expenditure, assets and liabilities in its accounts.

The Authority is also part of three other pooled budget arrangements with NHS bodies to provide services in the local area. In two of these partnerships, established for the provision of services relating to Learning Disabilities and Telecare, the Authority acts as lead commissioner, and has control of the decisions of how the pooled funds are applied. As such, the Authority accounts for all of the expenditure of these funds in its financial statements. Funding contributed by partners is recognised as revenue in the Authority's accounts. The third agreement, for the provision of Mental Health services, is hosted by the NHS, and as such the Authority accounts only for its contribution to the pooled budget.

(xxvii) Events After the Reporting Period

Events after the Balance Sheet date 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 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 – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after 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.

(xxviii) Local Enterprise Partnership

Until 30 September 2018, the Authority acted as Accountable Body to the Coast to Capital Local Enterprise Partnership (LEP), a company limited by guarantee which aims to influence local economic priorities and lead economic growth and job creation through partnership working across the public and private sectors. As part of its duties as Accountable Body, the Authority had responsibility for ensuring that all decisions and activities undertaken by the LEP complied with all relevant laws and funding conditions.

The financial and operating policy decisions of the LEP are taken by its Board of Members, as delegated through the LEP's Assurance Framework. During its time as Accountable Body the Authority received income and incurred expenditure on behalf of the LEP, but did so acting merely as an intermediary, and therefore it has accounted for the LEP as an agency arrangement. As such, transactions incurred by the LEP are excluded from the single entity financial statements, and the Authority accounts only for the grant awarded to it by the LEP and the associated expenditure.

42. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 41, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.
- The Authority is required to exercise judgement in assessing whether a potential liability should be accounted for as a provision, or whether it should be disclosed as a contingent liability. This judgement requires the Authority to assess the likelihood of the obligation arising. In calculating the level of any provisions, the Authority also exercises judgement; they are measured at the Authority's best estimate at the balance sheet date of the costs required to settle the obligation. The level of the Authority's provisions and details of its contingent liabilities are set out in Notes 14 and 40 respectively.
- CIPFA's Code of Practice requires school assets to be recognised on the Authority's balance sheet only where the future economic benefits or service potential associated with those assets will flow to the Authority. On this basis, the Authority has judged that community schools and voluntary controlled schools are on-balance sheet, as the Authority directly employs the staff at these schools, sets the admission criteria and is the freeholder of the premises. Foundation Trust schools are judged to be off-balance sheet, as the governing bodies of these schools set the admissions criteria and the Authority does not hold the freehold or have responsibility for the maintenance of the school. Buildings at voluntary aided schools are off-balance sheet for the same reasons, but land is held on-balance sheet as the Authority retains the statutory responsibility for maintenance of the land. Academies are managed completely independently of the local authority, and funding is provided directly by central government. Premises are leased to the academy on a finance lease basis. Therefore academy buildings are off-balance sheet and land is retained at a nominal value reflecting the Authority's restricted use.
- Until 30 September 2018, the Authority acted as Accountable Body to the Coast to Capital Local Enterprise Partnership (LEP). As Accountable Body, the Authority had responsibility for ensuring that the LEP complied with all relevant laws and funding conditions. However, the financial and operating policy decisions of the LEP were made or delegated by its Board, consisting of representatives of its member bodies. The Authority has therefore judged that it was acting as agent in this arrangement, and as such transactions incurred by the LEP have been excluded from the single entity financial statements, and the Authority accounts only for the grant awarded to it by the LEP and the associated expenditure. The basis of this judgement is that, whilst the Authority has a minority interest on the Board of the LEP, decisions are taken by a majority vote and so the Council is unable to exert control over the entity.
- The Authority has identified interests in two other entities in the reporting period. These are West Sussex Music Trust, a Company Limited by Guarantee established to advance the education of and access to music and the arts, and Aspire Sussex Ltd, a Company Limited by Guarantee established to deliver adult and community learning services to the residents of West Sussex. However, the Authority has concluded that it does not have significant influence over either entity and therefore consolidated group accounts have not been prepared.

NOTES TO THE FINANCIAL STATEMENTS

The Articles of Association of Aspire Sussex Ltd grant West Sussex County Council the right to appoint one representative on the company's Board of Trustees. The Articles require a minimum of five members to hold membership at all times, and so the maximum possible voting share attributable to the Authority is 20%. The Authority judges that a maximum voting share of 20% would not enable it to exert significant influence over the entity. In any event, the Authority did not elect to appoint a representative to the Board of Aspire Sussex Ltd for its most recent reporting period, and so exerted no influence over the financial or operating policy decisions of the company during that time.

The Memorandum of Association of West Sussex Music Trust do not afford West Sussex County Council any right to ongoing membership on the company's Board of Trustees, and the Authority was not directly represented on the Board during the entity's most recent reporting period. At the reporting date, the Trust had five Trustees, one of which is a head teacher at a West Sussex secondary school. The Authority judges that the head was operating in their capacity as representative of their school, rather than as an employee of West Sussex County Council. In coming to this judgement, WSCC has considered the statutory responsibilities of a school's governing body and the subsequent delegation of these duties to a head teacher, and concluded that head teachers are sufficiently independent so as not to be considered agents of the local authority to exert influence on its behalf. The Authority therefore concludes that it does not exert significant influence over West Sussex Music Trust.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because amounts cannot be determined with certainty, actual results could be different from the assumptions and estimates. Significant assumptions and estimates made in the preparation of the Statement of Accounts are disclosed below.

Property, Plant and Equipment

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate could impact upon the Authority's ability to sustain its current spending on repairs and maintenance, which would have implications for the useful lives assigned to assets.

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets fall. It is estimated that the annual depreciation charge for buildings would increase by £0.8m for every year that useful lives are reduced. As part of its rolling revaluation programme, an asset is subject to formal valuation at a minimum every five years. Therefore over a five-year period the cumulative impact of a one-year reduction in the useful lives of buildings would be an increase in depreciation charges (and reduction in carrying value) of no more than £4.0m. In reality, the Authority's sampling approach, including more frequent revaluations for high-value assets, means that the scope for this variation in carrying value is significantly reduced. In any event, a variation of this scale is not considered to be material in the context of the Authority's £2.1billion long-term asset base.

Defined Benefit Pension Schemes

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries and pensions are projected to increase and mortality rates. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Local Government

Change in assumptions at 31 March 2019	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	10%	244,179
0.5% increase in the Salary Increase Rate	1%	31,324
0.5% increase in the Pension Increase Rate	9%	209,002

The principal demographic assumption concerns member life expectancy. The actuary estimates that a one year increase in life expectancy would increase the defined benefit obligation by approximately 3-5%.

Firefighters

Change in assumptions at 31 March 2019	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	9%	36,696
1 year increase in member life expectancy	3%	11,825
0.5% increase in the Salary Increase Rate	1%	4,031
0.5% increase in the Pension Increase Rate	8%	29,652

Private Finance Initiatives

The Authority is currently entered into three Private Finance Initiative (PFI) arrangements, as detailed in note 15 to these accounts. There is a high degree of certainty in relation to the Authority's contractual commitments under these contracts, as disclosed in note 15 (iii) and subject to contractual variations relating to volumes, performance and indexation. However, the accounting models relating to these schemes which determine a number of material entries in these financial statements are necessarily underpinned by a series of assumptions. This includes the basis upon which the unitary charge is notionally split between its service, interest, and capital components, which impacts on how these costs are reported within the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, and also the rate at which the PFI liability on the Balance Sheet is shown to be repaid. In accordance with statutory requirements, the accounting entries generated by these models are all mitigated via the Capital Adjustment Account. Therefore, whilst a change in the underpinning assumptions may have a material impact on the financial statements, there are no funding implications or impact on Usable Reserves.

44. Accounting standards that have been issued but have not yet been adopted

The Authority is required to disclose information relating to the impact on its financial statements of an accounting change that will be required by a new standard that has been issued but has not yet been adopted by the CIPFA Code of Practice on Local Authority Accounting (the 'Code').

A number of accounting changes are being adopted in the 2019/20 Code of Practice, namely:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014-2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation.

These changes are not anticipated to have a material effect on the Authority's financial statements.

IFRS 16 Leases has been issued by the IASB. When adopted, the standard will require lessees to recognise the majority of leases (including those currently classified as 'operating leases') on their balance sheets as 'right-of-use' assets, with corresponding lease liabilities. Exemptions for low-value and short-term leases are anticipated. CIPFA has confirmed that the Code's adoption of IFRS 16 has been deferred until 2020/21.

