

West Sussex County Council Statement of Accounts 2017/18 Contents

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Narrative Report 2017/18

Introduction

The Future West Sussex Plan 2015-2019 sets out the three priority areas for the Council - to give children the best start in life, to champion the West Sussex economy and to support independence in later life. This plan was approved at the full County Council meeting in February 2017. Following the Council elections in May 2017, the plan was refreshed (now known as the West Sussex Plan) and was approved at the full County Council meeting in October 2017. The latest 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 in the four years 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 on behalf of our communities. The plan establishes the Council's five key outcome priorities, namely Best Start in Life, A Prosperous Place, Strong, Safe and Sustainable Place, Independent for Later Life and A Council that works for the Community.

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

- The resident population of West Sussex is projected to grow by 37,000 to a total of 886,900
- About 44,700 babies will be born in West Sussex
- The proportion of the population that is over 65 years old will increase from 22.8% to 24.1%
- Around 17% of residents in West Sussex report living with a long-term health problem or disability
- The West Sussex population is about 58% urban and 42% rural which brings challenges for many services. For example, in social care where 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 £314,950 and rising, impacting the affordability of housing for our residents
- The median weekly earnings for a full-time employee resident in West Sussex is £554 which is significantly below the South East average of £597

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 with our employees, customers and partners on a day-to-day basis 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 Structure

At the end of March 2018, the County Council was made up of 70 councillors, 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 political management 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

Supporting the work of the members, is the organisational structure of the Council which is headed by the Executive Leadership Team (ELT), currently led by the Chief Executive, Nathan Elvery. West Sussex County Council services are provided by three departments plus the Chief Executive's Office.

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 2018 the Council employed 4,477 full time equivalents (5,066 people), excluding school-based employees, in both full and part time contracts. Key facts about our workforce include:

Gender – Across the Council, 66.9% of employees are female and 33.1% are male.

Age – The Council has an older age profile than the working age population of West Sussex, with over 24% of employees aged 55+ and those aged 16–24 are particularly under-represented representing only 4% of the workforce.

Ethnicity – 2.5% of the workforce are recorded as belonging to black and minority ethnic groups. However, almost 34% of employees are of unknown ethnicity, so the actual proportion could be higher or lower.

Council's Performance for 2017/18

The Council measured its performance for 2017/18 against the Future West Sussex Plan which was approved in February 2017. The Performance Framework supports this plan and sets out the 24 goals which measure the progress against the three priority areas for the Council – to give children the best start in life, to champion the West Sussex economy and to support independence in later life.

We continue to face the challenges of providing vital services with increasing demands against balancing a much lower budget. However, against these challenges we are proud of our achievements over the past 12 months. From the 24 measures monitored in the Future West Sussex Plan, 11 were achieved or exceeded, 10 were close to meeting the target, two measures failed to meet the target and the performance of one measure is unconfirmed and waiting for government data to be released. Some of our key successes include:

Giving Children the Best Start in Life



70.3% of Year 6 children in West Sussex are a healthy weight, which is a considerable success, against a national prevalence of increasing obesity. The results are better than the previous three years and higher than the averages for the South East (68.2%) and England (64.4%).



Keeping families together – A total of 1,939 cases were claimed this year and further claims ready to submit. West Sussex is regarded as a leading authority for this national programme (highest ranking compared to statistical neighbours) and our results are in line with current and projected success targets.

Championing the Local Economy



Gross Value Added (GVA) per head of population for West Sussex is £25,978 per head. Average earnings in West Sussex were £554.1 per week. Both measures exceeded the target set.



WSSCC have supported over 320 businesses this year and many more are kept in touch with newsletters. Activity and support for businesses remains strong.



To date there have been 3,307 additional premises that have access to superfast fibre and this meets the original target of 3,000 by December 2017. A new phase has since been added for a further 4,000 premises by December 2018. The project is progressing well with detailed network design, planning and engineering surveys continuing.

Independent for Longer in Later Life



This year 80% of care home providers and 88% of care received at home in West Sussex is rated as good or outstanding by the Care Quality Commission. Both measures have exceeded the target and followed an upward trend during 2017.



Timely diagnosis of dementia is a key priority for both health and social care. Memory Assessment Service (MAS) has achieved a diagnosis rate of 67.8% which has been improving throughout 2017. This means more people with dementia and their carers are able to access support from dementia advisers and associated professionals, who can also link them into social groups, carers support groups and opportunities to learn about how to live well with dementia.

Full details of outcomes against all 24 of the targets can be found on the West Sussex Performance Dashboard - <https://performance.westsussex.gov.uk/>

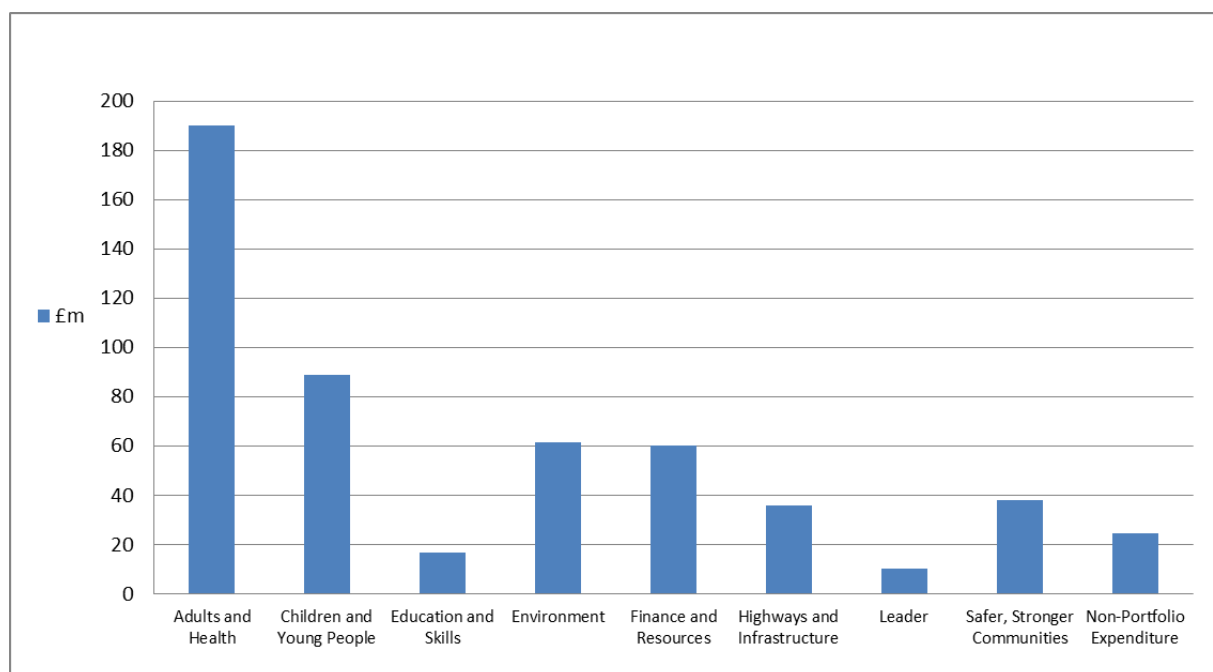
Financial Performance

The budget for 2017/18, agreed by County Council in February 2017, 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 2017/18 and 2018/19 were developed on the basis of maximising efficiency, finding new ways of service provision and engaging partners in collaboration. The budget for 2017/18 assumed savings of £16.8m and by the year end, £15.4m was reported as delivered, with the balance (£1.4m) either expected to be delivered during future financial years (£0.9m) or addressed as part of the budget setting process for 2018/19 (£0.5m).

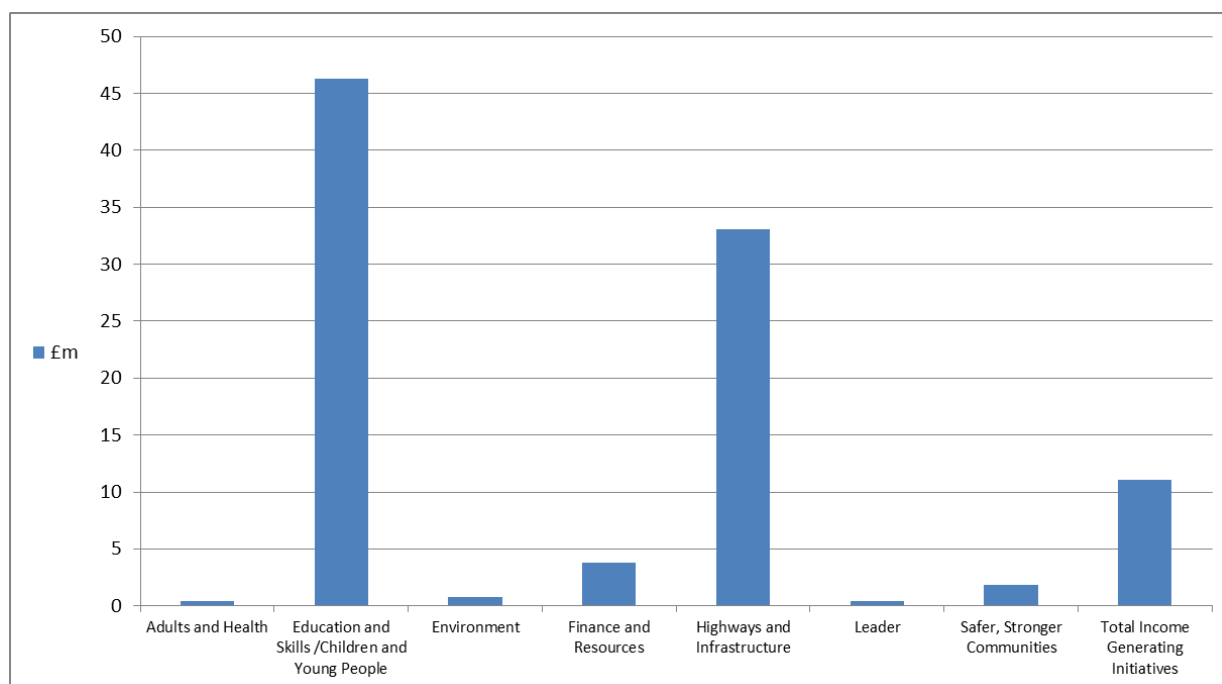
Within the portfolio budgets, there was an outturn overspending of £0.4m, after including £1.5m of carry forward requests and £1.1m of other transfers to reserves, both of which were approved through the February Total Performance Monitor. Within the non-portfolio budgets, there was an outturn underspending of £6.1m, due to underspendings on the contingency (£1.9m), capital financing (£0.8m), the budget earmarked for additional LGPS lump sum contributions (£3.3m) and employer's national insurance (£0.1m). In addition, there was a further £0.2m of additional financing from business rates, resulting in a net underspending of £5.9m. Of this, £4.5m was transferred to a number of newly created reserves to mitigate against potential risks which the Council is facing, with the balance (£1.9m) being taken to the General Fund. The £4.5m transfer to reserves figure includes £0.5m to the Waste Volatility reserve, which has already been taken into account in the £0.4m outturn portfolio overspend. Graph 1 below sets out the outturn for the year, by portfolio:

Graph 1: Revenue Outturn 2017/18



Spending on the County Council's capital programme totalled £98.0m for the year, against the revised capital programme of £114.6m (as approved at County Council in December 2017), a total variation of £16.6m or 14.5%. Graph 2 below sets out the capital outturn for 2017/18:

Graph 2: Capital Outturn 2017/18



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 1,610 primary places and 150 secondary places
- Provision of additional temporary classroom space to accommodate a short-term bulge in pupil numbers following the age of transfer reorganisation in Worthing schools
- Additional accommodation to enable the Storrington Area Rural Schools (STARS) age of transfer at Ashington, West Chiltington, Amberley, Storrington and St Mary's Primary Schools
- Public realm improvement scheme in the shopping centre at Montague Place, Worthing providing a new bandstand with open space for public events, new steps, lit paving and "wayfinder" feature
- Purchase of the Camelia Botnar Centre, Worthing, in order to provide medium-term security for the services being delivered in the area
- Delivery of a new hard play area at Heene Primary School, Worthing
- Replacement of existing double classroom in poor state of repair with a new modular double classroom at East Wittering Primary School
- A three-year grants programme to facilitate businesses to deliver capital projects, leveraging private sector funding and creating sustainable jobs. Over the three years, 51 enterprises were awarded over £2m, leveraging £3.7m in private sector funding and creating 266 jobs (fte)
- Public realm improvements including replacement paving, street furniture and signs, creation of an attractive flexible open space available for planting, seating area or public art feature at Queen's Square, Crawley. The project is the first delivered from the Crawley Growth Deal and Crawley Growth programme and also provides space that can be used for performance and community use
- Adaptations to Findon Valley Library including flexible fittings to enable additional services to be delivered on-site and reduce running costs from the use of two buildings for the same type of activities

- Replacement of the Fire and Rescue Aerial Ladder Platform appliance used at a variety of fire and rescue incidents
- The Drug and Alcohol Action Team facilitated a capital grant to Worthing Churches, housing an average 58 people who would otherwise be homeless and helping a 20-30 people every day at St Clare's Community Hub
- Installation of specialised linked smoke alarms for the vulnerable, elderly and disabled, at various locations across West Sussex
- Delivery of highways maintenance, including the design and works to keep 25 bridges safe and open
- Delivery of a programme of planned and reactive maintenance and repairs to the Council's asset estate, including schools, to ensure that buildings remain secure, safe and open for business

In 2017/18 a further seven schools obtained Academy status, at which point the buildings ceased to be County Council assets (resulting in assets to the value of £17.2m 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 £10.7m to the Balance Sheet). As of March 2018 there are 65 schools with Academy status in the County, with a further 219 schools remaining under local authority control. The transfer of schools to Academies is likely to continue in the coming year.

Reserves and Balances

The Balance Sheet distinguishes between "usable" and "unusable" reserves. An analysis of the movement in reserve balances during 2017/18 is provided by the Movement in Reserves Statement, and is summarised below:

Table 1: Movement in Reserve Balances 2017/18

	Balance at 1 April 2017	2017/18 Movement	Balance at 31 March 2018
	£000	£000	£000
General Fund	18,335	1,951	20,286
Earmarked Reserves	174,575	115	174,690
Capital Grants Unapplied Account	5,741	7,886	13,627
Total Usable Reserves	198,651	9,952	208,603
Unusable Reserves	470,106	131,212	601,318
Total Authority Reserves	668,757	141,164	809,921

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 2018 is £20.3m, which (at 3.8% of the net expenditure budget for 2018/19) 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 £174.7m are held as at 31 March 2018, 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 £652.8m is offset by a matching notional reserve ensuring there is no impact on the local taxpayer.

Future Capital Programme and Borrowing

The County Council updated the five year capital programme in December 2017. The core programme and the income generating initiatives can be summarised as follows:

Table 2: Summary of Core Capital Programme 2018/19 - 2022/23

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Core Programme:					
Adults and Health	739	1,100	1,400	700	495
Education and Skills / Children - Start of Life	46,352	35,365	32,136	29,721	23,728
Economy	8,773	13,123	13,116	4,000	14,000
Environment	4,590	5,379	0	0	0
Finance and Resources	4,406	11,637	23,749	38,361	40,874
Highways and Infrastructure	34,625	32,832	37,055	51,342	36,555
Safer, Stronger Communities	4,873	7,234	5,408	3,500	5,346
Total Core Programme	104,358	106,670	112,864	127,624	120,998
Income Generating Initiatives (IGIs) and Bold Ideas:					
Economy	833	5,000	15,000	15,000	15,000
Environment	7,090	8,200	10,000	10,000	15,198
Finance and Resources	21,000	24,000	21,344	20,000	31,640
Highways and Infrastructure	2,700	3,000	3,000	0	0
Total IGIs and Bold Ideas	31,623	40,200	49,344	45,000	61,838
Total Capital Programme	135,981	146,870	162,208	172,624	182,836
Financed By:					
Capital Receipts	1,000	2,000	6,100	20,400	81,032
Capital Grants and Contributions	81,818	89,831	61,295	58,673	52,067
Borrowing	53,163	55,039	94,813	93,551	49,737
	135,981	146,870	162,208	172,624	182,836

The Authority borrows prudentially for capital investment purposes. No new external borrowing was undertaken in 2017/18, and external debt repayments of £7.0m were made during the year. Outstanding Public Works Loans Board borrowing as at 31 March 2018 was £395.9m (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 £1.9 billion on the Balance Sheet.

Performance Monitoring

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

Financial Outlook

The provisional local government finance settlement was announced in December 2017, with the final settlement in February 2018. This formed the basis of the 2018/19 budget and beyond and confirmed expectations around a continuing period of austerity for local authority finances, with additional reductions in central government funding. For 2018/19, the budget was balanced with £19.4m of savings and a balance of £28.4m funded from an increase in council tax and tax base changes, with around £8.2m of the tax rise specifically supporting adult social care costs. The Government's finance settlement also provides Revenue Support Grant (RSG) figures up to 2019/20, with a reduction to negative RSG in 2019/20, whereby the Government will reduce other funding streams to fund its negative RSG allocation, compared with £27.7m in 2017/18. This finance settlement is fixed for 2018/19 and 2019/20, whereas there is far less certainty regarding the funding for future years.

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 shortfall of £51.8m between 2019/20 to 2021/22 (excluding any council tax rise). There is clearly a risk that the ambitious saving levels that will be needed for a balanced budget will not be achieved, or delivered late. That risk is magnified by a variety of factors, including the significant efficiency reductions already actioned. Risks will be managed in several ways. A general contingency of £3.6m provides a buffer against in-year pressures and covers any potential risks arising from the non-delivery of planned savings. Reserves are also more important than ever as a safeguard. The Budget Management Reserve stands at £26.7m at 31 March 2018, 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 £11.5m as at 31 March 2018, and ensures that savings proposals are not held back through lack of funds to invest in delivering change.

Reform of the funding system is still anticipated following the General Election of 2017. Government has 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 Government is undertaking a Fair Funding Review of local authority financing. The 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.

Negative Revenue Support Grant is a particular challenge in the 2019/20 financial year, which will see West Sussex County Council taxpayers paying £2.6m, or the equivalent of a 0.6% rise in council tax to central Government. This money will ultimately be used to fund Council services elsewhere in England. West Sussex County Council is raising this challenge with our MPs and Government.

West Sussex local authorities remain very keen to pilot 100% Business Rates Retention in 2019/20, which is estimated could bring an additional £20m to local government in the county. At the time of writing, the prospectus for the 2019/20 pilot has not been published by Government. However, West Sussex local authorities have actively engaged with local MPs and Government to express their collective interest in piloting business rates retention in 2019/20, highlighting the strength of our proposition.

Development Opportunities

The County Council is actively pursuing opportunities to enhance the level of income that it currently generates. Utilising best practice and expertise from other sectors, the Council has developed income generation projects in the following areas:

- Enhancing our wedding and other ceremonies service, in particular from greater use of some of the unique buildings that the County Council has access to
- Using a wide range of County Council assets for advertising and sponsorship opportunities, from our Fire Service, Household Waste Recycling Centres, roundabouts and other land for media advertising
- Developing the range of services that our expert educational and school support teams can offer on the commercial market to Academy and Free School clients
- Creating a Regulatory Services 'one-stop' shop for local business to access key expert advice on regulatory issues that impact their sectors, thus promoting economic growth

Our objective is to deliver over £0.5m of additional income in 2018/19 from these and other initiatives, to help enable the County Council deliver a balanced budget. The Council is also examining how it can take forward local investment decisions concerning commercial property in order to both enhance local economic conditions as well as enable the Council to generate revenue returns.

The Council has a good track record in delivering sustainable savings plans, over £200m since 2010/11. This has put the Council in a strong financial position for the future challenges ahead; at the time of writing our budget gap for 2019/20 is estimated at £8.4m given the previous action taken. To ensure the Council can continue to live within its means, a comprehensive Transformation Programme has been created to enhance services and lower costs. Over 30 projects are underway across all aspects of the Council's business, with support from our strategic business partner, PwC. We estimate that current activity underway will enable the Council to save in excess of £30m over the next four years.

Provisions and contingencies

The Council continues to hold both short and long term provisions which total £19.6m at 31 March 2018, of which £5.7m relates to the insurance provision and £2.7m relates to the Non-Domestic Rates (NDR) Appeals provision.

Changes to accounting policies

The accounting policies have been updated to reflect the minor changes to address previous omissions or provide clarification, none of which are intended to change current practice or impact on the financial statements.

Corporate Risks

Following the appointment of the Corporate Risk Manager, a revised Risk Management Strategy and new format risk register for corporate and directorate risks have been produced. These documents will provide more coherent and robust governance to support risk management across the Council.

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
Recruitment and retention – Council and partners facing skills shortages	New and revised governance, data gathering and targeted recruitment projects
Lack of capacity or competition – Unable to stimulate markets or secure good deals	Commissioning model, data gathering and statistical analysis
Demographic needs and demands – Understand demographic changes to predict demand	Horizon scanning and data gathering on demand, including supporting governance
Partnership working – Strategic and operational variations	Centralised governance and regular engagement with key strategic partnerships
Contract management – Lack of effective operation and/or contract compliance	Centralised Contract Management Service to support directorates
Cyber-security – Manipulation of data through deliberate and targeted malicious activity	Robust IT governance and education of staff
General Data Protection Regulation (GDPR) – Lack of resources and skill to carry out obligations	Robust IT governance and management/control of data and education of staff
IT infrastructure – Reduction in IT capability as a result of underinvestment	Cost/benefit analysis of existing infrastructure against current technological advances
Health and Safety – Lack of governance leading to serious H&S incident	Robust Health and Safety governance and reporting systems
Asset Management – Lack of data leading to poor maintenance scheduling and significant Health and Safety risk	Full condition survey of Council infrastructure assets
Child safeguarding – Services provision leading to a child safeguarding failure	Ensuring all policies and guidance is communicated and available; education and training; regular key stakeholder engagement
Adult safeguarding – Lack of compliance to Care Act 2014 and local directives, an adult safeguarding failure occurs	Regular key stakeholder engagement; review and improvement of systems and processes; education and training

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.

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 2018. The format and content of the financial statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, 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.

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.

Director of Finance, Performance and Procurement

Statement of Responsibilities

The Chief Financial Officer's responsibilities:

The Director of Finance, Performance and Procurement 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, Performance and Procurement 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, Performance and Procurement 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 2018, and of its income and expenditure for the year ending on that date.

Katharine Eberhart
Director of Finance, Performance and Procurement
23 July 2018

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, Performance and Procurement;
- 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 23 July 2018 on behalf of West Sussex County Council.

Dr Nigel Dennis
Chairman of the Regulation, Audit and Accounts Committee
23 July 2018

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 2016	-18,335	-188,216	0	-1,146	-207,697	-550,543	-758,240
Movement in Reserves during 2016/17:							
Total Comprehensive Income and Expenditure	46,178	-	-	-	46,178	43,305	89,483
Adjustments between Funding and Accounting Basis (Note 2)	-32,537	-	0	-4,595	-37,132	37,132	0
(Increase)/Decrease before Reserve Transfers	13,641	-	0	-4,595	9,046	80,437	89,483
Transfers to/from Earmarked General Fund Reserves (Note 3)	-13,641	13,641	-	-	0	-	0
(Increase)/Decrease in 2016/17	0	13,641	0	-4,595	9,046	80,437	89,483
Balance at 31 March 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	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

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 £194,976,000 as at 31 March 2018.

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 2017 £000	Notes	31 March 2018 £000
1,690,626 Property, Plant & Equipment	4	1,794,087
79 Heritage Assets	5	229
38,076 Investment Property	7	31,376
1,680 Intangible Assets	8	1,180
33,317 Long Term Investments	9	27,629
16,868 Long Term Debtors	9	18,340
1,780,646 Long Term Assets		1,872,841
170,046 Short Term Investments	9	182,097
1,400 Assets Held for Sale	10	2,535
207 Inventories	N/A	177
110,183 Short Term Debtors	11	115,419
54,656 Cash and Cash Equivalents	12	43,940
336,492 Current Assets		344,168
-15,512 Short Term Borrowing	9	-15,764
-145,158 Short Term Creditors	13	-155,311
-15,196 Short Term Provisions	14	-14,529
-2,042 Short Term PFI Liability	15	-2,814
-85 Short Term Finance Lease Liability	16	-89
-177,993 Current Liabilities		-188,507
-395,866 Long Term Borrowing	9	-388,850
-4,549 Long Term Provisions	14	-5,107
-110,594 Long Term PFI Liability	15	-105,505
-1,821 Long Term Finance Lease Liability	16	-1,732
-704,131 Pension Liability	17	-652,846
-51,560 Capital Grants Receipts in Advance	25	-62,829
-1,867 Other Long Term Liabilities	N/A	-1,712
-1,270,388 Long Term Liabilities		-1,218,581
668,757 Net Assets		809,921
-198,651 Usable Reserves	MIRS	-208,603
-470,106 Unusable Reserves	19	-601,318
-668,757 Total Reserves		-809,921

These financial statements replace the unaudited financial statements certified by the Director of Finance, Performance and Procurement on 31 May 2018.

Katharine Eberhart
Director of Finance, Performance and Procurement

23 July 2018

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.

2016/17 (Restated)			2017/18		
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
172,369	3,856	176,225	190,304	3,474	193,778
		Adults and Health			
102,395	1,354	103,749	88,746	5,777	94,523
		Children and Young People			
23,587	15,826	39,413	16,951	16,343	33,294
		Education and Skills			
63,035	3,957	66,992	61,414	2,150	63,564
		Environment			
54,652	6,345	60,997	60,193	1,440	61,633
		Finance and Resources			
35,986	23,039	59,025	35,836	25,229	61,065
		Highways and Infrastructure			
5,746	2,393	8,139	10,393	6,914	17,307
		Leader (including Economy)			
37,839	214	38,053	38,103	4,375	42,478
		Safer, Stronger Communities			
495,609	56,984	552,593	501,940	65,702	567,642
		Net Cost of Services			
-481,968	-24,447	-506,415	-504,006	-36,069	-540,075
		Other Income and Expenditure			
13,641	32,537	46,178	-2,066	29,633	27,567
		(Surplus) or Deficit			
		-18,335	-18,335		
		Opening General Fund Balance			
		Add (Surplus)/Deficit on General Fund Balance in Year	-2,066		
		Add Transfers to/(from) Earmarked General Fund Reserves in Year	115		
		-18,335	-20,286		
		Closing General Fund Balance			

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 £194,976,000 as at 31 March 2018.

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.