NOTES TO THE FINANCIAL STATEMENTS

45. Firefighters' Pension Scheme

2017/18			2018/19	
£000	£000		£000	£000
	-1,650	Contributions receivable		
		Employees		-1,724
		Employers		
		Normal	-2,008	
-2,016		Early retirements	<u>0</u>	
<u>0</u>	-2,016			-2,008
	-17	Transfer values from employers of contributors joining the fund		-4
	-39	Charges in respect of ill-health early retirements		-39
	<u>-3,722</u>			<u>-3,775</u>
	7,314	Benefits payable		
		Pensions		7,860
		Lump sum benefits		
		Commutations	1,643	
2,621		Lump sum retirement benefits	<u>0</u>	
<u>0</u>	2,621			1,643
		Payments to and on account of leavers		
		Transfer values to employers of contributors leaving the fund		0
	0	Refunds of contributions		0
	<u>16</u>			<u>0</u>
	9,951			9,503
	6,229	Net amount payable for the year before top up grant from the Home Office		5,728
	-3,475	Top up grant received from the Home Office		-4,142
	-2,754	Top up grant receivable from the Home Office		-1,586
	<u>0</u>	Net amount payable/receivable for the year		<u>0</u>

Net Assets Statement

At 31 March 2018 £000		At 31 March 2019 £000
	Current Assets	
	Pension top up grant receivable from the Home Office in respect of year to reporting date	1,586
2,754	Payments in advance	<u>0</u>
<u>687</u>		1,586
3,441		
	less: Current Liabilities	
	Creditors	-1,586
-3,441		
<u>0</u>	Net Assets - balance of scheme	<u>0</u>

GLOSSARY OF FINANCIAL TERMS

Accounting Policies	The specific principles, bases, conventions, rules and practices applied by the Authority in preparing and presenting its financial statements.
Accruals	An accounting concept that recognises income when it is earned and expenditure when it is incurred, and not when cash is transferred. The inclusion of debtors and creditors are examples of accruals.
Actuarial Gains and Losses	Changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the Actuary has updated their assumptions.
Actuarial Valuation	The Actuary reviews the assets and liabilities of the pension fund every three years.
Actuary	An independent professional who analyses the assets and liabilities of a pension fund and calculates the level of contributions required to keep the fund solvent.
Amortisation	The reduction in value of an intangible asset to spread its cost over its useful life. The equivalent of depreciation for intangible assets.
Asset	A resource controlled by the Authority as a result of past events and from which future economic or service potential is expected to flow to the Authority.
Assets Held for Sale	Assets that the Council intends to sell within the next year and are actively marketed as such.
Balance Sheet	A statement of recorded assets and liabilities as at the end of an accounting period.
Billing Authority	The district and borough councils which are responsible for the billing and collection of council tax and non-domestic rates. There are seven billing authorities in West Sussex – Adur, Arun, Chichester, Crawley, Horsham, Mid-Sussex and Worthing.
Capital Adjustment Account	Absorbs the timing differences arising from the various arrangements for accounting for the consumption of non-current assets (e.g. depreciation, revaluations, disposals) and the financing of the acquisition/enhancement of those assets (e.g. through grants, revenue contributions or MRP).
Capital Expenditure	Expenditure on the acquisition or construction of new assets, or the enhancement of existing assets, that have a long-term value to the Authority e.g. land and buildings.
Capital Financing Requirement	This represents the Council's underlying need to borrow for capital purposes. A measure of capital expenditure incurred historically by the Authority that has yet to be financed, and therefore representing borrowing (internal or external) which has yet to be repaid via MRP.
Capital Grants Unapplied Account	This reserve holds grants and contributions received towards capital projects, for which the Council has met any conditions that would otherwise require the repayment of the monies, but which have yet to be applied to meet expenditure.
Capital Programme	The Authority's plan of capital projects and spending over future years. Included in this category are the purchase of land and buildings, the erection of new buildings and works, design fees, and the acquisition of vehicles and major items of equipment.
Capital Receipts	The proceeds from the sale of a non-current asset, which may only be used for capital purposes, and not to support the revenue budget.
Capital Receipts Reserve	Holds accumulated capital receipts which have yet to be applied to finance the capital programme.
Cash Flow Statement	Shows the movement in cash and cash equivalents of the Authority during the reporting period.

GLOSSARY OF FINANCIAL TERMS

Chartered Institute of Public Finance and Accountancy (CIPFA)	The professional accountancy institute that sets the standards for the public sector. CIPFA publishes the accounting codes of practice for local government.
Code of Practice on Local Authority Accounting ('the Code')	Local authorities in the United Kingdom are required to keep their accounts in accordance with 'proper practices'. This is defined, for the purposes of local government legislation, as meaning compliance with the terms of the Code. The Code is reviewed continuously and is normally updated annually.
Collection Fund	Each billing authority maintains a separate collection fund for council tax and non-domestic rates. Monies are paid into the funds by taxpayers and ratepayers, and are distributed to preceptors.
Comprehensive Income and Expenditure Statement	A statement which shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded by taxation.
Contingent Asset	Arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority.
Contingent Liability	Arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority.
Council Tax	A domestic property tax set by local authorities to finance revenue expenditure. Each dwelling is allocated to one of eight tax bands based on its capital value.
Creditors	Amounts owed by the Authority for goods and services received where payment has not been made as at the Balance Sheet date.
Current Asset	Assets which are either cash (or an equivalent), held for trading, or expected to be realised within the next financial year.
Current Liability	An amount which will become payable within 12 months of the reporting date.
Debtors	Amounts owed to the Authority for goods and services provided but are unpaid as at the Balance Sheet date.
Dedicated Schools Grant (DSG)	The County Council's expenditure on schools is funded by grant monies issued by the Department for Education. DSG is ringfenced and can only be applied to meet expenditure included in the Schools Budget, or central expenditure as agreed by the Schools Forum.
Depreciation	A charge to the revenue account to reflect the consumption of a tangible non-current asset in service delivery. There is a corresponding reduction in the value of the non-current asset on the Balance Sheet.
Earmarked Reserves	Usable reserves which have been set aside for a specific purpose.
Events after the Balance Sheet Date	Events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.
Exceptional Items	Material items which deviate from events or transactions that fall within the ordinary activities of the Authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.
Existing Use Value	A valuation method that estimates the amount for which an asset or liability should exchange on the valuation date between a willing buyer and seller in an arm's length transaction and disregarding potential alternative uses for the asset.

GLOSSARY OF FINANCIAL TERMS

Expected Credit Loss	An impairment allowance applied to certain categories of financial assets, calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations.
Expenditure and Funding Analysis	An analysis of the income and expenditure of the Authority chargeable to the General Fund under statute, and a reconciliation of these sums to that presented in the Comprehensive Income and Expenditure Statement under proper accounting practices.
Fair Value	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.
Finance Lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Consequently the non-current asset is included within the Balance Sheet of the lessee, even though the lessor retains the legal title of the asset.
Financial Assets Measured at Amortised Cost	Financial assets whereby the Council's business model is to collect contractual cash flows with intention of holding to maturity; such cash flows being solely payments of principal and interest. Includes cash and cash equivalents, fixed-term deposits and trade debtors.
Financial Assets Measured at Fair Value through Profit or Loss	Financial assets whose contractual payments are not solely payments of principal and interest; such assets incurring fair value gains and/or losses over the lifetime of the investment). Includes pooled funds and equity investments.
Financial Instrument	Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Examples include the borrowing or lending of money and the making of investments.
General Fund	A statutory fund which holds the accumulated surplus of income over expenditure in the revenue account. The balance on the General Fund forms part of the County Council's Usable Reserves.
Gross Expenditure	Total expenditure before deducting income.
Heritage Assets	Assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge or culture.
Impairment	Recognised when the carrying amount of an asset exceeds its recoverable amount. An impairment may be physical in nature (such as damage caused by fire), or may arise from a general or specific reduction in prices during the financial year.
Income	Inflow of economic benefits or service potential during the reporting period, when such inflows or enhancements of assets or decreases of liabilities result in an increase in reserves.
Intangible Assets	Intangible assets yield benefits to Council for more than one year, but are without physical form, such as software licences. Intangible assets are recorded at cost and are amortised over their estimated useful economic life.
International Accounting Standards (IAS)	Standards for the preparation and presentation of financial statements as issued by the International Accounting Standards Committee (IASC) from 1973 to 2001.
International Accounting Standards Board (IASB)	Independent body with responsibility for developing and approving International Financial Reporting Standards (IFRSs). Successor to the International Accounting Standards Committee (IASC).
IFRIC	Interpretations developed by the IFRS Interpretations Committee (previously the International Financial Reporting Interpretations Committee), issued upon approval by the International Accounting Standards Board (IASB).
International Financial Reporting Standards (IFRS)	Standards for the preparation and presentation of financial statements as issued by the International Accounting Standards Board (IASB) since 2001.