2016/17 (Restated) ¹				2017/18		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
318,402	-142,177	176,225	Adults and Health	333,127	-139,349	193,778
146,347	-42,598	103,749	Children and Young People	163,190	-68,667	94,523
495,234	-455,821	39,413	Education and Skills	472,458	-439,164	33,294
74,630	-7,638	66,992	Environment	71,179	-7,615	63,564
67,883	-6,886	60,997	Finance and Resources	68,747	-7,114	61,633
84,540	-25,515	59,025	Highways and Infrastructure	82,911	-21,846	61,065
9,745	-1,606	8,139	Leader (including Economy)	17,723	-416	17,307
50,213	-12,160	38,053	Safer, Stronger Communities	54,749	-12,271	42,478
1,246,994	-694,401	552,593	Cost of Services	1,264,084	-696,442	567,642
42,916	0	42,916	Other Operating Expenditure (Note 22)	23,754	0	23,754
98,032	-51,636	46,396	Financing and Investment Income and Expenditure (Note 23)	90,160	-47,355	42,805
0	-595,727	-595,727	Taxation and Non-Specific Grant Income (Note 24)	0	-606,634	-606,634
1,387,942	-1,341,764	46,178	(Surplus) or Deficit on Provision of Services	1,377,998	-1,350,431	27,567
		-21,882	(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Chargeable to the Revaluation Reserve (Note 4)			-70,306
		0	Impairment of Non Current Assets Chargeable to the Revaluation Reserve (Note 4)			0
		684	(Surplus) or Deficit on Revaluation of Available for Sale Financial Assets (Note 19)			-373
		64,503	Actuarial (Gains) and Losses on Remeasurement of Pension Scheme Assets and Liabilities (Note 17)			-98,052
		43,305	Other Comprehensive Income and Expenditure			-168,731
		89,483	Total Comprehensive Income and Expenditure			-141,164

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

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.

2016/17 £000	2017/18 £000
46,178 Net (surplus) or deficit on the provision of services	27,567
Adjustments to net surplus or deficit on the provision of services for non cash -146,961 movements (Note 34)	-115,991
Adjustments for items included in the net surplus or deficit on the provision of <u>67,738</u> services that are investing and financing activities (Note 35)	<u>70,541</u>
-33,045 Net cash flows from Operating Activities	-17,883
37,644 Investing Activities (Note 36)	16,539
<u>9,656</u> Financing Activities (Note 37)	<u>12,060</u>
14,255 Net (increase)/decrease in cash and cash equivalents	10,716
<u>-68,911</u> Cash and cash equivalents at the beginning of the reporting period	<u>-54,656</u>
<u>-54,656</u> Cash and cash equivalents at the end of the reporting period (Note 12)	<u>-43,940</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Prior Period Adjustment

The Authority has made a prior year adjustment in preparing its 2017/18 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. Following the local elections in May 2017, the Authority adopted a revised cabinet member portfolio structure. The 2017/18 financial statements are therefore prepared using this new portfolio structure. In accordance with the requirements of *IAS1 Presentation of Financial Statements*, the 2016/17 comparators in the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis have also been restated on this new reporting basis. The impact of this restatement is disclosed below.

Comprehensive Income and Expenditure Statement

Cabinet Member Portfolio Structure (pre May 2017)	2016/17 Net Expenditure £000	Cabinet Member Portfolio Structure (post May 2017)	2016/17 Net Expenditure (Restated) £000
Adult Social Care and Health	188,319	Adults and Health	176,225
Children - Start of Life	95,359	Children and Young People	103,749
Community Wellbeing	3,189	Education and Skills	39,413
Corporate Relations	45,380	Environment	66,992
Education and Skills	34,436	Finance and Resources	60,997
Finance	20,483	Highways and Infrastructure	59,025
Highways and Transport	59,049	Leader (including Economy)	8,139
Leader	5,709	Safer, Stronger Communities	38,053
Residents' Services	100,669		
Cost of Services	552,593	Cost of Services	552,593

Expenditure and Funding Analysis

Cabinet Member Portfolio Structure (pre May 2017)	2016/17 Net Expenditure Chargeable to the General Fund £000	Cabinet Member Portfolio Structure (post May 2017)	2016/17 Net Expenditure Chargeable to the General Fund (Restated) £000
Adult Social Care and Health	184,502	Adults and Health	172,369
Children - Start of Life	93,194	Children and Young People	102,395
Community Wellbeing	2,766	Education and Skills	23,587
Corporate Relations	44,116	Environment	63,035
Education and Skills	19,547	Finance and Resources	54,652
Finance	15,248	Highways and Infrastructure	35,986
Highways and Transport	35,985	Leader (including Economy)	5,746
Leader	3,318	Safer, Stronger Communities	37,839
Residents' Services	96,933		
Net Cost of Services	495,609	Net Cost of Services	495,609

Cabinet Member Portfolio Structure (pre May 2017)	2016/17 Adjustments between Funding and Accounting Basis £000	Cabinet Member Portfolio Structure (post May 2017)	2016/17 Adjustments between Funding and Accounting Basis (Restated) £000
Adult Social Care and Health	3,817	Adults and Health	3,856
Children - Start of Life	2,165	Children and Young People	1,354
Community Wellbeing	423	Education and Skills	15,826
Corporate Relations	1,264	Environment	3,957
Education and Skills	14,889	Finance and Resources	6,345
Finance	5,235	Highways and Infrastructure	23,039
Highways and Transport	23,064	Leader (including Economy)	2,393
Leader	2,391	Safer, Stronger Communities	214
Residents' Services	3,736		
Net Cost of Services	56,984	Net Cost of Services	56,984

NOTES TO THE FINANCIAL STATEMENTS

The Balance Sheet is unaffected by this change, and therefore no 'third' balance sheet (providing comparators as at 1 April 2016) 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 Balance 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

2017/18	Usable Reserves		
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £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

2016/17	Usable Reserves		
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £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)	-23,115	-	-
• Council tax and NDR (transferred to or from the Collection Fund Adjustment Account)	-5	-	-
• Holiday pay (transferred to the Accumulated Absences Account)	-2,198	-	-
• 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)	-45,821	-	-59,305
Total Adjustments to Revenue Resources	-71,139	-	-59,305
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	8,469	-8,469	-
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)	-36	36	-
Write down of finance lease debtor (transfer from Deferred Capital Receipts Reserve)	-211	-	-
Statutory provision for the repayment of debt (transfer to the Capital Adjustment Account)	14,043	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	16,337	-	-
Total Adjustments between Revenue and Capital Resources	38,602	-8,433	-
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	13,388	-
Application of capital grants to finance capital expenditure	-	-	54,710
Cash payments in relation to deferred capital receipts	-	-4,955	-
Total Adjustments to Capital Resources	-	8,433	54,710
Total Adjustments	-32,537	0	-4,595

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 2017/18.

	Balance at 1 April 2016	Transfers Out 2016/17	Transfers In 2016/17	Balance at 31 March 2017	Transfers Out 2017/18	Transfers In 2017/18	Balance at 31 March 2018
	£000	£000	£000	£000	£000	£000	£000
Adult Social Care and Health Demand Pressures	-2,688	934	0	-1,754	1,020	0	-734
Adult Social Care Grant	0	0	0	0	1,575	-3,318	-1,743
Budget Management	-12,604	594	-6,921	-18,931	0	-7,773	-26,704
Business Infrastructure	-3,608	750	0	-2,858	1,671	0	-1,187
Capital Expenditure	-12,337	12,337	-4,010	-4,010	0	0	-4,010
Capital Infrastructure	-12,000	0	-100	-12,100	72	0	-12,028
Care Act	-3,000	3,000	0	0	0	0	0
Care, Wellbeing and Education Risk	0	363	-2,284	-1,921	1,921	0	0
Counselling Services to Schools	0	0	-1,000	-1,000	617	0	-383
Crawley Schools PFI	-6,756	0	-220	-6,976	0	-223	-7,199
Dedicated Schools Grant (DSG)	-6,416	6,416	-2,520	-2,520	2,520	-5,489	-5,489
Deprivation of Liberty Safeguarding	0	0	0	0	0	-1,000	-1,000
Early Intervention	-10,523	2,363	0	-8,160	8,160	0	0
Highways Commuted Sums	0	0	-2,669	-2,669	0	-394	-3,063
Insurance	-7,552	2,422	-2,986	-8,116	217	-150	-8,049
Interest Smoothing	-3,480	3,142	-492	-830	0	0	-830
School Balances	-18,991	18,991	-16,479	-16,479	16,479	-14,995	-14,995
Schools Sickness and Maternity Scheme	-2,014	12	0	-2,002	0	-83	-2,085
Service Transformation	-13,031	2,729	-3,039	-13,341	4,392	-2,564	-11,513
Statutory Duties	0	0	0	0	0	-2,350	-2,350
Strategic Economic Plan	-3,182	745	0	-2,437	460	0	-1,977
Street Lighting PFI	-17,861	0	-490	-18,351	0	-791	-19,142
Unapplied Revenue Grants	-520	395	-1,028	-1,153	354	-1,005	-1,804
Waste Materials Resource Management Contract (MRMC)	-33,168	3,738	-60	-29,490	336	-62	-29,216
Waste PFI	-12,420	28	-25	-12,417	28	-26	-12,415
Other Earmarked Reserves	-6,065	2,542	-3,537	-7,060	4,787	-4,501	-6,774
Earmarked Reserves	-188,216	61,501	-47,860	-174,575	44,609	-44,724	-174,690

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 Grant** reserve 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 meet pressures arising from the volatility of central government funding streams, as well as guarding against the 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 is established to finance expenditure within the capital programme as part of the capital financing strategy.

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

- 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.

- The **Care Act** reserve was established as part of the 2015/16 budget to mitigate the Authority's most pessimistic assessment of risk following the changes introduced by the Care Act. The resource has subsequently been consolidated into the Service Transformation Reserve.

- 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 **Highways Commuted Sums** reserve holds a balance of contributions received from developers in respect of future infrastructure maintenance costs.

- 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 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

Comparative Movements in 2016/17	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 2016	1,235,237	112,608	551,495	20,159	20,136	1,939,635	150,312
Additions	38,107	3,399	24,491	7	19,559	85,563	3,011
Donations	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	11,847	0	0	701	0	12,548	4,928
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	2,527	0	0	59	0	2,586	0
Disposals	-2,310	-1,014	0	0	0	-3,324	0
Derecognition - Academies	-20,918	0	0	0	-24,228	-45,146	0
Derecognition - Finance Leases	0	0	0	0	0	0	0
Derecognition - Other	-2,862	0	-2,882	-16	0	-5,760	0
Assets reclassified (to)/from Assets Held for Sale	0	0	0	-1,766	0	-1,766	0
Assets reclassified (to)/from Investment Property	-276	0	0	0	0	-276	0
Transfer in asset category	1,228	0	0	497	-1,725	0	0
At 31 March 2017	1,262,580	114,993	573,104	19,641	13,742	1,984,060	158,251
Accumulated Depreciation and Impairment							
At 1 April 2016	-31,882	-22,145	-196,425	-15	0	-250,467	-16,119
Depreciation charge	-21,359	-12,977	-30,343	-30	0	-64,709	-4,902
Depreciation written out to the Revaluation Reserve on revaluation	9,323	0	0	11	0	9,334	1,257
Depreciation written out to the Surplus/Deficit on the Provision of Services on revaluation	8,352	0	0	29	0	8,381	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	-152	0	0	0	0	-152	0
Disposals	0	0	0	0	0	0	0
Derecognition - Academies	1,162	0	0	0	0	1,162	0
Derecognition - Finance Leases	0	0	0	0	0	0	0
Derecognition - Other	112	0	2,883	16	0	3,011	0
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	6	0	0	0	0	6	0
Transfer in asset category	11	0	0	-11	0	0	0
At 31 March 2017	-34,427	-35,122	-223,885	0	0	-293,434	-19,764
Net Book Value							
At 1 April 2016	1,203,355	90,463	355,070	20,144	20,136	1,689,168	134,193
At 31 March 2017	1,228,153	79,871	349,219	19,641	13,742	1,690,626	138,487

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 2018 for the construction or enhancement of Property, Plant and Equipment. It has commitments totalling £22.2m to be paid in 2018/19 and thereafter (commitments at 31 March 2017 were £71.0m). The major commitments are:

Name of capital project	Programme duration	Outstanding Commitments £000
Westhampnett Solar Farm	2017-2019	3,175
Vehicle Fleet	2017-2019	2,185
Local Broadband Plan	2013-2019	1,280
Oathall Community College	2016-2019	965
East Preston Infant School	2016-2019	847
East Preston Primary School	2016-2019	814
Warden Park School	2015-2019	553
Northgate Primary School	2016-2019	534

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 2018. Valuations were instructed by the Director of Finance, Performance and Procurement, 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 2017/18. 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 2018, 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 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

Comparative figures as at 31 March 2017:

	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 March 2017 £000
Commercial	0	3,176	2,104	5,280
Educational	0	0	5,558	5,558
Recreational	0	0	3,738	3,738
Residential	0	0	2,887	2,887
Sub Total	0	3,176	14,287	17,463
De minimis	0	221	1,957	2,178
Total	0	3,397	16,244	19,641

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 2018 £000	Valuation technique used to measure Fair Value	Unobservable inputs	Range (weighted average used)	Sensitivity
Commercial	2,682	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.
	933	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	603	Comparable approach	Office comparables in local areas	Office rents between £6.00 - £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.
	980	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 2018 £000	Valuation technique used to measure Fair Value	Unobservable inputs	Range (weighted average used)	Sensitivity
Residential	12,486	Market Approach	Residential land sale comparables	£1,150,000 - £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.
	3,490	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.
	13,794	Market Approach	Residential Sales comparables	£200,000 - £750,000 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.
	1,865	Market Approach	Residential sales values and land values	Land £15,000-£1,200,000 per hectare/ Dwellings £215,000 - £500,000	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.
	365	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. Then applied discounts to take into account planning constraints, location of the site, change of use.
	279	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 2018 is £229,000, which is inclusive of additional capital expenditure of £150,000 in 2017/18.

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 £1.9billion 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		2017/18	
	2016/17	2017/18	2017/18	2017/18
	£000	£000	£000	£000
Capital Financing Requirement				
Balance brought forward at 1 April		568,448		558,425
Capital Investment for the Year by Portfolio:				
Adults and Health	1,098		394	
Children and Young People / Education and Skills	51,018		46,299	
Environment	425		11,745	
Finance and Resources	4,539		4,151	
Highways and Infrastructure	22,665		33,108	
Leader (including Economy)	19,486		533	
Safer, Stronger Communities	1,356		1,797	
Street Lighting PFI Notional Investment	2,579		0	
Waste PFI Notional Investment	432		739	
	103,598		98,766	
Source of Finance:				
Capital Receipts	-13,388		-1,696	
External Contributions	-5,647		-4,447	
External Contributions applied to REFCUS	-520		-364	
Specific Grants	-49,063		-56,512	
Specific Grants applied to REFCUS	-14,623		-2,539	
Revenue Contribution to Capital Outlay	-16,337		-1,957	
	-99,578		-67,515	
Sums set aside from revenue (MRP)		-14,043		-13,772
Balance carried forward at 31 March		558,425		575,904
Change in Capital Financing Requirement		-10,023		17,479

REFCUS expenditure of £5.668m is included within portfolio totals in 2017/18 (2016/17 £17.937m)

	2016/17	2017/18
	£000	£000
Explanation of change in CFR:		
Increase in underlying need to borrow	1,009	30,512
Assets acquired under PFI contracts	3,011	739
Less the total of the Minimum Revenue Provision	-14,043	-13,772
	-10,023	17,479

NOTES TO THE BALANCE SHEET

Reconciliation of the Capital Financing Requirement to the Balance Sheet

	2016/17 £000	2017/18 £000
Capital Financing Requirement as at 31 March	<u>558,425</u>	<u>575,904</u>
Property Plant & Equipment (Note 4)	1,690,626	1,794,087
Heritage Assets (Note 5)	79	229
Investment Property (Note 7)	38,076	31,376
Intangible Assets (Note 8)	1,680	1,180
Equity Investments (Note 9) ¹	53	21
Assets Held for Sale (Note 10)	1,400	2,535
Available for Sale Financial Instruments Reserve (Note 19) ¹	147	179
Revaluation Reserve (Note 19)	-291,477	-356,497
Capital Adjustment Account (Note 19)	-880,292	-895,494
Other Long Term Liabilities ²	-1,867	-1,712
	<u>558,425</u>	<u>575,904</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 loss charged to the Available for Sale Financial Instruments Reserve.

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:

2016/17 £000	2017/18 £000
-517 Rental income from investment property	-472
0 Direct operating expenses arising from investment property	0
0 (Gains) and losses on sale of investment property	66
-2,334 Change in fair value of investment property	-325
-2,851 Net (gain)/loss	-731

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:

2016/17 £000	2017/18 £000
35,380 Balance at 1 April	38,076
92 Additions: Subsequent expenditure	42
0 Disposals of Investment Properties	-66
2,334 Net gains from fair value adjustments	325
Transfers:	
270 (To)/from Property, Plant and Equipment	-6,900
0 (To)/from Assets Held for Sale	-101
38,076 Balance at 31 March	31,376

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 2017/18. 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 2018, 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 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

Comparative figures as at 31 March 2017:

	Quoted prices in active markets for identical assets (Level 1) £000	Other significant observable inputs (Level 2) £000	Significant unobservable inputs (Level 3) £000	Fair value as at 31 March 2017 £000
Agricultural	0	0	10,578	10,578
Commercial	0	0	10,168	10,168
Educational	0	0	10,443	10,443
Residential	0	0	336	336
Sub Total	0	0	31,525	31,525
De minimis	0	0	6,551	6,551
Total	0	0	38,076	38,076

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 2018 £000	Valuation technique used to measure Fair Value	Unobservable inputs	Range (weighted average used)	Sensitivity
Agricultural	2,917	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.
	459	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	250	Income Approach	Commercial rents and yields	£15,000 to £25,000 per annum	Analysed comparable sites and applied an opinion of a capitalisation yield on the received income.
	9,809	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.
	342	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 31 years to represent the current Management Agreement in place expiring in 31 years.
	630	Market Approach	Commercial land values	£30,000 - £40,000 per hectare	The asset has been valued as grazing land and with regard to other grazing land transactions in the immediate vicinity and further afield. Adjustments have been made where necessary for location, size, quality of grazing land.

NOTES TO THE BALANCE SHEET

	Fair Value as at 31 March 2018 £000	Valuation technique used to measure Fair Value	Unobservable inputs	Range (weighted average used)	Sensitivity
Residential	8,302	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.
	437	Income Approach	Residential rental and sales values	£30,000 - £35,000 per annum	Valued with consideration to income received. Analysed residential sales and discounted this value based on the fact the previously agreed price fell through.
	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.
	2,044	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.
	336	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 £500,000 charged to revenue in 2017/18 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:

	2016/17	2017/18
	£000	£000
Balance at 1 April		
- Gross carrying amounts	4,580	4,580
- Accumulated amortisation	-2,400	-2,900
Net carrying amount at start of year	2,180	1,680
Purchases	0	0
Amortisation for the period	-500	-500
Balance at 31 March	1,680	1,180
Comprising:		
Gross carrying amounts	4,580	4,580
Accumulated amortisation	-2,900	-3,400
	1,680	1,180

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 2017/18 are classified in accordance with the Code of Practice as follows:

Loans and receivables (financial assets that have fixed or determinable payments and are not quoted in an active market) measured at amortised cost, comprising:

- Cash held at HSBC Bank plc and Lloyds Bank plc (including school bank accounts)
- Fixed-term deposits with banks and building societies
- Call/notice bank accounts
- Loans to other local authorities
- Loan to the Skills Funding Agency made for service purposes (Further Education colleges)
- Trade receivables (debtors) for goods and services delivered

Available for sale financial assets (those that are quoted in an active market) comprising:

- Money market funds and other collective investment schemes (pooled funds)
- Certificate of deposits, bonds (senior unsecured) & covered bonds issued by banks/building societies
- Bonds issued by the UK Government and other local authorities
- Corporate bonds issued by companies (non-bank)
- Equity investment in the UK Municipal Bond Agency

Balances in bank call (instant access) accounts and money market funds at 31 March 2018 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, with an insignificant risk of changes in value. At 31 March 2018 the Council did not have any investments to be measured at fair value through profit and loss or any unquoted equity investments.

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 held during the year comprised:

- Long-term borrowing from the Public Works Loan Board (PWLB)
- Short-term borrowing from the Chichester Harbour Conservancy
- Overdraft facility with Lloyds Bank plc
- Finance leases on land and buildings
- Private Finance Initiative (PFI) contracts
- 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; during 2017/18 such borrowing being taken on one occasion from the Council's main provider of banking services. 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.

Under the 2017/18 Code of Practice these forms of borrowing are measured at amortised cost. This form of measurement does not change the amount of cash paid under the terms of the loan but can impact on the charge made to the Comprehensive Income and Expenditure Statement. At 31 March 2018, 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:

Measurement at amortised cost permits transactions costs related to financial instruments to be attached to the loan or investment and charged to the Comprehensive Income and Expenditure Statement over the life of the instrument. Where these are considered to be immaterial they can be charged in full to the Comprehensive Income and Expenditure Statement in the financial year in which they are incurred. The Council has adopted this latter approach in 2017/18.

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	
	1 April 2017 £000	31 March 2018 £000	1 April 2017 £000	31 March 2018 £000
Borrowing ¹ (principal amount)	-395,866	-388,850	-11,255	-11,639
Accrued interest (PWLB)	0	0	-4,257	-4,125
PFI Liability	-110,594	-105,505	-2,042	-2,814
Finance Lease Liability	-1,821	-1,732	-85	-89
Trade Creditors	0	0	-78,698	-81,393
Cash and Cash Equivalents (Bank Current Accounts)	0	0	-261	-675
Financial liabilities at amortised cost	<u>-508,281</u>	<u>-496,087</u>	<u>-96,598</u>	<u>-100,735</u>
Financial liabilities at fair value through the CIES	0	0	0	0
Total borrowings	<u>-508,281</u>	<u>-496,087</u>	<u>-96,598</u>	<u>-100,735</u>
Investments (including accrued interest)	16,085	10,000	107,733	133,062
Cash and Cash Equivalents (Bank Call Accounts)	0	0	0	5,801
Loan to the Skills Funding Agency	0	0	15	0
Trade Debtors	16,868	18,340	40,040	46,949
Loans and receivables at amortised cost	<u>32,953</u>	<u>28,340</u>	<u>147,788</u>	<u>185,812</u>
Government / Local Authority Bonds	5	6	0	0
Investments (including accrued interest)	17,174	17,602	62,298	49,035
Equity investments	53	21	0	0
Cash and Cash Equivalents (Money Market Funds)	0	0	54,917	38,814
Available for sale financial assets	<u>17,232</u>	<u>17,629</u>	<u>117,215</u>	<u>87,849</u>
Financial assets at fair value through the CIES	0	0	0	0
Unquoted equity investments at cost	0	0	0	0
Total Investments	<u>50,185</u>	<u>45,969</u>	<u>265,003</u>	<u>273,661</u>
Soft Loans Provided ²	270	257	20	20

¹ The County Council began long-term borrowing during 2000/01. All loans are scheduled to be repaid between 2017 and 2058.

² Included within Trade Debtors total.

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 2018/19.

NOTES TO THE BALANCE SHEET

Soft Loans:

In accordance with the 2017/18 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 0.35% throughout 2017/18) interest receivable would be increased by £5,000. However, as per the Authority'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 2018 is therefore:

	2016/17	2017/18
	£000	£000
Balance brought forward	302	290
Loan Advance	0	0
Repayments Received	-20	-20
Interest Charged to Comprehensive I&E Statement	8	7
Soft Loans Total (within trade debtors)	290	277

During 2017/18, with regard to financial instruments the County Council had no:

- Unusual movements
- Reclassification of instruments
- Derecognition of instruments
- Allowance for credit losses
- Default and Breaches

b. Financial Instruments - Fair Values

The Council's financial assets classified as available for sale (and all derivative assets and liabilities if applicable) are carried on the Balance Sheet at fair value. For most assets, including bonds and shares in money market funds/pooled funds, the fair value is taken from the market price at 31 March 2018. The fair values of other available for sale financial instruments can be assessed by calculating the net present value of the cash flows that take place over the remaining life of the financial instruments, using the following assumptions:

- Certificates of deposit have been discounted at market interest rates for instruments of similar credit quality and remaining term to maturity; together with a valuation of the certificate of deposits held at 31 March 2018, as provided by the Council's provider of custodian services (King & Shaxson Ltd).
- Shares in 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).

The Council's financial assets classified as loans and receivables and all non-derivative financial liabilities are carried on the Balance Sheet at amortised cost. The portion of borrowings and investments due to be settled within 12 months of the Balance Sheet date are presented on the Balance Sheet under short-term borrowings or short-term investments. Their fair values can be assessed by calculating the net present value of the cash flows that take place over the remaining life of the financial instruments, using the following assumptions:

- For Public Works Loan Board (PWLB) loans, New Loan Rates effective at 31 March 2018 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. 127/18.
- For long-term investments (long-term given the originally agreed start/maturity dates) prevailing benchmark market rates have been used to provide the fair value at 31 March 2018.
- 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.
- The fair value of other financial instruments with a maturity of less than 12 months, including trade payables and receivables, is assumed to approximate the carrying amount.

NOTES TO THE BALANCE SHEET

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- 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.

	Fair Value Level	2016/17		2017/18	
		Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities					
PWLB Long-term Borrowing ¹	2	-402,882	-515,719	-395,866	-496,359
PFI, Finance Lease Liabilities	2	-114,542	-204,930	-110,140	-192,342
Total Debt		<u>-517,424</u>	<u>-720,649</u>	<u>-506,006</u>	<u>-688,701</u>
<u>Liabilities for which fair value is not disclosed:</u> ²					
Short-term (Non-PWLB) Borrowing		-4,239		-4,623	
Accrued PWLB interest		-4,257		-4,125	
Trade Creditors ³		-78,698		-81,393	
Bank Current Accounts		-261		-675	
Total Financial Liabilities		<u>-604,879</u>		<u>-596,822</u>	
Financial Assets					
<u>Financial assets held at fair value:</u>					
Money Market Funds	1	54,917	54,917	38,814	38,814
Government/Local Auth. Bonds	1	5	5	6	6
Property Funds	1	9,253	9,253	9,693	9,693
Ultra-Short Dated Bond Funds	1	15,065	15,065	15,011	15,011
Bank Covered Bonds (Long-Term)	1	7,921	7,921	7,909	7,909
Bank Covered Bonds (Short-Term)	1	0	0	10,470	10,470
Bank (Senior Unsecured) Bonds	1	0	0	8,502	8,502
Non-Bank (Corporate) Bonds	1	12,164	12,164	0	0
Certificate of Deposits	2	35,069	35,069	14,948	14,948
Shares in the UKMBA plc	3	53	53	21	21
<u>Financial assets held at amortised cost:</u>					
Long-term Investments ⁴	2	16,113	16,419	16,192	16,244
Skills Funding Agency	2	15	15	0	0
		<u>150,575</u>	<u>150,881</u>	<u>121,566</u>	<u>121,618</u>
<u>Assets for which fair value is not disclosed:</u> ¹					
Short-term (less than 1 year) investments		107,705		126,974	
Cash & Cash Equivalents		0		5,801	
Trade Debtors ⁵		56,908		65,289	
Total Financial Assets		<u>315,188</u>		<u>319,630</u>	

NOTES:

¹ The fair value of financial liabilities (PWLB debt) is greater than the Balance Sheet carrying amount because the Council's portfolio includes a number of loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date.