GLOSSARY OF FINANCIAL TERMS

Investment Property	Property held solely to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of operations.
Lease	A lease is an agreement whereby the lessor conveys to the lessee (in return for a payment or series of payments) the right to use an asset for an agreed period of time.
Liability	A present obligation of the Authority arising from past events, the settlement of which is expected to result in an outflow from the Authority of resources embodying economic benefits or service potential.
Long Term Assets	Non-current assets that do not meet the definition of a current asset and provide benefits to the Council which are realisable over a period greater than 12 months.
Materiality	Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement, judged in the context of the information being considered.
Minimum Revenue Provision (MRP)	An amount chargeable to the General Fund annually to provide for the repayment of debt. The provision of MRP reduces the Council's Capital Financing Requirement, which may be met by internal or external borrowing.
Movement in Reserves Statement	Shows the movement in the year on the various reserves held by the Authority, analysed into usable and unusable reserves.
National Non-Domestic Rates (NNDR)	A charge on commercial and industrial premises based on the rateable value of the property multiplied by a national rate set by central government. The means by which local businesses contribute towards the provision of local authority services.
Operating Lease	A lease arrangement where the risks and rewards of ownership of the asset have not been transferred to the lessee. The annual rentals are therefore charged directly to the Income and Expenditure Account and the asset remains on the balance sheet of the lessor.
Outturn	The actual level of income and expenditure for the financial year.
Pooled Budgets	A partnership arrangement whereby NHS organisations and local authorities contribute an agreed level of resource into a pooled fund which is then used to commission or deliver health and social care services.
Precept	The County Council precepts on (makes demands upon) the billing authorities' collection funds for its net expenditure requirements to be met by council tax.
Prior Period Adjustments	Material adjustments which are applicable to prior years and which arise from changes in accounting policy or the correction of material errors. They do not include immaterial adjustments or changes to accounting estimates.
Private Finance Initiative (PFI)	A long-term contractual public private partnership, which typically involves a private sector entity (the operator) constructing or enhancing infrastructure used in the provision of a public service, and operating and maintaining that infrastructure for a specified period of time. The operator is paid for its services over the period of the arrangement.
Provisions	Provisions are raised to recognise liabilities which exist at the balance sheet date, where settlement is probable and can be reliably quantified but the exact amount and the date on which it will arise is uncertain.
Prudential Code	Issued by CIPFA, the Prudential Code supports local authorities in taking capital investment decisions. The Prudential Code requires local authorities to set their own borrowing limits based upon affordability, sustainability and prudence.
Public Works Loan Board (PWLB)	A central government agency which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the government itself can borrow.

GLOSSARY OF FINANCIAL TERMS

Related Party	An individual or organisation that has the potential to control or significantly influence the Council, or to be controlled or significantly influenced by the Council.
Remuneration	Remuneration includes all amounts paid to or receivable by a person, including sums due by way of expense allowances (so far as these are chargeable to tax) and the estimated monetary value of any other benefits received by an employee.
Residual Value	The estimated amount that the Authority would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
Revaluation Reserve	Records the unrealised revaluation gains arising from increases in the value of non-current assets. The reserve increases when assets are revalued upwards, and decreases when assets are revalued downwards or disposed of or as assets are depreciated.
Revenue Budget	The estimate of annual income and expenditure requirements, which sets out the financial implications of the County Council's policies and the basis of the annual precept to be levied on collection funds.
Revenue Contribution to Capital Outlay (RCCO)	The amount of capital expenditure to be financed directly from the annual revenue budget.
Revenue Expenditure	The operating costs incurred by the Council in providing its day-to-day services, such as salaries, supplies and services.
Revenue Expenditure Funded from Capital under Statute (REFCUS)	Expenditure that is classified as capital under statutory provisions, but which does not result in the creation or enhancement of non-current assets owned by the Council. Such expenditure is treated as revenue expenditure under proper accounting practices and is charged to the relevant service in the Comprehensive Income and Expenditure Statement.
Revenue Support Grant (RSG)	A general government grant in support of local authority expenditure.
Specific Grants	Represents central government financial support towards particular local authority services, which the government wishes to target.
Surplus Assets	Non-current assets that are surplus to service needs but that do not meet the recognition criteria for Investment Property or Assets Held for Sale.
Unusable Reserves	Reserves that the Council is not able to use to provide services. This includes unrealised gains and losses in relation to asset revaluations and accounts that absorb the timing differences between transactions under proper accounting practices and statutory arrangements.
Usable Reserves	Reserves that can be used to meet future expenditure, subject to the requirement to maintain a prudent level of reserves and any statutory limitations on their use.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST SUSSEX COUNTY COUNCIL

Opinion

We have audited the financial statements and the firefighters' pension fund financial statements of West Sussex County Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement; Balance Sheet; Comprehensive Income and Expenditure Statement; Cash Flow Statement; and the related notes 1 to 44 and the Expenditure and Funding Analysis on page 21; and include the firefighters' pension fund financial statements comprising the Fund Account, and the Net Assets Statement at Note 45.

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 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of West Sussex County Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Director of Finance and Support Services is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis for Qualified Conclusion

Ofsted undertook an inspection of the Authority's Children's Services, with findings being announced in early May. The inspection took place over a three-week period in late February to early March and looked at three areas; the impact of leaders on social work practice with children and families, the experiences and progress of children who need help and protection and the experiences and progress of children in care and care leavers. In all three areas inspectors found services to be inadequate and as a result the overall effectiveness was judged to be inadequate. Actions to address the identified weaknesses, which include the recruitment of a new Director of Children & Family Services, development of an improvement plan and team and appointment of an external partner in practice and commissioner to work with the Authority, have now commenced but were not complete at the end of 2018/19.

The issue above is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable performance information to support informed decision making and performance management, and managing risks effectively and maintaining a sound system of internal control.

Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, West 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 2019.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Authority;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Director of Finance and Support Services

As explained more fully in the Statement of the Director of Finance and Support Services Responsibilities set out on page 18, the Director of Finance and Support Services is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and the firefighters pension fund 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance and Support Services is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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 for the audit of the financial statements

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

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

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 the Comptroller and Auditor General in November 2017, as to whether West Sussex County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether West Sussex County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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, West Sussex County Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to 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 National Audit Office 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.

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.

Use of our report

This report is made solely to the members of West Sussex County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.


Ernst & Young LLP

Helen Thompson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
29 July 2019

The maintenance and integrity of the West Sussex County Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

West Sussex Pension Fund

Statement of Accounts 2018/19

Declaration

Under Regulation 9 of the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts set out in the following pages presents a true and fair view of the West Sussex Pension Fund as at 31 March 2019.

Katharine Eberhart
The Director of Finance and Support Services

Notes: The West Sussex Pension Fund is a defined benefit scheme and the following accounts do not take account of liabilities to pay pensions and other benefits after 31 March 2019 year end. Further information relating to these liabilities and other benefits is contained in the Valuation Report. The full valuation report can be found on the West Sussex County Council website www.westsussex.gov.uk/pensions

The Local Government Pension Fund Scheme
Pension Fund Account

2017/2018 £000		Notes	2018/2019 £000
Dealings with members, employers and others directly involved in the scheme			
124,719	Contributions received	7	130,312
36,921	Transfers in from other Pension Funds	8	4,317
161,640			134,629
(107,235)	Benefits paid	9	(113,811)
(8,288)	Payments to and on account of leavers	10	(11,375)
(115,523)			(125,186)
46,117	Net additions/(withdrawals) from dealings with members		9,443
(17,334)	Management Expenses	11	(17,835)
28,783	Net additions/(withdrawals) including Fund management expenses		(8,392)
Returns on investments			
51,571	Investment income	12	61,375
(1,158)	Taxes on income	13A	(1,211)
169	Other income		5
226,622	Profit and (losses) on disposal of investments and changes in the market value of investments	14A	218,068
277,204	Net return on investments		278,237
305,987	Net increase in net assets available for benefits during the year		269,845
3,798,289	Add opening net assets of the scheme		4,104,276
4,104,276	Closing net assets of the scheme		4,374,121

Net Asset Statement

At 31 March 2018 £000		Notes	At 31 March 2019 £000
4,066,693	Investment assets	14	4,322,996
(6,154)	Investment liabilities	14	(9,660)
4,060,539	Net investment assets / (liabilities)		4,313,336
51,379	Current assets	21	72,266
(7,642)	Current liabilities	22	(11,481)
4,104,276	Net assets of the scheme available to fund benefits at the end of the reporting period		4,374,121

Note: the Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2019. The actuarial present value of promised retirement benefits is disclosed at Note 20.

Notes to the Accounts

NOTE 1: DESCRIPTION OF THE FUND

The West Sussex Pension Fund ('the Fund') is part of the LGPS and is administered by West Sussex County Council

a. General

The LGPS is a national defined benefit funded pension scheme governed by the Public Service Pensions Act 2013 and is administered in accordance with the following secondary legislation:

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

The West Sussex Pension Fund is administered locally by West Sussex County Council to provide pensions and other benefits for pensionable employees of West Sussex County Council, the District and Borough Councils in West Sussex and a range of other scheduled and admitted bodies.

b. Membership

Membership of the LGPS is open to all local government employees who have contracts of employment for more than three months. Employees of certain specified employers (such as Colleges, Academies and those who are providing a service transferred from a local authority) can also join the Scheme. Organisations participating in the Fund include:

- Scheduled Bodies, Resolution Bodies and Academies: Regulations allow employees of certain specified bodies to join the Scheme (including the County Council, District and Borough Councils, non-uniformed personnel employed by the Police and Crime Commissioner for Sussex or the Office of the Chief Constable, employees within Town and Parish Councils as well as non-teaching staff employed by Colleges and Academies).
- Admitted Bodies: Other organisations that participate in the Scheme under an admission agreement between the administering authority, Fundorganisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Police officers, teachers and fire-fighters have their own unfunded statutory arrangements.

Financial Report and Accounts 2018/19

Membership details are set out below:

	31 March 2019	31 March 2018
Number of employers with active members	201	193
<hr/>		
Number of active members		
County Council	14,578	14,755
Other employers	13,483	13,082
Total	28,061	27,837
<hr/>		
Number of pensioners		
County Council	10,547	10,111
Other employers	9,348	8,956
Total	19,895	19,067
<hr/>		
Number of deferred pensioners		
County Council	16,181	15,734
Other employers	11,054	10,400
Total	27,235	26,134
<hr/>		
Total number of members in scheme	75,191	73,038

c. Funding

Benefits are funded by contributions and investment earnings. Contributions are made by:

- Active members 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 2019.
- Employers in accordance with the rate calculated by the Fund actuary at the triennial valuation exercise, or on admission between valuations. The employer contribution rates range from 0% to 42.7% of pensionable pay for the financial year ending 31 March 2019.

d. Benefits

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

From 1 April 2014, the scheme became a Career Average Revalued Earnings 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 (CPI).

A range of other benefits are also provided including early retirement, disability pensions and death benefits as explained on the LGPS website.

NOTE 2: BASIS OF PREPARATION

The accounts have been prepared in accordance with the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which is based upon International Financial Reporting Standards (IFRS), as amended for UK public sector, and Guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

The accounts summarise the transactions and net assets of the Fund. They do not take account of future liabilities to pay pensions and other benefits after 31 March 2019 reporting period. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) basis, is disclosed at Note 20.

The accounts have been prepared on a going concern basis.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Fund Account – Revenue recognition**a. Contribution income

Normal contributions, both from members and employers, are accounted for on an accruals basis. Member contributions are accrued at the percentage rate in accordance with the LGPS Regulations 2013. Employer contributions are accrued at the percentage rate set by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in line with the payment schedule. Any amount due in year but unpaid will be classed as a current financial asset.

b. Transfers to and from other Schemes

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in or out are accounted for when received or paid, i.e when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase Scheme benefits are also accounted for on a receipts basis and are included in transfers in.

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

c. Investment income

- i. Interest income is recognised as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.
- ii. Stock lending income is recognised as it accrues.
- iii. Dividend income is recorded on the date that the shares are quoted as ex-dividend. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as a current financial asset.
- iv. Private equity income is recognised on the date paid. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as a current financial asset.
- v. Property income consists primarily of rental income and is accounted for on an accruals basis.
- vi. Changes in the value of investments (including investment properties) are recognised as income or expense and comprise all realised and unrealised profit or loss during the year.

Fund Account - Expense itemsd. Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Asset Statement as current liabilities, providing that payment has been approved.

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 suffer withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.

f. Management expenses

The Fund discloses its Pension Fund management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016)* as set out below:

- i. Administrative expenses are accounted for on an accruals basis representing the annual charge relating to the pensions and payroll administration and relevant staff costs. Associated management, accommodation and other overheads are also apportioned to this activity.
- ii. Oversight and governance expenses are accounted for on an accruals basis representing the Fund's external advisors, audit and actuary fees and relevant staff costs. Associated management, accommodation and other overheads are also apportioned to this activity.
- iii. Investment management expenses (including transaction costs) are accounted for on an accruals basis. Fees of the external managers and custodian are agreed in the respective mandates governing their appointment and are mainly based on the market value of the investments under management.
- iv. The Fund has negotiated that an element of Baillie Gifford's fee is performance related. Baillie Gifford's performance related fees were £5.7m in 2018/19 (£5.4m in 2017/18).
- v. The cost of the County Council's in-house treasury management team is charged to the Fund based on a proportion of time spent by officers on treasury management. Associated management, accommodation and other overheads are also apportioned to this activity.

Net Asset Statement

g. Financial assets

Financial assets are shown at market value at the reporting date and are recognised in the Net Asset Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised. The values of investments have been determined at fair value in accordance with the requirements of the Code and IFRS13. For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016). See Note 16.

h. Freehold and leasehold properties

Freehold and leasehold properties have been valued at the reporting date by independent external valuers, on the basis of fair value as required by the International Financial Reporting Standards (IFRS). See Note 16.

i. Foreign currency transactions and balances

Dividends, interest and purchases and sales of investments in foreign currency have been recorded at the spot exchange rate and translated into sterling at the rate ruling at the date of the transaction.

End of year spot market exchange rates are used to value cash balances in foreign currency, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

j. Cash and cash equivalents

Cash comprises cash in hand and demand deposits. 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 change 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 Asset Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in fair value of the liabilities 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 Fund actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. The Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Asset Statement. See Note 20.

m. Additional voluntary contributions

Some members of the Scheme have made additional voluntary contributions (AVC) to increase the value of their pensions. These have been invested separately with Standard Life and Equitable Life and are therefore disclosed as a note and not included in the Fund accounts. See Note 23.

n. Contingent assets and contingent liabilities

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

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

Contingent assets and liabilities are not recognised in the Net Asset Statement but are disclosed by way of narrative in the notes. See Note 25 & Note 26.

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability

The net Pension Fund liability is recalculated every three years by the Fund actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary. See Note 19.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

Directly held property

The Fund's property portfolio includes a number of directly owned properties which are leased commercially to various tenants with rental periods between one and thirty-five years. The Fund has determined that these contracts all constitute operating lease arrangements under the classifications permitted by IAS 17 and the Code, therefore the properties are retained on the Net Asset Statement at fair value. Rental income is recognised in the Fund account on an accruals basis.

NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The table below describes items for which there is a significant risk of material adjustment the following year.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	<p>Estimation of the net liability to pay pensions depends on a number of assumptions relating to the discount rate used, salary and pension increases, retirement age, mortality rates and investment returns.</p> <p>The Fund actuary has been appointed to provide advice about the assumptions applied.</p>	<p>Actual experience relative to the assumptions over time. For example:</p> <p>A 0.5% decrease in discount rate at year ended 31 March 2019 would result in an approximate 11% increase to employer liability (£519m).</p> <p>A one year increase in member life expectancy at year ended 31 March 2019 would result in an approximate increase in employer liability of between 3 and 5%.</p> <p>A 0.5% increase in the salary increase rate at year ended 31 March 2019 would result in an approximate increase in employer liability of 2% (£75m).</p> <p>A 0.5% increase in the pension increase rate at year ended 31 March 2019 would result in an approximate 8% increase in employer liability (£413m).</p>
Private equity	<p>Private equity investments are valued at fair value in accordance with industry guidelines, based on the fund manager report as at the end of the reporting period or the latest fund manager report adjusted for net cash flows.</p> <p>These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total private equity investment in the financial statements is £110.7m. There is a risk that this investment may be under or overstated in the accounts.</p>

Financial Report and Accounts 2018/19

<p>Freehold and leasehold property</p>	<p>Independent valuation for freehold and leasehold investment property has been provided at 31 March 2019 by Savills (UK) Ltd in accordance with Royal Institution of Chartered Surveyors Red Book.</p> <p>This takes into account observable and unobservable pricing inputs including existing lease terms, independent market research, the nature of tenancies and tenant covenant strength, void levels and estimated rental growth.</p>	<p>Investment properties have been valued on the basis of fair value. "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".</p> <p>Changes in rental growth, void levels and general changes in property market prices could affect the valuation. There is a risk that this investment may be under or overstated in the accounts.</p>
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NOTE 6: EVENTS AFTER THE BALANCE SHEET DATE

In December 2018, the Court of Appeal upheld a ruling (“McCloud/Sargeant”) that transitional protections in the Judges’ and Firefighters’ Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the Local Government Pension Scheme (and other public service schemes) as well.