² The fair value of short-term financial assets and liabilities, including trade receivables and payables respectively, is assumed to approximate the carrying amount.

NOTES TO THE BALANCE SHEET

³ Excludes receipts in advance (£51.713m) and statutory creditors (£22.205m) 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.

⁴ The fair value of financial assets (with a duration period of greater than one year on commencement of investment) is higher than the carrying amount because the Council's investment portfolio includes two loans with other local authorities for which the prevailing interest rate on similar investments is now lower than that obtained when the investments were originally made.

⁵ Excludes payments in advance (£43.624m) and statutory debtors (£24.846m) including HM Revenue & Customs (VAT repayment), government department accruals, council tax arrears and provision for doubtful debts.

c. 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:

	2016/17			2017/18		
	Financial Liabilities	Financial Assets		Financial Liabilities	Financial Assets	
	Liabilities measured at amortised cost	Loans and Receivables	Available for sale assets	Liabilities measured at amortised cost	Loans and Receivables	Available for sale assets
	£000	£000	£000	£000	£000	£000
Interest expense	-29,789	0	0	-27,154	0	0
Interest income	0	1,295	886	0	1,275	989
Interest on financial instruments	-29,789	1,295	886	-27,154	1,275	989

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).

NOTES TO THE BALANCE SHEET

(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. 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 institutions, including the Royal Bank of Scotland (given the part nationalised status of the bank) up to a maximum of 364 days; and corporate (non-bank) organisations up to a maximum duration of 100 days. The total level of internally managed investments with organisations rated below A- being limited to a maximum of £30m (such investments being classified as 'non-specified' in accordance with MHCLG Investment Guidance).

Throughout 2017/18 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 ultra-short dated bond and property funds) were approved for Council investment.

The table below summarises the fair value/amortised cost of the Council's investment portfolio at 31 March 2018 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 YES / NO	Credit rating criteria met on 31 March 2018 YES / NO	Balance invested at 31 March 2018				Total £000
			Up to 1 month £000	>1 month and <6 months £000	>6 month and <1 Year £000	>1 year £000	
Bank unsecured:							
-UK Bank	YES	YES	15,034	44,674	0	0	59,708
-Non-UK Bank	YES	YES	14,303	30,108	14,959	0	59,370
-Building societies	YES	YES	0	0	0	0	0
-Money market funds	YES	YES	38,814	0	0	0	38,814
Bank secured	YES	YES	10,470	0	0	7,909	18,379
Non-Bank	YES	YES	0	0	0	0	0
Local authorities	YES	YES	0	0	43,235	10,000	53,235
Pooled funds ¹	YES	YES	15,115	0	0	9,693	24,808
Other	n/a	n/a	0	0	0	27	27
			93,736	74,782	58,194	27,629	254,341

¹ The duration period for deposits within the Payden pooled fund remains to be agreed based on the on-going performance of the fund, however money can be withdrawn by giving four working days notice. The Council's holding in the Local Authorities' Property Fund (CCLA) commencing March 2017 is approved on the basis of a long-term (minimum five years) investment duration.

NOTES TO THE BALANCE SHEET

The Council's exposure to credit risk in relation to its unsecured investments in banks, building societies and money market funds at 31 March 2018 (£157.9m) 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 2018 that such risks were likely to materialise.

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

	Long Term		Short Term	
	2016/17	2017/18	2016/17	2017/18
	£000	£000	£000	£000
AAA (Covered Bonds, Pooled Funds/MMFs)	7,921	7,909	69,982	64,295
AA+	0	0	0	0
AA (including UK Government)	10,005	6	43	0
AA- (Assumed UK Local Authority Rating)	6,085	10,000	83,167	109,115
A+	0	0	0	8,502
A	0	0	44,612	44,696
A-	0	0	12,164	0
BBB+	0	0	14,995	0
Local Authorities Property Fund (CCLA)	9,253	9,693	0	104
UK Municipal Bond Agency ¹	53	21	0	0
Total	33,317	27,629	224,963	226,712

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.

Credit Risk (Trade Debtors): The Council does not generally allow credit for its trade debtors, however £24.8m of the total £65.3m debtor balance is past its due date for payment. The amount overdue at 31 March 2018, none of which has been impaired, can be analysed by age as follows:

	£000
Up to one month	5,645
Greater than one month up to three months	2,207
Greater than three months up to six months	3,008
Greater than six months up to one year	4,339
Greater than one year up to two years	4,063
Greater than two years up to five years	4,091
More than five years	1,432
Total	24,785

Included within the £24.8m trade debtor balance that is past its due payment date, the Council has identified that £1.733m 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 2018, 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 the Provision for bad/doubtful debt

	2016/17	2017/18	Movement
	£000	£000	£000
Provision for bad debts	-566	-1,733	-1,167
Provision for council tax & business rate debts	-11,233	-10,882	351
Total	-11,799	-12,615	-816

NOTES TO THE BALANCE SHEET

Collateral – The credit quality of £18.4m 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. Additionally with regard to its 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 2018 was £5.2m.

(iv) 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 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 fair value adjustments) is as follows:

	2016/17	2017/18
	£000	£000
Less than one year	224,963	226,712
Between one and two years	6,085	17,909
Between two and three years	17,921	0
Between three and four years	0	0
More than four years	9,311	9,720
Financial Assets Total	258,280	254,341

Trade debtors (£65.3m) are not included in the table above.

(v) 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 placed 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
- 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:

NOTES TO THE BALANCE SHEET

	Minimum Approved Limit	Maximum Approved Limit	2016/17 £000	2017/18 £000
Less than 1 year	0%	25%	11,255	11,639
Between 1 and 5 years	0%	35%	24,563	27,563
Over 5 years to 10 years	0%	40%	38,778	74,913
Over 10 years to 15 years	0%	60%	207,678	194,143
Over 15 years to 20 years	0%	50%	84,847	52,231
Over 20 years to 25 years	0%	15%	0	0
Over 25 years to 30 years	0%	20%	15,000	15,000
More than 30 years	0%	30%	25,000	25,000
Financial Liabilities Total			407,121	400,489

(vi) 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
- 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 Comprehensive Income and Expenditure Statement 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 2018 the Council held no variable long term borrowings, but held 42% (£107.0m) 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.

Excluding the Council's investment in the CCLA Local Authorities Property Fund, interest totalling £0.503m was credited to the Comprehensive Income and Expenditure Statement in respect of the Council's variable rate investments, representing a 0.45% interest rate of return on an average investment portfolio of £111.1m. If interest rates had been 1% higher the financial impact would have been a £1.1m increase in interest credited to the Comprehensive Income and Expenditure Statement.

Price Risk

The market prices of the Council's fixed rate bond investments and its units held in pooled bond funds (externally managed ultra-short dated bond funds) during 2017/18 are governed by prevailing interest rates; the market risk associated with these investments is managed alongside interest rate risk.

NOTES TO THE BALANCE SHEET

Under current accounting regulations units in externally managed pooled funds are classified as "available for sale"; meaning that all movements in price will impact on gains and losses in the Available for Sale Financial Instrument Reserve; no impact on the General Fund until the investment is sold. Given the Council's £15.0m investment in the Payden ultra-short dated bond fund, a 5% fall in the market value of the fund would result in a £0.7m loss being recognised in the Available for Sale Financial Instrument Reserve.

The Council's investments in externally managed property funds are subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to long-term property fund investments of £15m per fund up to a maximum of £45m (£45m maximum exposure being the total of all of the Council's long-term investments, including long-term local authority and bond investments if applicable). Given the Council's £9.8m investment (including accrued interest) in the CCLA Local Authorities Property Fund, a 5% fall in commercial property prices would result in a £0.5m loss being recognised in the Available for Sale Financial Instrument Reserve.

With the exception of the shareholding held with UK Municipal Bond Agency, the Council has not invested in equity shares during 2017/18; additionally the Council held no investments in externally managed equity or multi-asset income pooled funds in 2017/18.

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 2017/18 the Council achieved a 0.68% return on its investment portfolio as compared against average UK CPI inflation of 2.83% during the same period. With historically low investment rates set to continue at a time when inflation is forecast to remain above 2% throughout 2018 (before falling to around 2% between 2019 to 2022) 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 longer-term (higher yielding) investments, for example externally managed equity, 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

2016/17 £000	2017/18 £000
5 Balance outstanding 1 April	1,400
Assets newly classified as held for sale:	
1,766 - Property, Plant and Equipment	1,188
0 - Investment Property	101
-366 Revaluation gains/(losses)	-154
-5 Assets sold	0
1,400 Balance outstanding at 31 March	2,535

11. Short-Term Debtors

2016/17 £000	2017/18 £000
10,337 Central government bodies	9,533
17,160 Other local authorities	24,085
9,365 NHS bodies	10,995
73,321 Other entities and individuals	70,806
110,183 Total	115,419

12. Cash and Cash Equivalents

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

2016/17 £000	2017/18 £000
54,917 Cash held by the Authority	44,615
-261 Bank current accounts	-675
54,656 Total	43,940

13. Short-Term Creditors

2016/17 £000	2017/18 £000
-13,956 Central government bodies	-18,228
-4,902 Other local authorities	-6,992
-5,089 NHS bodies	-4,359
-121,211 Other entities and individuals	-125,732
-145,158 Total	-155,311

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 2017 £000	Amounts used in 2017/18 £000	Additional provisions made in 2017/18 £000	Balance at 31 March 2018 £000
<u>Long-Term</u>				
Insurance	-4,223	1,134	-879	-3,968
Teachers' Pension Scheme	-172	9	0	-163
Fire Pensions Opt-Out	-154	195	-1,017	-976
Total Long-Term Provisions	-4,549	1,338	-1,896	-5,107
<u>Short-Term</u>				
Employee Benefits	-8,659	8,659	-9,541	-9,541
NDR Appeals	-2,964	2,964	-2,726	-2,726
Insurance	-1,884	1,331	-1,134	-1,687
Firefighter Injury Pensions	-1,397	1,397	0	0
Highways Contract Pensions	-161	161	0	0
Tax Liabilities	-131	0	0	-131
Loss of Office	0	0	-444	-444
Total Short-Term Provisions	-15,196	14,512	-13,845	-14,529
Grand Total Provisions	-19,745	15,850	-15,741	-19,636

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 2018. 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 **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.

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 four 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.

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 2018. 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 **Firefighter Injury Pensions** provision was held for the Authority's estimated obligation in relation to historic errors in the administration of firefighter pensions. The obligation related to injury payments to retained firefighters who retired prior to April 2006, which were charged to the pension fund in error. This obligation was fully settled in 2017/18.

The **Highways Contract Pensions** provision was maintained in recognition of an estimated liability relating to employer pension contributions for staff transferred to the Authority's highway maintenance contractor. Under the contract arrangements, WSCC is liable for pension contributions over a baseline level. The provision represented an estimate of the liability backdated to 2011/12. This backdated liability was settled during 2017/18.

The Authority has recognised a provision for **Tax Liabilities** payable to HMRC. The obligation at the reporting date relates to employer's National Insurance payable on remuneration made outside of payroll, and represents the Authority's best estimate of the likely settlement (inclusive of any interest and penalties). Settlement is anticipated in 2018/19.

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 to be settled in 2018/19.