The UK Government requested leave to appeal to the Supreme Court, but this was denied at the end of June 2019.

The Fund recognises this denial of leave to appeal as a post balance sheet event and has adjusted Note 20 as a result showing a revised estimate of the net pension liability to provide for the potential obligations arising from this ruling.

The additional potential obligations relate to the potential need for LGPS benefits accrued from 2014 needing to be enhanced so that all eligible members, regardless of age, will benefit from the transitional protections. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that many more members would see an enhanced benefit rather than just those currently subject to these protections.

NOTE 7: CONTRIBUTIONS RECEIVED

By Category

2017/18		2018/19
£000		£000
98,279	Employers	102,858
<u>26,440</u>	Members	<u>27,454</u>
<u>124,719</u>		<u>130,312</u>

By Authority

2017/18		2018/19
£000		£000
54,873	Administering authority	57,497
61,891	Scheduled bodies	65,473
<u>7,955</u>	Admitted bodies	<u>7,342</u>
<u>124,719</u>		<u>130,312</u>

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

By Category

2017/18		2018/19
£000		£000
8,454	Individual transfers	4,317
<u>28,467</u>	Bulk transfers	<u>-</u>
<u>36,921</u>		<u>4,317</u>

NOTE 9: BENEFITS PAID

By Category

2017/18		2018/19
£000		£000
88,389	Pensions	94,127
16,032	Commutation and lump sum retirement benefit	16,938
2,814	Lump sum death benefit	2,746
<u>107,235</u>		<u>113,811</u>

By Authority

2017/18		2018/19
£000		£000
48,871	Administering authority	51,697
49,885	Scheduled bodies	52,995
8,479	Admitted bodies	9,119
<u>107,235</u>		<u>113,811</u>

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2017/18		2018/19
£000		£000
407	Refunds of contributions	2,769
7,556	Individual transfers	6,866
325	Bulk transfers	1,740
<u>8,288</u>		<u>11,375</u>

Refund of contributions includes a £2.4m payment relating to the exit credit due to an exiting employer made under regulations 74, 75 and 15(3) of the Local Government Pension Scheme (Administration) Regulations 2008 and regulation 64 of the Local Government Pension Scheme (Amendment) Regulations 2018. At the year-end there are further potential liabilities of £0.3m relating to possible transfers out of the pension scheme where the Fund is awaiting final decisions from members. See Note 25.

NOTE 11: MANAGEMENT EXPENSES

2017/18		2018/19
£000		£000
668	Administrative costs	1,224
999	Oversight and governance costs	1,117
15,667	Investment management expenses	15,494
<u>17,334</u>		<u>17,835</u>

NOTE 11a: INVESTMENT MANAGEMENT EXPENSES

2017/18		2018/19
£000		£000
9,120	Management fees	8,346
5,360	Performance related fees	5,723
140	Custody fees	185
1,045	Transaction costs	1,238
2	Treasury management expenses	2
<u>15,667</u>		<u>15,494</u>

NOTE 12: INVESTMENT INCOME

2017/18		2018/19
£000		£000
34,613	Income from equities	40,321
3,461	Income from bonds	3,652
1,320	Private equity income	2,088
11,698	Property income	14,019
279	Interest on cash deposits	686
200	Income from stock lending	609
51,571		61,375

NOTE 12a: PROPERTY INCOME

2017/18		2018/19
£000		£000
13,193	Rental income	16,479
(1,495)	Direct operating expenses	(2,460)
11,698		14,019

No contingent rents have been recognised as income during the period.

NOTE 13: OTHER FUND ACCOUNT DISCLOSURES

2017/18		2018/19
£000		£000
23	Pension Advisory Board	24
102	ACCESS pool	117
125		141

ACCESS is a collaboration of eleven Central, Eastern and Southern Shires, who are working together to collectively invest assets to reduce investment costs whilst maintaining investment performance. The costs incurred for 2018/19 reflect the Fund's contribution towards the pool's establishment and business as usual activities. These costs are included within oversight and governance costs in Note 11.

NOTE 13a: TAXES ON INCOME

2017/18		2018/19
£000		£000
1,717	Tax paid on dividend payments	1,844
(559)	Tax recoverable	(633)
1,158		1,211

NOTE 13b: EXTERNAL AUDIT COSTS

2017/18		2018/19
£000		£000
26	Payable in respect of external audit	37
26		37

2018/19 costs include £17,000 relating to prior year charges (of which £11,000 has been recharged to employers in respect of IAS19 protocol work). These costs are included within oversight and governance costs in Note 11.

NOTE 14: INVESTMENTS

Market value 2017/18 £000		Market value 2018/19 £000
	Investment assets	
1,976,634	Equities	2,164,653
155,462	Bonds	118,002
1,391,573	Pooled investments	1,468,720
121,051	Private equity	110,727
344,585	Property	376,950
68,936	Cash deposits	69,405
4,930	Investment income due	6,733
3,522	Amounts receivable for sales	7,806
<u>4,066,693</u>	Total investment assets	<u>4,322,996</u>
	Investment liabilities	
(6,149)	Amounts payable for purchases	(9,296)
(5)	Property income received in advance	(364)
<u>(6,154)</u>	Total investment liabilities	<u>(9,660)</u>
<u>4,060,539</u>	Net investment assets	<u>4,313,336</u>

Financial Report and Accounts 2018/19

NOTE 14a: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Current Year				
	Market Value at 1 April 2018	Purchases during the year	Sales during the year	Change in market value during the year	Market Value at 31 March 2019
	£000	£000	£000	£000	£000
Bonds	155,462	39,661	(77,915)	794	118,002
Equities	1,976,634	573,201	(526,802)	141,620	2,164,653
Pooled investments	1,391,573	26,700	-	50,447	1,468,720
Private equity	121,051	3,859	(32,063)	17,880	110,727
Property	344,585	27,599	-	4,766	376,950
	3,989,305	671,020	(636,780)	215,507	4,239,052
Derivatives	-	-	-	-	-
Sub total	3,989,305	671,020	(636,780)	215,507	4,239,052
Other investment balances					
Cash deposits	68,936			2,561	69,405
Amount receivable for sales	3,522				7,806
Investment income due	4,930				6,733
Amount payable for purchases	(6,149)				(9,296)
Property income received in advance	(5)				(364)
Total assets	4,060,539			218,068	4,313,336

Financial Report and Accounts 2018/19

	Previous Year				
	Market Value at 1 April 2017	Purchases during the year	Sales during the year	Change in market value during the year	Market Value at 31 March 2018
	£000	£000	£000	£000	£000
Bonds	113,765	61,039	(17,860)	(1,482)	155,462
Equities	2,176,840	549,372	(922,499)	172,921	1,976,634
Pooled investments	917,746	456,000	(4,000)	21,827	1,391,573
Private equity	157,870	4,148	(52,114)	11,147	121,051
Property	285,820	38,674	(100)	20,191	344,585
	3,652,041	1,109,233	(996,573)	224,604	3,989,305
Derivatives	-	235,290	(234,790)	(500)	-
Sub total	3,652,041	1,344,523	(1,231,363)	224,104	3,989,305
Other investment balances					
Cash deposits	105,999			2,518	68,936
Amount receivable for sales	1,436				3,522
Investment income due	7,070				4,930
Amount payable for purchases	(786)				(6,149)
Rental receipts in advance	(6)				(5)
Total assets	3,765,754			226,622	4,060,539

NOTE 14b: ANALYSIS OF INVESTMENTS

31 March 2018 £000		31 March 2019 £000
	Bonds	
	UK	
155,462	Government	118,002
<u>155,462</u>		<u>118,002</u>
	Equities (quoted)	
	UK	
381,898	Overseas	441,531
1,594,736		1,723,122
<u>1,976,634</u>		<u>2,164,653</u>
	Pooled funds	
	UK	
459,403	Government bonds	401,956
373,164	Corporate bonds	375,092
	Overseas	
123,051	Government bonds	132,766
380,439	Corporate bonds	529,035
55,516	Cash	29,871
<u>1,391,573</u>		<u>1,468,720</u>
121,051	Private equity	110,727
344,585	Property	376,950
<u>465,636</u>		<u>487,677</u>
68,936	Cash deposits	69,405
4,930	Investment income due	6,733
3,522	Amounts receivable for sales	7,806
<u>77,388</u>		<u>83,944</u>
<u>4,066,693</u>	Total investment assets	<u>4,322,996</u>
	Investment liabilities	
(6,149)	Amounts payable for purchases	(9,296)
(5)	Property income received in advance	(364)
<u>(6,154)</u>	Total investment liabilities	<u>(9,660)</u>
<u>4,060,539</u>	Net investment assets	<u>4,313,336</u>

Pooled fund analysis has been restated for 2017/18 due to increased accuracy in the reporting of underlying investments in these funds. The pooled fund totals have not been restated.

NOTE 14c: INVESTMENTS ANALYSED BY FUND MANAGER

31 March 2018			31 March 2019	
%	£000		£000	%
		Share of market value held by fund managers		
37.7	1,532,607	UBS Global Asset Management	1,622,145	37.6
50.8	2,061,385	Baillie Gifford & Co	2,202,350	51.1
1.7	67,469	Pantheon Ventures	60,924	1.4
1.3	53,582	Partners Group	49,803	1.2
8.5	344,585	Aberdeen Asset Management	376,950	8.7
0.0	911	Other investments	1,164	0.0
100.0	4,060,539		4,313,336	100.0

Table above amended and 2017/18 restated to include all investment balances.

No individual investment exceeded 5% of the total value of the Fund's net assets. The Fund does hold investments in bond and currency funds, each of these funds is made up of multiple underlying assets. The values of each fund, shown as a percentage of the total Fund value, have been set out in the following table.

31 March 2018			31 March 2019	
%	£000		£000	%
		Baillie Gifford managed funds		
21.9	890,923	Sterling Aggregate Bond Fund	922,631	21.1
		UBS managed funds		
0.8	32,789	Currency Allocation Return Fund	32,468	0.7
11.5	467,861	UK Corporate Bond UK Plus Fund	513,621	11.7
34.2	1,391,573		1,468,720	33.5

NOTE 14d: STOCK LENDING

The Fund's Investment Strategy Statement (ISS) sets out the parameters for the Fund's stock-lending programme. As at 31 March 2019, the value of quoted equities on loan was £302.6m (31 March 2018: £144.0m).

Counter-party risk is managed through holding collateral at the Fund's custodian bank. At year end the Fund held collateral (via the custodian) at fair value of £328.5m (31 March 2018: £159.4m).

Stock-lending commissions are remitted to the Fund via its custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

NOTE 14e: DIRECT PROPERTY HOLDINGS

The Fund's investment property portfolio comprises a number of directly owned properties which are leased commercially to various tenants. Details of these directly owned properties are as follows.

31 March 2018		31 March 2019
£000		£000
285,820	Opening balance	344,585
	Additions	
29,063	Purchase of existing property	25,541
6,757	New construction	1,512
2,854	Subsequent expenditure	546
(100)	Disposals	-
<u>20,191</u>	Net increase in market value	<u>4,766</u>
<u>344,585</u>	Closing balance	<u>376,950</u>

The future minimum lease payments receivable by the Fund under existing contracts are as follows:

31 March 2018		31 March 2019
£000		£000
13,999	Within one year	16,434
52,042	Between one and five years	58,882
<u>100,959</u>	Later than five years	<u>104,501</u>
<u>167,000</u>	Total future lease payments due under existing contracts	<u>179,817</u>

The above disclosures have been reduced by a credit loss allowance of 0.2% per annum reflecting the fund's assessment on the credit risk of tenants, applied on an individual basis. This has been based on the fund's own historic experience. In accordance with paragraphs 7.2.9.1 and 7.2.9.2 of the Code the loss allowance has been calculated based on the estimated lifetime loss allowance for all current tenancies.

NOTE 15: ANALYSIS OF DERIVATIVES

The Fund does not invest directly in derivatives.

NOTE 16: FAIR VALUE - BASIS OF VALUATION

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.

a. Market quoted investments (Level 1)

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.

b. Quoted bonds (Level 1)

Bonds are recorded at net market value based on their current yield.

c. Pooled investment vehicles (Level 2)

Pooled investment vehicles are valued at closing bid price at the closing date. 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.

d. Freehold and leasehold properties (Level 3)

Freehold and leasehold properties are included on the basis of fair value. A full independent valuation of the Fund's direct property portfolio was carried out by Savills (UK) Ltd, Chartered Surveyors, in accordance with the RICS Valuation – Professional Standards (January 2014) Global and UK Edition, issued by the Royal Institution of Chartered Surveyors. The properties have been valued at the reporting date on the basis of fair value as required by the International Financial Reporting Standards (IFRS). The definition of fair value is set out in IFRS 13 and is adopted by the International Accounting Standards Board as follows: "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 RICS Red Book considers that fair value is consistent with the concept of market value, the definition of which is set out in Valuation Practice Statement (VPS) 4 1.2 of the Red Book as follows: "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

The observable inputs include the existing lease terms and rentals; the nature of the tenancies; assumed vacancy levels and estimated rental growth.

Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.

e. Private equity (Level 3)

Private equity investments are recorded as detailed below. Because of the uncertainty associated with the valuation of such investments and the absence of a liquid market, the fair values of these assets may differ from their authorised values.

- The valuation of Partners Group portfolio is taken from the unaudited 31 December 2018 fund-of-fund reports and adjusted for net cash flows.

Partners Group performs independent valuations of its underlying investments through a fair market valuation process, which is in accordance with International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US GAAP). This process was implemented in 2003 and has been refined based on feedback received from PricewaterhouseCoopers (PwC), the auditor of most of the firm's programmes and mandates. On an annual basis, the monitoring and valuation process based on fair valuation principles (sample selection, valuation methodologies, etc.) is discussed and approved by the auditors of the programs managed by Partners Group.

Partners Group complies with the defined process and applies it as the basis for the year-end valuation and subsequent quarterly Net Asset Value determinations of the programs they manage. Partners Group gather the valuation-relevant information by systematically screening a broad set of sources for valuation-relevant information about portfolio companies which are held directly or indirectly by Partners Group's programs and mandates. This includes information supplied by the firm's due diligence and monitoring professionals, underlying fund managers and information published in industry journals and/or other publications.

The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information; to date, the audited accounts for Partners Group have been given an unqualified opinion.

- The valuation of Pantheon's portfolio is taken from the unaudited 31 December 2018 fund-of-fund reports and adjusted for net cash flows.

Pantheon's quarterly valuation is produced in accordance with US GAAP and UK GAAP. Fund investments are carried at "fair value". Pantheon ensures that the valuation methodologies employed by underlying fund managers fulfil the measurement criteria of the International Private Equity and Venture Capital Valuation Guidelines (IPEV).

The Fund monitors audited year end to unaudited quarterly valuations to check the consistency of the unaudited and audited information; to date, the audited accounts for Pantheon Ventures have been given an unqualified opinion.

Sensitivity of assets valued at Level 3

Having consulted with independent investment advisors and fund managers on historical data and current market trends, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

	Assessed valuation range (+/-)	Value at 31 March 2019 £000	Value on increase £000	Value on decrease £000
Freehold and leasehold property (a)	10%	376,950	414,645	339,255
Private equity (b)	15%	110,727	127,336	94,118
		487,677	541,981	433,373

a) Actual realised returns will depend on factors including independent market research, the nature of tenancies, tenant covenant strength, void levels and estimated rental growth.

b) Actual realised returns will depend on factors including future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs, and the timing and manner of sale.

NOTE 16a: FAIR VALUE HIERARCHY

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

Level 1

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

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

Level 2

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

Level 3

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

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

The valuation of both private equity portfolios have been prepared in accordance with industry guidelines.

The table on the following page provides an analysis of the financial assets and liabilities of the Fund grouped by and based on the level at which the fair value is observable.

Financial Report and Accounts 2018/19

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	2,282,655	1,468,720	110,727	3,862,102
Non-financial assets at fair value through profit and loss			376,950	376,950
Net investment assets	2,282,655	1,468,720	487,677	4,239,052

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	2,132,096	1,391,573	121,051	3,644,720
Non-financial assets at fair value through profit and loss			344,585	344,585
Net investment assets	2,132,096	1,391,573	465,636	3,989,305

NOTE 16B: TRANSFER BETWEEN LEVELS 1 AND 2

There were no transfers between levels 1 and 2 during the year.

NOTE 16C: RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

	Market Value 1 April 2018	Transfers into / (out of) Level 3	Net purchases / (sales) during the year	Unrealised gains / (losses)	Realised gains / (losses)	Market Value 31 March 2019
	£000	£000	£000	£000	£000	£000
Private equity	121,051	-	(28,203)	(4,131)	22,010	110,727
Property	344,585	-	27,599		4,766	376,950
	465,636	-	(604)	(4,131)	26,776	487,677

NOTE 17: FINANCIAL INSTRUMENTS

NOTE 17a: CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement headings. No financial assets were reclassified during the accounting period.