15. Private Finance Initiatives and Similar ContractsCrawley 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.

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 2018 £12.2m 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 2017 £000	Additions £000	Depreciation £000	Revaluation £000	Closing Balance at 31 March 2018 £000
Crawley Schools PFI					
Ifield Community College	24,042	0	-598	0	23,444
Oriol High School	30,796	0	-748	0	30,048
Recycling & Waste PFI					
Infrastructure	6,948	0	-352	0	6,596
Land and Buildings	126	0	-4	13,577	13,699
Plant and Equipment	4,411	739	-815	0	4,335
Street Lighting PFI	72,164	0	-2,644	0	69,520
Total PFI Assets	138,487	739	-5,161	13,577	147,642

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

	Opening Balance at 1 April 2017 £000	Increase due to Investment £000	Repayment of Liability £000	Closing Balance at 31 March 2018 £000
Crawley Schools PFI	-33,293	0	1,917	-31,376
Recycling & Waste PFI	-13,176	-739	1,011	-12,904
Street Lighting PFI	-66,167	0	2,128	-64,039
Total Liability	-112,636	-739	5,056	-108,319

Note (iii) – Payments due under PFI Contracts

	Repayment of Liability £000	Interest £000	Service Charges £000	Total £000
Within one year	2,814	10,356	23,509	36,679
Within two to five years	15,048	39,175	103,814	158,037
Within six to ten years	30,098	40,569	151,363	222,030
Within eleven to fifteen years	38,908	27,053	69,234	135,195
Within sixteen to twenty years	21,451	6,765	22,367	50,583
Total	108,319	123,918	370,287	602,524

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 2017 £000	31 March 2018 £000
23,463 Other Land and Buildings	24,270
<u>0</u> Vehicles, Plant, Furniture and Equipment	<u>0</u>
23,463	24,270

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 2017 £000	31 March 2018 £000
1,906 Finance Lease Liability	1,821
<u>1,332</u> Finance costs payable in future years	<u>1,239</u>
3,238 Minimum lease payments	3,060

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

	Minimum Lease Payments		Finance Lease Liabilities	
	1 April 2017 £000	31 March 2018 £000	1 April 2017 £000	31 March 2018 £000
No later than one year	178	178	85	89
Later than one year and not later than five years	712	712	383	402
Later than five years	<u>2,348</u>	<u>2,170</u>	<u>1,438</u>	<u>1,330</u>
	3,238	3,060	1,906	1,821

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 2017 £000	31 March 2018 £000
808 Not later than one year	1,052
1,504 Later than one year and not later than five years	2,005
<u>245</u> Later than five years	<u>214</u>
2,557	3,271

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £1.031m. Of this total, £0.284m was chargeable to the Safer, Stronger Communities portfolio, and a further £0.597m was chargeable to the Highways and Infrastructure portfolio. The balance of £0.150m has been charged to the Finance and Resources portfolio.

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 2017 £000	31 March 2018 £000
7,829 Finance lease debtor	7,570
4,213 Unearned finance income	3,909
0 Unguaranteed residual value of property ¹	0
12,042 Gross investment in the lease	11,479

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 2017 £000	31 March 2018 £000	1 April 2017 £000	31 March 2018 £000
	No later than one year	499	496	219
Later than one year and not later than five years	1,997	1,984	957	985
Later than five years	9,546	8,999	6,653	6,359
	12,042	11,479	7,829	7,570

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 2017 £000	31 March 2018 £000
564 Not later than one year	564
1,193 Later than one year and not later than five years	775
1,016 Later than five years	52
2,773	1,391

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	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Comprehensive Income and Expenditure Statement				
<i>Cost of Services:</i>				
Current service cost	47,900	77,678	6,956	7,203
Past service cost (including curtailments)	1,956	1,278	2,400	34
(Gain)/loss from settlements	-178	-1,121	0	0
<i>Financing and Investment Income and Expenditure:</i>				
Interest cost on defined benefit obligation	59,466	53,513	11,111	9,752
Interest income on plan assets	-48,938	-44,619	0	0
<i>Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services</i>	60,206	86,729	20,467	16,989
<i>Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement:</i>				
Remeasurement (gains) and losses	16,548	-88,644	47,955	-9,408
<i>Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</i>	76,754	-1,915	68,422	7,581

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	-60,206	-86,729	-20,467	-16,989
<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>				
Employers' contributions payable to scheme	49,566	48,097		
Retirement benefits payable to pensioners			7,992	8,854

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	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Opening balance at 1 April	-1,697,262	-2,044,784	-315,563	-375,993
Current service cost	-47,900	-77,678	-6,956	-7,203
Interest cost	-59,466	-53,513	-11,111	-9,752
Contributions by scheme participants	-11,474	-11,806	-1,778	-1,609
Remeasurement gains and (losses):				
Actuarial gains/(losses) arising from changes in demographic assumptions	49,087	0	-1,994	3,908
Actuarial gains/(losses) arising from changes in financial assumptions	-329,319	38,638	-68,341	6,465
Other experience	-2,109	430	22,380	-965
Past service cost (including curtailments)	-1,956	-1,278	-2,400	-34
Transfers to/(from) other authorities	0	0	200	0
Benefits paid	54,160	50,494	9,570	10,463
Liabilities extinguished on settlements	1,455	5,139	0	0
Closing balance at 31 March	-2,044,784	-2,094,358	-375,993	-374,720

NOTES TO THE BALANCE SHEET

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

	Local Government Pension Scheme		Uniformed Firefighters	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Opening balance at 1 April	1,396,312	1,716,646	0	0
Interest income on plan assets	48,938	44,619	0	0
Remeasurement gains and (losses):				
Return on plan assets (excluding interest income)	265,793	49,576	0	0
Contributions by scheme participants	11,474	11,806	1,778	1,609
Employer contributions	49,566	48,097	7,992	8,854
Benefits paid	-54,160	-50,494	-9,570	-10,463
Transfers (to)/from other authorities	0	0	-200	0
Settlements	-1,277	-4,018	0	0
Closing balance at 31 March	1,716,646	1,816,232	0	0

Scheme History

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Present value of liabilities:					
Local Government Pension Scheme	-1,529,626	-1,814,815	-1,697,262	-2,044,784	-2,094,358
Uniformed Firefighters	-295,346	-350,653	-315,563	-375,993	-374,720
Fair value of assets:					
Local Government Pension Scheme	1,177,192	1,359,123	1,396,312	1,716,646	1,816,232
Uniformed Firefighters	0	0	0	0	0
Surplus/(deficit) in the scheme:					
Local Government Pension Scheme	-352,434	-455,692	-300,950	-328,138	-278,126
Uniformed Firefighters	-295,346	-350,653	-315,563	-375,993	-374,720
Total	-647,780	-806,345	-616,513	-704,131	-652,846

The liabilities show the underlying commitments that the Authority has in the long run to pay post-employment (retirement) benefits. The total liability of £652.846m 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 2019 is £45.038m. Payments (net of employee contributions) in respect of the Uniformed Firefighters scheme for the year to 31 March 2019 are projected to be £8.133m.

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	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £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			30.2	29.5
▪ Women			31.7	31.5
Longevity at 65 for future pensioners:				
▪ Men	26.0	26.0		
▪ Women	27.8	27.8		
Longevity at 60 for future pensioners:				
▪ Men			31.6	30.8
▪ Women			33.2	32.8
Rate of increase in salaries	3.1%	3.1%	3.4%	3.4%
Rate of increase in pensions	2.4%	2.4%	2.4%	2.4%
Rate of inflation			3.4%	3.4%
Rate for discounting scheme liabilities	2.6%	2.7%	2.6%	2.7%

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 2017 %	31 March 2018 %
Equity Securities	70%	70%
Debt Securities	2%	2%
Private Equity	4%	4%
Real Estate	8%	8%
Investment Funds and Unit Trusts	14%	14%
Cash and Cash Equivalents	2%	2%
	100%	100%

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 2017/18, the County Council paid £24.965m to Teachers' Pensions in respect of teachers' retirement benefits, representing 16.48% of pensionable pay. Employer contributions of £26.100m were made in 2016/17 (16.48% of pensionable pay). The contributions due to be paid in the next financial year are estimated to be £24.8m.

NOTES TO THE BALANCE SHEET

19. Unusable Reserves

1 April 2017	31 March 2018
£000	£000
8,659 Accumulated Absences Account	9,541
834 Available for Sale Financial Instruments Reserve	461
-880,292 Capital Adjustment Account	-895,494
-4,132 Collection Fund Adjustment Account	-4,605
-7,829 Deferred Capital Receipts Reserve	-7,570
704,131 Pensions Reserve	652,846
-291,477 Revaluation Reserve	-356,497
-470,106 Total Unusable Reserves	-601,318

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.

2016/17	2017/18	
£000	£000	£000
6,461 Balance at 1 April		8,659
-6,461 Settlement or cancellation of accrual made at end of the preceding year	-8,659	
8,659 Amounts accrued at the end of the current year	9,541	
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		882
2,198		882
8,659 Balance at 31 March		9,541

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

2016/17	2017/18	
£000	£000	£000
150 Balance at 1 April		834
-186 Upward revaluation of investments	-494	
Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services		121
843		121
807		-373
Accumulated gains and (losses) on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement		0
27		0
834 Balance at 31 March		461

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.

2016/17 £000	2017/18 £000 £000
-882,984 Balance at 1 April	-880,292
<i>Reversal of items relating to capital expenditure debited/credited to the Comprehensive Income and Expenditure Statement:</i>	
64,709 Charges for depreciation of non current assets	64,604
500 Charges for amortisation of intangible assets	500
152 Charges for impairment of non current assets	0
Revaluation (gains) / losses on Property, Plant and Equipment and -10,601 Assets Held for Sale	-14,455
17,937 Revenue Expenditure Funded from Capital Under Statute (REFCUS)	5,668
Amounts written off on disposal or sale as part of the gain/loss on 50,062 disposal to the Comprehensive Income and Expenditure Statement	24,297
-156 Release of deferred income from Private Finance Initiatives	-155
0 Gains from Donated Assets	-8,763
122,603	71,696
-3,956 Adjusting amounts written out of the Revaluation Reserve	-5,286
118,647 Net written out amount of the cost of non current assets consumed in the year	66,410
<i>Capital financing applied in the year:</i>	
-13,388 Use of the Capital Receipts Reserve to finance new capital expenditure	-1,696
Application of grants to capital financing from the Capital Grants	
-54,710 Unapplied Account	-60,959
-15,143 Capital grants and contributions applied to REFCUS	-2,903
Statutory provision for the financing of capital investment charged -14,043 against the General Fund balance	-13,772
-16,337 Revenue Contribution to Capital Outlay	-1,957
-113,621	-81,287
Movements in the market value of Investment Properties debited/ -2,334 credited to the Comprehensive Income & Expenditure Statement	-325
-880,292 Balance at 31 March	-895,494

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.

2016/17	2017/18
£000	£000 £000
-4,137 Balance at 1 April	-4,132
4,137 Settlement or cancellation of accrual made at end of the preceding year	4,132
<u>-4,132</u> Amounts accrued at the end of the current year	<u>-4,605</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	-473
<u>-4,132</u> Balance at 31 March	<u>-4,605</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.

2016/17	2017/18
£000	£000
-12,995 Balance at 1 April	-7,829
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the	
0 Comprehensive Income and Expenditure Statement	0
211 Write down of Finance Lease debtor	259
<u>4,955</u> Transfer to the Capital Receipts Reserve upon receipt of cash	<u>0</u>
<u>-7,829</u> Balance at 31 March	<u>-7,570</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.

2016/17	2017/18
£000	£000
616,513 Balance at 1 April	704,131
64,503 (Gains)/losses on remeasurement of pension assets/liabilities	-98,052
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	103,718
80,673 Employer's pensions contributions and direct payments to pensioners payable in the year	-56,951
704,131 Balance at 31 March	652,846

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.

2016/17	2017/18
£000	£000 £000
-273,551 Balance at 1 April	-291,477
-28,444 Upward revaluation of assets	-75,165
Downward revaluation of assets and revaluation losses not charged to the Surplus/Deficit on the Provision of Services	4,859
6,562 Impairment losses not charged to the Surplus/Deficit on the Provision of Services	0
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	-70,306
-21,882 Difference between fair value depreciation and historical cost depreciation	3,702
3,367 Accumulated gains on assets sold or scrapped	1,584
3,956 Amount written off to the Capital Adjustment Account	5,286
-291,477 Balance at 31 March	-356,497

NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

20. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2017/18

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
Education and Skills	4,556	12,701	-914	16,343
Environment	3,377	257	-1,484	2,150
Finance and Resources	-1,222	3,066	-404	1,440
Highways and Infrastructure	29,992	1,365	-6,128	25,229
Leader (including Economy)	5,169	300	1,445	6,914
Safer, Stronger Communities	4,065	300	10	4,375
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

NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

Adjustments between Funding and Accounting Basis 2016/17 (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	2,420	1,404	32	3,856
Children and Young People	-238	1,557	35	1,354
Education and Skills	13,157	4,526	-1,857	15,826
Environment	5,406	59	-1,508	3,957
Finance and Resources	1,451	5,100	-206	6,345
Highways and Infrastructure	30,086	423	-7,470	23,039
Leader (including Economy)	1,501	65	827	2,393
Safer, Stronger Communities	614	-413	13	214
Net Cost of Services	54,397	12,721	-10,134	56,984
Other Income and Expenditure	-47,178	10,394	12,337	-24,447
Difference between General Fund Deficit and Comprehensive Income and Expenditure Deficit	7,219	23,115	2,203	32,537

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.
- 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 2016/17 £000	2017/18 £000
Adults and Health	-47,098	-47,973
Children and Young People	-1,251	-1,590
Education and Skills	-6,503	-6,468
Environment	-1,434	-1,534
Finance and Resources	-3,553	-3,910
Highways and Infrastructure	-9,704	-9,959
Leader (including Economy)	-87	-56
Safer, Stronger Communities	-3,111	-3,310
Total income analysed on a segmental basis	-72,741	-74,800

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

22. Other Operating Expenditure

2016/17	2017/18
£000	£000
921 Levies	1,065
366 Assets Held for Sale (Gains)/Losses on Revaluation	154
-5,104 (Profit) / loss on sale of assets	-448
43,984 Loss on derecognition of Academy Schools	17,157
2,749 Loss on derecognition of other assets	5,407
0 Assets derecognised under finance leases	419
42,916 Total	23,754

23. Financing and Investment Income and Expenditure

2016/17	2017/18	
£000	£000	£000
29,789 Interest payable and similar charges	27,154	
-2,181 Interest receivable and similar income	-2,264	
		24,890
70,577 Pensions: interest cost on defined benefit obligation	63,265	
-48,938 Pensions: interest income on plan assets	-44,619	
		18,646
-517 Investment properties: income and expenditure	-472	
0 Investment properties: (gain)/loss on disposal	66	
-2,334 Investment properties: changes in fair value	-325	
		-731
46,396 Total		42,805

24. Taxation and Non Specific Grant Income

2016/17	2017/18
£000	£000
-386,181 Council tax income	-408,077
-75,076 Non domestic rates	-77,392
-53,080 Revenue Support Grant	-27,693
-22,085 Other non-ringfenced government grants	-15,864
0 Gains from Donated Assets	-8,763
-59,305 Capital grants and contributions	-68,845
-595,727 Total	-606,634

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)	Restated 2016/17		2017/18	
	£000	£000	£000	£000
<u>Non Domestic Rates</u>				
Local Retention of Business Rates	-33,770		-33,331	
Top-Up Receivable from Billing Authorities	-39,532		-39,113	
Top-Up to Baseline Funding Level (MHCLG)	<u>-1,181</u>		<u>-3,651</u>	
		-74,483		-76,095
<u>Revenue Support Grant</u>				
Initial Allocation (MHCLG):				
Upper Tier Funding	-48,269		-24,717	
Fire and Rescue Funding	<u>-4,811</u>		<u>-2,976</u>	
		-53,080		-27,693
<u>Other Non-Ringfenced Government Grants</u>				
Education Services Grant (DfE)	-7,977		-2,192	
Extended Rights to Free Travel (DfE)	-388		0	
Inshore Fisheries Conservation (DEFRA)	-148		0	
New Burdens Grant (MHCLG)	-13		-13	
New Homes Bonus Grant (MHCLG)	-5,358		-5,016	
Section 31 Business Rates Grant (MHCLG)	-2,027		-2,389	
Transition Grant (MHCLG)	<u>-6,174</u>		<u>-6,254</u>	
		-22,085		-15,864
<u>Capital Grants and Contributions</u>				
Basic Need Grant (DfE)	-17,149		-24,651	
Capital Maintenance Grant (DfE)	-8,026		-8,131	
Devolved Formula Capital Grant (DfE)	-1,932		-1,570	
Highways Incentive Block (DfT)	-693		-1,059	
Highways Maintenance Grant (DfT)	-12,581		-12,200	
Integrated Transport Grant (DfT)	-3,734		-3,734	
LEP Local Growth Fund Capital Grant (MHCLG)	-4,521		-8,249	
National Productivity Investment Fund (DfT)	0		-2,783	
Pothole Action Fund (DfT)	-841		-967	
Targeted Basic Need Grant (DfE)	-3,137		0	
Section 106 Contributions	-5,543		-4,423	
Other Grants and External Contributions	<u>-1,148</u>		<u>-1,078</u>	
		-59,305		-68,845
Total		<u>-208,953</u>		<u>-188,497</u>

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Grants Credited to Services	Restated 2016/17		2017/18	
	£000	£000	£000	£000
<u>Adults and Health</u>				
Adult Social Care Support Grant (MHCLG)	0		-3,318	
Improved Better Care Fund (MHCLG)	0		-7,414	
Independent Living Fund (DoH)	-4,745		-4,589	
Local Reform and Community Voices Grant (DoH)	-450		-458	
Public Health Grant (DoH)	-29,591		-15,748	
Other	-350		-551	
		-35,136		-32,078
<u>Children and Young People</u>				
Adoption Support Fund (DfE)	-1,017		-1,248	
Asylum Seekers (HO)	-2,040		-3,188	
Dedicated Schools Grant (DfE)	-32,314		-44,303	
Public Health Grant (DoH)	0		-12,713	
Troubled Families (DfE)	-1,615		-1,760	
Youth Justice Good Practice (MoJ)	0		-557	
Other	-747		-735	
		-37,733		-64,504
<u>Education and Skills</u>				
Adult and Community Learning - Skills Funding Agency (BIS)	-3,087		-2,908	
Basic Need Capital Grant (DfE) <i>applied to REFCUS</i>	-10,932		-2,097	
Capital Maintenance Grant (DfE) <i>applied to REFCUS</i>	-373		0	
Dedicated Schools Grant (DfE)	-361,461		-357,852	
EFA Academy Grant (DfE) <i>applied to REFCUS</i>	-788		0	
Extended Rights to Free Travel Grant (DfE)	0		-349	
Primary PE & Sports Equipment Grant (DfE)	-1,814		-2,766	
Private Finance Initiative (MHCLG)	-4,532		-4,532	
Pupil Premium (DfE)	-14,643		-13,584	
School Improvement Monitoring and Brokering Grant (DfE)	0		-439	
SEND New Burdens Grant (DfE)	-334		0	
SEND Reform Grant (DfE)	-476		-1,026	
Sixth Form Funding - Education Funding Agency (DfE)	-16,998		-16,035	
Universal Infant Free School Meals Grant (DfE)	-7,857		-7,580	
Other	-615		-228	
		-423,910		-409,396
<u>Environment</u>				
Private Finance Initiative (MHCLG)	-2,124		-2,124	
		-2,124		-2,124
<u>Finance and Resources</u>				
One Public Estate Capacity Grant (CO)	0		-490	
Other	-150		-148	
		-150		-638
<u>Highways and Infrastructure</u>				
Bus Service Operators Grant (DfT)	-436		-436	
Private Finance Initiative (MHCLG)	-6,069		-6,069	
Other	-105		-182	
		-6,610		-6,687
<u>Leader (including Economy)</u>				
Coast to Capital LEP Core Funding (MHCLG)	-500		0	
LEP Local Growth Fund Capital Grant (MHCLG) <i>applied to REFCUS</i>	-744		-100	
		-1,244		-100
<u>Safer, Stronger Communities</u>				
Broadband Delivery Capital Grant (DCMS) <i>applied to REFCUS</i>	-1,250		0	
Drug & Alcohol Recovery Capital Grant (DoH) <i>applied to REFCUS</i>	-335		0	
Fire Revenue Grant (MHCLG)	-835		-835	
Public Health Grant (DoH)	-6,148		-6,010	
Other	-33		-470	
		-8,601		-7,315
Total		-515,508		-522,842

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	Restated 2016/17 £000	2017/18 £000
Devolved Formula Capital Grant (DfE)	-1,186	-1,128
Early Years Capital Fund (DfE)	-822	-438
Flood Resilience and Pothole Action Fund (DfT)	-573	-2,162
Local Transport Grant (DfT)	-926	0
Safer Roads Fund (DfT)	0	-2,425
Social Care Capital Grant (DoH)	-1,839	-1,839
Section 106 Contributions	-43,958	-52,863
A Place to Live	-1,046	-851
Other Grants and External Contributions	-1,210	-1,123
	<u>-51,560</u>	<u>-62,829</u>

Key to Central Government Departments

BIS	Department for Business, Innovation and Skills
CO	Cabinet Office
DCMS	Department for Culture, Media and Sport
DEFRA	Department for Environment, Food and Rural Affairs
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:

	2016/17 £000	2017/18 £000
Fees payable to EY with regard to external audit services carried out by the appointed auditor for the year	118	121
Fees payable in respect of other services provided by EY during the year	0	0
Total	118	121

In 2017/18, Public Sector Audit Appointments Ltd redistributed to audited bodies the retained earnings transferred from the Audit Commission when it closed in March 2015. The amount distributed to West Sussex County Council was £17,470.

The Authority incurred further costs of £4,250 in 2017/18 (2016/17 £5,070) 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:

	2016/17 £000	2017/18 £000
Basic Allowances	788	791
Other Allowances	378	333
Travel and Subsistence	76	67
Total	1,242	1,191

28. Environment Agency Services

Precepts payable to the Environment Agency in respect of flood defence for 2017/18 totalled £0.295m (2016/17 £0.289m).

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 2017. 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 2017/18 are as follows:

Notes	Central Expenditure £000	ISB £000	Total £000
A Final DSG for 2017/18 before academy recoupment			-555,572
B Academy figure recouped for 2017/18			153,417
Total DSG after academy recoupment for 2017/18			-402,155
Plus: Brought forward from 2016/17			-2,520
Less: Agreed carry forward to 2018/19			1,324
Total DSG available for distribution			-403,351
C Agreed initial budgeted distribution in 2017/18	-93,536	-312,032	-405,568
In year adjustments	-96	2,313	2,217
Final budgeted distribution for 2017/18	-93,632	-309,719	-403,351
Less: Actual central expenditure	89,467		89,467
D Less: Actual ISB deployed to schools		309,719	309,719
(Under)/overspend on distributed funds	-4,165	0	-4,165
Plus: Agreed carry forward to 2018/19			-1,324
E Total balance on DSG reserve at 31 March 2018			-5,489

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 2017.
- (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	2016/17 £000	2017/18 £000
Expenditure		
Employee benefits expenses	523,795	540,679
Other service expenses	668,805	672,910
Depreciation, amortisation and impairment	52,426	50,324
Interest payments	100,366	90,419
Precepts and levies	921	1,065
(Gain)/loss on the disposal of non-current assets	41,629	22,601
Total Expenditure	1,387,942	1,377,998
Income		
Fees, charges and other service income	-179,410	-174,072
Interest and investment income	-51,119	-46,883
Income from Council Tax and Non-Domestic Rates	-461,257	-485,469
Gains from Donated Assets	0	-8,763
Government grants and contributions	-649,978	-635,244
Total Income	-1,341,764	-1,350,431
(Surplus)/Deficit on the Provision of Services	46,178	27,567

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 £67.010m in 2017/18 (£71.526m in 2016/17) in relation to staff employed at the Authority's voluntary aided and foundation schools are included within *Employee benefits expenses* above.

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:

2016/17			2017/18	
Non schools	School based	Banding	Non schools	School based
113	141	£50,000 - £54,999	124	123
46	113	£55,000 - £59,999	54	105
34	47	£60,000 - £64,999	25	58
12	42	£65,000 - £69,999	20	44
8	14	£70,000 - £74,999	9	16
5	5	£75,000 - £79,999	6	6
3	8	£80,000 - £84,999	1	6
1	3	£85,000 - £89,999	2	3
1	5	£90,000 - £94,999	3	5
1	2	£95,000 - £99,999	2	5
1	1	£100,000 - £104,999	1	1
2	3	£105,000 - £109,999	1	1
4	0	£110,000 - £114,999	3	1
3	1	£115,000 - £119,999	3	0
2	0	£120,000 - £124,999	1	1
0	0	£125,000 - £129,999	2	1
0	0	£130,000 - £134,999	2	0
0	0	£135,000 - £139,999	2	0
1	0	£140,000 - £144,999	0	0
		then		
1	0	£150,000 - £154,999	0	0
		then		
1	0	£190,000 - £194,999	1	0
239	385	Total	262	376

The number of staff with remuneration above £50,000 in 2017/18 was 638, an increase from 624 in 2016/17.

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Senior Officer Disclosure

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 £105,182.44 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

The remuneration payable to the Authority's senior employees for 2016/17 was as follows:

Post title (as at 31 March 2017)	Post holder ¹	Amounts payable in period 1 April 2016 - 31 March 2017						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 ³	Nathan Elvery	144,611		47,500			192,111	28,055	220,166	
Chief Operating Officer ⁴	Gill Steward	37,000				3	37,003	0	37,003	
Deputy Chief Executive, Executive Director of Communities & Public Protection and Chief Fire Officer ⁵	Sean Ruth	151,309				2,910	154,219	29,342	183,561	
Executive Director Corporate Resources and Services ⁶	Peter Lewis	124,000					124,000	19,400	143,400	
Executive Director Children, Adults, Health and Education		140,000				2	140,002	27,160	167,162	
Executive Director of Economy, Infrastructure & Environment ⁷		12,500					12,500	2,425	14,925	
Director of Law, Assurance & Strategy		111,250					111,250	21,582	132,832	
Director of Finance, Performance & Procurement		108,750					108,750	21,098	129,848	
Director of Transformation, Customer and Support Services		111,250					111,250	21,582	132,832	
Acting Executive Director of Communities & Public Protection and Chief Fire Officer ⁸		119,034				1,629	120,663	24,509	145,172	
Director of Operations & Acting Deputy Chief Fire Officer ⁹		115,773				3,589	119,362	23,437	142,799	
Director of Communities ¹⁰		43,250				12	43,262	8,391	51,653	
Director of Public Health ¹¹		81,290			29,274		110,564	11,261	121,825	
Director of Education and Skills ¹²		Post holder not directly employed by West Sussex County Council - please see footnote below								
Director of Education and Skills ¹³		59,833					59,833	11,608	71,441	
Director of Family Operations		112,473					112,473	21,820	134,293	
Director of Adults' Operations		107,500		1,061			108,561	20,855	129,416	
Acting Director of Operations & Assistant Chief Fire Officer ¹⁴		57,734				740	58,474	6,190	64,664	
Acting Director of Public Protection		99,479				1,179	100,658	18,188	118,846	
Director of Customer Service ¹⁵		79,252			38,135		117,387	13,716	131,103	
Director of Economy, Planning & Place ¹⁶		Post holder not directly employed by West Sussex County Council - please see footnote below								
Director of Economy, Planning & Place ¹⁷		61,167					61,167	11,866	73,033	
Director of Highways & Transport ¹⁸		Post holder not directly employed by West Sussex County Council - please see footnote below								
Director of Highways & Transport ¹⁹		73,742					73,742	14,306	88,048	