31 March 2018			31 March 2019		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£000	£000	£000	£000	£000	£000
Financial assets					
155,462	-	-	118,002	-	-
1,976,634	-	-	2,164,653	-	-
1,391,573	-	-	1,468,720	-	-
121,051	-	-	110,727	-	-
-	104,268	-	-	123,009	-
-	8,452	-	-	14,539	-
-	16,047	-	-	18,662	-
3,644,720	128,767	-	3,862,102	156,210	-
Financial liabilities					
-	-	(6,154)	-	-	(9,660)
-	-	(7,642)	-	-	(11,481)
3,644,720	128,767	(13,796)	3,862,102	156,210	(21,141)

NOTE 17b: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2018		31 March 2019
£000		£000
Financial assets		
204,412	Fair value through profit and loss	210,740
2,518	Amortised cost - unrealised gains	2,561
Financial liabilities		
-	Fair value through profit and loss	-
206,930	Total	213,301

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

NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND OTHER ASSETSRisk and risk management

The 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 by assets and fund managers, to reduce exposure to market risk (price risk, currency risk and interest rate risk). In addition, the Fund manages its liquidity risk to ensure there are sufficient resources to meet the forecast cash requirement. The Pensions Panel reviews the Fund's funding strategy, in consultation with the actuary and investment adviser, based on the Fund's funding position and performance objective and taking into consideration factors including interest rates, inflation, liquidity and collateral. Prudent assumptions are used both in the strategy modelling work and when setting employer contribution rates. Performance is monitored by the Pensions Panel.

The Fund's Investment Strategy Statement (ISS) identifies the risks managed by its investment managers, sets appropriate risk limits and monitors adherence to those limits. The ISS is reviewed regularly to reflect changes in approaches to the Fund's activities.

Responsibility for the Fund's risk management strategy rests with the Pensions Panel. The Panel receives regular reports from each of the managers on the nature of the investments made on the Fund's behalf and the associated risks. Divergence from benchmark asset allocations and the composition of each portfolio is monitored by the Panel. Consideration of the Fund's investment strategy is on-going.

a. Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the Fund's income or the value of its assets.

The object of market risk management is to identify, manage and control market risk exposures within acceptable parameters while optimising returns.

Market risk is inherent in the investments that the Fund makes, particularly through its equity holdings, and is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. A customised benchmark has been adopted which includes maximum exposures to individual investments, and risk associated with the strategy and investment return are regularly monitored and reviewed by the Pensions Panel.

Each manager has to adhere to investment guidelines that specify the managers' investment powers and restrictions.

Other price risks

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 arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual instruments or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk and derivative price risk during periods of transition. This arises from investments held by the Fund for which the future price is uncertain. All investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate price risk through diversification and the selection of securities. Exposure is monitored to ensure it is within limits specified in the Fund's investment strategy.

Other price risks – sensitivity analysis

The Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period. This data has been provided by the Fund's actuary, Hymans Robertson, and is based on historical data.

Had the market price of the Fund investments increased/decreased as per the table below, the change in the net assets available to pay benefits in the market price would have been as follows. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. (The prior year comparator is also shown).

	Current year			
	Value at	Change	Value on	Value on
	31 March		Increase	Decrease
	2019	%	£000	£000
Asset type	£000		£000	£000
UK equities	441,531	16.60%	514,825	368,237
Overseas equities	1,723,122	16.90%	2,014,330	1,431,915
Bonds	118,002	9.10%	128,740	107,264
Bond funds	1,436,253	10.53%	1,587,490	1,285,015
Cash	69,405	0.50%	69,752	69,058
Property	376,950	14.30%	430,854	323,046
Private equity	110,727	28.30%	142,063	79,391
Currency fund	32,468	10.00%	35,715	29,221
Total	4,308,458		4,923,769	3,693,147

	Previous year			
	Value at	Change	Value on	Value on
	31 March		Increase	Decrease
	2018	%	£000	£000
Asset type	£000		£000	£000
UK equities	381,898	16.80%	446,056	317,739
Overseas equities	1,594,736	17.90%	1,880,194	1,309,278
Bonds	155,462	8.50%	168,676	142,248
Bond funds	1,358,784	8.73%	1,477,406	1,240,162
Cash	68,936	0.50%	69,281	68,591
Property	344,585	14.30%	393,861	295,309
Private equity	121,051	28.30%	155,308	86,793
Currency fund	32,789	10.00%	36,067	29,510
Total	4,058,241		4,626,849	3,489,630

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 is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk is monitored by the investment managers and the County Council's treasury management team.

The Fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk - sensitivity analysis

The Fund recognises that interest rates vary and can affect both income 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 analysis in the table below 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.

Assets exposed to interest rate risk	Current year		
	Value at 31 March 2019	Change in year in net assets available to pay benefits	
	£000	+100 BPS £000	-100 BPS £000
Asset type			
Cash and cash equivalents	69,405	694	(694)
Cash balances	53,604	536	(536)
Bonds	118,002	1,180	(1,180)
Total	241,011	2,410	(2,410)

Assets exposed to interest rate risk	Previous year		
	Value at 31 March 2018	Change in year in net assets available to pay benefits	
	£000	+100 BPS £000	-100 BPS £000
Asset type			
Cash and cash equivalents	68,936	689	(689)
Cash balances	35,332	353	(353)
Bonds	155,462	1,555	(1,555)
Total	259,730	2,597	(2,597)

Currency risk

Currency risk is 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 sterling. The Fund holds monetary and non-monetary assets issued in currencies other than sterling.

Fund managers monitor the currency risk and this is considered by the Pensions Panel when making strategic asset allocation decisions.

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Hymans Robertson, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10%.

The analysis assumes that all other variables, in particular interest rates, remain constant. If sterling strengthens/weakens against other currencies in which the Fund holds investments, it would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Current year			
	Value at	Change	Value on	Value on
	31 March 2019		Increase	Decrease
	£000	%	£000	£000
Asset type				
Overseas equities	1,723,122	10.00	1,895,434	1,550,810
Overseas bonds	661,801	10.00	727,981	595,621
Overseas private equity	110,727	10.00	121,800	99,654
Total	2,495,650		2,745,215	2,246,085

Assets exposed to currency risk	Previous year			
	Value at	Change	Value on	Value on
	31 March 2018		Increase	Decrease
	£000	%	£000	£000
Asset type				
Overseas equities	1,594,736	10.00	1,754,210	1,435,263
Overseas bonds	360,893	10.00	396,983	324,804
Overseas private equity	121,051	10.00	133,156	108,946
Total	2,076,680		2,284,349	1,869,013

b. Credit risk

Credit risk is the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. Credit risk is related to the potential return of any investment, the most obvious being that the yields on bonds are strongly correlated to the perceived credit risk. Therefore, the risk of loss is implicit in the carrying value of the Fund's financial assets and liabilities.

The Fund is exposed to credit risk. However, this risk is minimised by selecting high quality counterparties, brokers and financial institutions.

Deposits are made only with banks and financial institutions that are rated independently and meet the Fund's credit criteria. The Fund has also set out in its Treasury Management Policy the limits of exposure to any one financial institution.

The Fund has not had any experience of default or uncollectable deposits. The fund managers held £69.4m in cash (31 March 2018: £68.9m) and cash internally managed by WSCC at 31 March 2019 was £53.6m (31 March 2018: £35.3m). This was held by institutions with the following credit ratings :

	Nominal amount	Nominal amount
	31 March 2018	31 March 2019
	£000	£000
AAA rated counterparties	15,000	42,200
AA- rated counterparties	-	-
A rated counterparties	89,268	80,809
TOTAL	104,268	123,009

The Fund's total exposure to credit risk cannot be assessed generally as the risks of default will be specific to each financial institution. At 31 March 2019, there was no evidence that such risks were likely to materialise.

c. Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due, without incurring unacceptable losses or risking damage to the Fund's reputation. Cash is required to pay benefits, fund acquisitions and settle various other commitments. The Fund maintains a working cash balance held in instant access money market and bank accounts. A cash flow forecast is maintained to ensure sufficient funds are available. The Fund manages liquidity risk by:

- giving careful consideration to the anticipated income and expenditure required for the administration of the Fund and the payment of benefits and by maintaining in-house managed cash balances sufficient to meet day-to-day cash flows.
- keeping a significant proportion of the Fund's assets in highly liquid investments such as actively traded equities, bonds and unit trusts.

The Fund is currently cash flow positive.

The Fund's strategic allocation to property and private equity, which are relatively illiquid, is limited to 15% of the total portfolio. As the Fund is not mature, i.e. it does not need to sell assets in order to pay benefits, it is considered appropriate to hold such investments to increase diversification, minimise risk and improve long-term investment performance.

Under the regulations, the Fund is authorised to borrow in its own right to fund cash flow deficits on a short term basis.

d. Refinancing risk

The key risk is that the Fund is bound to replenish its investments at a time of unfavourable interest rates. The Fund does not hold any financial instruments that have a refinancing risk as part of its treasury management or investment strategies.

e. Counterparty risk

The Fund's global custodian, BNP Paribas has responsibility for safeguarding the assets of the Fund. Its duties include maintaining a repository of underlying information on the Fund's assets and arranging settlement of transactions, income collection and cash management. The Fund monitors BNP Paribas's performance and is in regular contact with the custodian. Monthly reconciliations are performed between the custodian's and the investment managers' records.

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2016. Reports on manager performance are monitored by the Pensions Panel on a quarterly basis. The Fund makes use of a third party performance measurement service. In addition to presenting to the Pensions Panel, managers also meet with Fund officers and advisers regularly to review activity and results.

NOTE 19: FUNDING ARRANGEMENTS - ACTUARIAL STATEMENT

Description of funding policy

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purposes of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation will take place as at 31 March 2019.

The key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will help ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The Funding Strategy Statement (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

At the 2016 actuarial valuation, the Fund was assessed as 95% funded (86.4% at the March 2013 valuation). This corresponded to a deficit of £158m (2013 valuation: £371m) at that time.

Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal actuarial assumptions and method used to value the liabilities

Method:

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions:

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

	31 March 2016 %
Discount rate	3.8
Salary increase assumption	2.9
Benefit increase assumption (CPI)	2.1

Demographic assumptions

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's bespoke longevity analysis (VitaCurves) with improvements in line with the CMI 2013 model, assuming the current rate of improvements have not peaked and will converge to long term rate of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	23.6 years	25.0 years
Future Pensioners	26.0 years	27.8 years

Copies of the 2016 valuation report and FSS are available on the Funds website or on request from West Sussex County Council.

Experience over the period since April 2017

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. However, strong asset returns have more than offset the increase in liabilities. Therefore the overall impact has been an improvement in the funding level since the previous valuation.

The next actuarial valuation will be carried out as at 31 March 2019. The FSS will also be reviewed at that time.

NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund's liabilities on an IAS 19 basis, using the same base data as the funding valuation. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (Note 19). The actuary has also valued ill health and death benefits in line with IAS 19. This includes an estimate for the McCloud impact (based on the Government Actuary Department's Guidance dated 10 June 2019) and the Actuary's estimate of the potential impact of GMP equalisation.

31 March 2018		31 March 2019
£m		£m
(1,973)	Active members	(2,442)
(902)	Deferred pensioners	(1,012)
<u>(1,530)</u>	Pensioners	<u>(1,507)</u>
<u>(4,405)</u>	Present value of promised retirement benefits	<u>(4,961)</u>
4,104	Fair value of scheme assets (bid value)	4,374
<u>(301)</u>	Net liability	<u>(587)</u>

As noted above, the liabilities above are calculated on an IAS 19 basis and will therefore differ from the results of the 2016 triennial funding valuation (Note 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

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, the aggregate liability appears to be a reasonable estimate of the actuarial present value of benefit promises.

No allowance has been made 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).

IAS 19 Assumptions used

The assumptions used are those adopted for the administering authority's IAS 19 report and are different as at 31 March 2019 and 31 March 2018.

The Fund actuary estimates that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £375m. There is no impact from any change in demographic and longevity assumptions because they are identical to the previous period.

	31 March 2018 % p.a.	31 March 2019 % p.a.
Inflation / pensions increase rate	2.4	2.5
Salary increase rate	3.1	3.2
Discount rate	2.7	2.4

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model assuming long term improvements of 1.5% p.a., with allowance for short term rates of improvement and declining mortality for the over 90s.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	23.6 years	25.0 years
Future pensioners *	26.0 years	27.8 years

* Future pensioners are assumed to be currently aged 45 at the latest formal valuation

Please note that the longevity assumptions have not changed since the previous 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.

McCloud

The Government Actuary's Department (GAD) has estimated that the impact of McCloud for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The Fund's actuary has adjusted GAD's estimate to reflect the Fund's local assumptions around salary increases and withdrawal rates.

GMP equalisation

The Fund's actuary has estimated the impact that the GMP indexation changes will have on the pension fund liabilities. The estimate assumes that the permanent solution eventually agreed will be equivalent in cost to extending the interim solution to all members reaching state pension age from 6 April 2016 onwards.

NOTE 21: CURRENT ASSETS

31 March 2018		31 March 2019
£000		£000
	Debtors:	
2,220	Contributions due - members	2,473
7,794	Contributions due - employers	8,730
1	Prepayments	1,290
1,460	Other debtors	1,238
<u>4,572</u>	Taxation	<u>4,931</u>
16,047		18,662
<u>35,332</u>	Cash balances	<u>53,604</u>
<u>51,379</u>		<u>72,266</u>

Analysis of debtors

31 March 2018		31 March 2019
£000		£000
5,982	Central government bodies	6,443
6,663	Other local authorities	6,954
1,792	Educational establishments	2,512
<u>1,609</u>	Other entities and individuals	<u>2,753</u>
<u>16,046</u>		<u>18,662</u>

NOTE 22: CURRENT LIABILITIES

31 March 2018		31 March 2019
£000		£000
3	Contributions	-
327	Benefits payable	1,215
<u>7,312</u>	Other current liabilities	<u>10,266</u>
<u>7,642</u>		<u>11,481</u>

Analysis of creditors

31 March 2018		31 March 2019
£000		£000
1,124	Central government bodies	1,021
131	Other local authorities	184
228	Educational establishments	1,239
<u>6,159</u>	Other entities and individuals	<u>9,037</u>
<u>7,642</u>		<u>11,481</u>

The Pension Fund has made a provision for £2.4m relating to the exit credit due to an exiting employer which is payable under the LGPS (Amendment) Regulations 2018.

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

Market Value		Market Value
31 March 2018		31 March 2019
£000		£000
2,102	Standard Life	2,139
435	Equitable Life	403
<u>2,537</u>		<u>2,542</u>

AVC Contributions of £349,873 were paid directly to Standard Life during the year (2017/18: £305,339). The Equitable Life contributions ceased in 2001. AVCs are separately invested and are therefore not included in the Pension Fund accounts in accordance with regulations 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) regulations 2016.

NOTE 24: RELATED PARTY TRANSACTIONS

West Sussex County Council

The West Sussex Pension Fund is administered by West Sussex County Council. Therefore, there is a strong relationship between the Council and the Pension Fund.

During the reporting period, the Council incurred costs of £1.1m (2017/18: £1.1m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £57.5m to the Fund in 2018/19 (2017/18: £54.9m). All monies owing to and due from the Fund have been accounted for in the year.

Part of the Pension Fund cash holdings are invested in the money market by the Treasury Management operations at West Sussex County Council, in line with the Fund's Treasury Management Policy. During the year to 31 March 2019, the Fund had a daily average investment balance of £50.0m held in Sterling (31 March 2018: £49.7m) earning interest of £0.31m (2017/18: £0.13m) in these funds at a rate of return of 0.62% (2017/18: 0.27%). Additionally, the Fund has earned interest of £0.13m on investments held in foreign currency (2017/18: £0.03m).

Governance

No members of the Pensions Panel are in receipt of pension benefits from the West Sussex Pension Fund.

Each member of the Pensions Panel is required to declare their interests at each meeting.

NOTE 24a: KEY MANAGEMENT PERSONNEL

The Director of Finance and Support Services (formerly Director of Finance, Performance and Procurement) and S151 officer has responsibility for the proper financial administration of the Fund under the Local Government Act 1972. This Officer is employed by the Administering Authority but spent a proportion of time on the financial management of the Fund. These costs comprise an element of the recharge from the Fund to the County Council in 2018/19 of £1.1m. The total Pension Fund contribution relating to Key Management Personnel is set out below:

31 March 2018	31 March 2019
£000	£000
16 Total apportioned remuneration	16

NOTE 25: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

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

Estimates provided to members indicate that at year-end there are potential liabilities of £0.3m in respect of members who have enquired about transferring benefits out of the scheme and on whom the Fund is awaiting a final decision.

Outstanding commitments in private equity at 31 March 2019 totalled £27.6m (31 March 2018 £30.3m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the period of investment.

NOTE 26: CONTINGENT ASSETS

There were no contingent assets at the period end.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST SUSSEX COUNTY COUNCIL

Opinion

We have audited the pension fund financial statements for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. 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 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and the amount and disposition of the fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the West Sussex Pension Fund Annual Report 2018/19 other than the financial statements and our auditor's report thereon. The Director of Finance and Support Services is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

Responsibility of the Director of Finance and Support Services

As explained more fully in the Statement of Responsibilities set out on page 18, the Director of Finance and Support Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance and Support Services is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

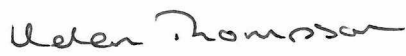
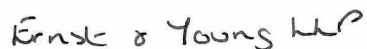
Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the members of West Sussex Pension Fund, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Helen Thompson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
29 July 2019

The maintenance and integrity of the West Sussex Pension Fund web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.