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Notes to 2016/17 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 Nathan Elvery appointed Chief Executive effective 27 June 2016
- ⁴ Gill Steward in post as Chief Operating Officer until 24 March 2016 (final salary payment expensed during April 2016)
- ⁵ Sean Ruth Acting Chief Operating Officer until 26 June 2016, Deputy Chief Executive from 27 June 2016, Interim Executive Director Residents' Services from 18 July 2016 to 30 November 2016, then Executive Director Communities & Public Protection & Chief Fire Officer from 1 December 2016 (Acting Executive Director Economy, Infrastructure and Environment 1 January 2017 - 27 February 2017 only)
- ⁶ Peter Lewis Executive Director Corporate Resources & Services to 31 December 2016; payments are for period as direct employee of Council (from 1 May 2016); additional April 2016 payment to Integrex Solutions Ltd is detailed below
- ⁷ Executive Director of Economy, Infrastructure & Environment with effect from 27 February 2017
- ⁸ Acting Executive Director of Communities & Public Protection and Acting Chief Fire Officer to 27 February 2017
- ⁹ Director of Operations and Acting Deputy Chief Fire Officer from 21 November 2016, previously Director of Communities & Acting Deputy Chief Fire Officer
- ¹⁰ Director of Communities from 7 November 2016
- ¹¹ Director of Public Health to 24 December 2016
- ¹² Director of Education and Skills to 6 July 2016
- ¹³ Director of Education and Skills from 6 September 2016
- ¹⁴ Acting Director of Operations & Assistant Chief Fire Officer to 20 November 2016
- ¹⁵ Director of Customer Service to 30 November 2016
- ¹⁶ Director of Economy, Planning & Place from 18 July 2016 to 11 October 2016, previously Executive Director of Residents' Services to 17 July 2016.
- ¹⁷ Director of Economy, Planning & Place from 19 September 2016
- ¹⁸ Director of Highways & Transport, six month secondment from Surrey County Council expiring June 2016
- ¹⁹ Director of Highways & Transport from 4 July 2016

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:

A payment of £17,231 was made to Integrex Solutions Ltd for the services of Peter Lewis, Executive Director Corporate Resources and Services, for services provided in April 2016

Payments of £39,690 were made to Gatenby Sanderson Ltd for the services of the Director of Education and Skills to 6 July 2016

Payments of £105,772 were made to Penna PLC for the services of an interim who was covering the absence of the Executive Director of Residents' Services to 17 July 2016, then Director of Strategic Planning & Place from 18 July 2016 to 11 October 2016

Payments of £25,790 were made to Surrey County Council for the remainder of the six month secondment of the Director of Highways & Transport, expiring June 2016

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 2017/18. Total liabilities of £3.626m were incurred for the period (£0.605m in 2016/17).

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	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
£0 - £20,000	7	40	20	68	27	108	£197,326	£903,943
£20,001 - £40,000	3	9	4	23	7	32	£194,865	£898,317
£40,001 - £60,000	1	3	0	15	1	18	£41,885	£888,914
£60,001 - £80,000	0	1	0	6	0	7	£0	£479,972
£80,001 - £100,000	0	0	0	0	0	0	£0	£0
£100,001 - £150,000	0	0	0	1	0	1	£0	£138,467
£150,001 - £200,000	1	0	0	2	1	2	£171,143	£316,652
£200,001 - £250,000	0	0	0	0	0	0	£0	£0
Total	12	53	24	115	36	168	£605,219	£3,626,265

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.

	2016/17		2017/18	
	£000	£000	£000	£000
Funding provided to the pooled budget:				
West Sussex County Council	-	68,263	-	70,412
West Sussex Clinical Commissioning Groups (CCGs)	-	15,546	-	16,036
		- 83,809		- 86,448
Expenditure met from the pooled budget:				
West Sussex County Council	68,943		74,188	
West Sussex Clinical Commissioning Groups (CCGs)	15,702		16,896	
		84,645		91,084
Net (surplus)/deficit arising on the pooled budget during the year		836		4,636
Authority's share of the net (surplus)/deficit		681		3,776

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.

	2016/17		2017/18	
	£000	£000	£000	£000
Funding provided to the pooled budget:				
West Sussex County Council	-	8,362	-	8,464
West Sussex Clinical Commissioning Groups (CCGs)	-	56,809	-	55,999
		- 65,171		- 64,463
Expenditure met from the pooled budget:				
West Sussex County Council	8,554		8,544	
West Sussex Clinical Commissioning Groups (CCGs)	58,114		56,528	
		66,668		65,072
Net (surplus)/deficit arising on the pooled budget during the year		1,497		609
Authority's share of the net (surplus)/deficit		192		80

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.

	2016/17		2017/18	
	£000	£000	£000	£000
Funding provided to the pooled budget:				
West Sussex County Council	-	8,345	-	8,957
West Sussex Clinical Commissioning Groups (CCGs)	-	37,459	-	38,129
		- 45,804		- 47,086
Expenditure met from the pooled budget:				
West Sussex District and Boroughs		6,467		7,079
West Sussex County Council		24,955		25,333
West Sussex Clinical Commissioning Groups (CCGs)		14,211		14,909
		45,633		47,321
Net (surplus)/deficit arising on the pooled budget during the year		-	171	235
Underspending brought forward		-	41	- 234
Interest earned on cash balances		-	22	- 19
		-	234	- 18
Balance carried forward		-	234	- 18

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 £11.4m in 2017/18, of which £7.4m has been recognised in the Comprehensive Income and Expenditure Statement for the period (see Note 25). The balance of £4.0m 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 the majority 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 2017/18 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 2017/18 goods and services to the value of £394,150 and £8,403 respectively were commissioned from these organisations.
- Partner of Dean Wilson LLP, who act as solicitors for the Shoreham Port Authority. Goods and services to the value of £899 were commissioned from this entity in 2017/18.
- Director and Trustee of Coastal West Sussex MIND. In 2017/18, goods and services to the value of £214,019 were commissioned from this entity.
- Employee of EDF Energy. Goods and services to the value of £8,514 were commissioned from this entity in 2017/18.

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 Economy, Infrastructure & Environment, who is a Governor of Central Sussex College and a Trustee and Non-Executive Director of Transform Housing and Support. During the 2017/18 financial year, the Council made payments totaling £167,865 and £52,689 respectively to these entities.

An interest was also declared by the Director of Children and Family Services, whose husband is employed by MacIver Maher Ltd who transact with the County Council. During the 2017/18 financial year the Council made payments of £25,000 to MacIver Maher Ltd.

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 2017/18 the Council incurred costs of £1.1m (2016/17 £0.9m) 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 £54.9m to the Fund in 2017/18 (2016/17 £44.9m). 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 2018 the Fund had a daily average investment balance of £38.1m (31 March 2017 £35.9m), earning interest of £0.2m (2016/17 £0.1m) in these funds at a rate of return of 0.33% (2016/17 0.34%).

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 2017/18 the precept on the County Council was £0.102m (2016/17 precept £0.103m).

The Authority has identified interests in two other entities in the reporting period, West Sussex Music Trust and Aspire Sussex Ltd, as it was represented on the Board of both organisations during the reporting period. 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 219 maintained schools (225 at 31 March 2017). Non-current assets with a net book value of £927m (£865m at 31 March 2017) 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

	2016/17	2017/18
	£000	£000
Charges for depreciation of non current assets	-64,709	-64,604
Charges for amortisation of intangible assets	-500	-500
Revaluations gains/losses on Property, Plant and Equipment and Assets Held for Sale charged to the Surplus/Deficit on Provision of Services	10,601	14,455
Impairment of non current assets	-152	0
Movements in the market value of Investment Property	2,334	325
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	-50,062	-24,297
Gains upon recognition of Donated Assets	0	8,763
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-80,673	-103,718
Employer's pension contributions and direct payments to pensioners payable in year	57,558	56,951
(Increase) / decrease in creditors	-16,602	-10,153
Increase / (decrease) in debtors	-5,170	6,708
Increase / (decrease) in inventories	-63	-30
Contributions (to) / from provisions	477	109
Net adjustments for non-cash movements	-146,961	-115,991

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

	2016/17	2017/18
	£000	£000
Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	8,433	1,696
Capital grants and contributions recognised in the Comprehensive Income and Expenditure Statement	59,305	68,845
	67,738	70,541

36. Cash Flow Statement – Investing Activities

	2016/17	2017/18
	£000	£000
Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	82,650	92,359
Net position of short-term and long-term investments	37,634	5,990
Proceeds from the sale of Property, Plant and Equipment, Investment Property and Intangible Assets	-8,433	-1,696
Capital grants and contributions recognised in the Comprehensive Income and Expenditure Statement	-59,305	-68,845
Net position on capital grants and contributions receipts in advance	-14,902	-11,269
Net cash flows from investing activities	37,644	16,539

37. Cash Flow Statement – Financing Activities

	2016/17	2017/18
	£000	£000
Repayment of PFI and finance lease liabilities	2,731	5,296
Net position of short and long term borrowing	6,925	6,764
Net cash flows from financing activities	9,656	12,060

38. Events after the Balance Sheet date

There are no post balance sheet events.

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.
- (4) A technical and legal issue has resulted in a delay in the letting of the Authority's highways maintenance contract. There is the potential for a claim to arise as a consequence, but the likelihood and value of any possible obligation cannot be estimated with any certainty at this early 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 by the Council. This is currently under investigation and so the likelihood of and any necessary provision for claims cannot be assessed at this time.

41. Accounting Policies

(i) General Principles and Concepts

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.

The Code prescribes the accounting treatment and disclosures for all normal transactions of a local authority, and is based on the following hierarchy of standards:

- IFRS as adopted by the European Union (i.e. EU-adopted IFRS)
- International Public Sector Accounting Standards (IPSAS)
- UK Generally Accepted Accounting Practice (GAAP) Financial Reporting Standards (FRS)
- Statements of Standard Accounting Practice (SSAP) and Urgent Issues Task Force (UITF) Abstracts.

International Accounting Standards (IAS) were issued by the International Accounting Standards Committee (IASC) from 1973 to 2001, while the International Accounting Standards Board (IASB) has from 2001 issued IFRS. The IASB is in effect the successor of the IASC.

These are interpreted in the light of pronouncements by the IFRS Interpretations Committee (until recently known as the International Financial Reporting Interpretations Committee or IFRIC) and its predecessor, the Standing Interpretations Committee (SIC).

The Code requires that local authorities prepare their financial statements in accordance with the IASB Framework for the Preparation and Presentation of Financial Statements ('the Framework') as interpreted by the Code. The Framework sets out the concepts that underlie the preparation and presentation of financial statements for external users of the accounts.

Paragraph 2.1.1.5 of the Code uses the sections of the Framework as its reference when it states that in presenting the financial statements authorities shall have regard to the following:

- Objective of financial statements
- Underlying assumptions
- Qualitative characteristics of financial statements
- Elements of financial statements
- Recognition of the elements of financial statements
- Measurement of the elements of financial statements.

Qualitative characteristics are the attributes that make the information provided in the financial statements useful to users. The Framework sets out two principal qualitative characteristics of financial statements that have been adopted by the Code:

- Relevance
- Faithful Representation

The Code also includes consideration of materiality as a qualitative characteristic, although the Framework considers it as a subsidiary concept of relevance.

NOTES TO THE FINANCIAL STATEMENTS

Furthermore, the framework identifies four additional qualitative characteristics that enhance the usefulness of information that is relevant and faithfully represented:

- Comparability
- Verifiability
- Timeliness
- Understandability

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

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 (new) – new builds (post 1 April 2008) are depreciated on a straight-line basis over an original useful life of 60 years
- Buildings (existing) –
 - (a) For existing buildings below the componentisation de minimis, the asset is not componentised and continues on its existing useful life, depreciating on a straight-line basis from an original 35 years, unless otherwise stated
 - (b) For existing buildings over the componentisation de minimis, the asset is componentised according to the model percentages and depreciation is determined by its current useful life, unless otherwise stated. Where assets are formally revalued, useful lives are “reset” and the remaining useful life is used for that component. This is depreciated on a straight-line basis and accounted for according to the accounting practices specified in the Code
- Vehicles, plant, furniture and equipment – individual estimated useful life on a straight line basis
- Infrastructure – straight line basis over a period of 30 years for major projects and 15 years for structural maintenance of carriageways and bridges.

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

The objective of component accounting is to follow proper accounting practice as prescribed by IAS 16 Property, Plant and Equipment, which sets out the criteria for recognising, valuing and depreciating non-current assets.

Significant Cost

Each part of an item of Property, Plant and Equipment with a cost that is “significant” in relation to the total cost of the item is depreciated separately. This applies only to assets which are subject to enhancement, acquisition or revaluation. Where there is more than one significant part of the same asset, which has the same useful life and depreciation method, such parts are grouped in determining the depreciation charge.

NOTES TO THE FINANCIAL STATEMENTS

The County's componentisation model, based upon similar useful lives, has established that the "significant" cost for an individual asset must be more than 15% of the total cost to be considered for componentisation. Where the percentage costs are less than 15%, these elements remain under the host/main asset.

The impact of componentisation on the individual asset classes is considered below:

- Land – This element continues to be considered as a separate asset with its own valuation, which, in almost all cases, will not be subject to depreciation
- Vehicles, Plant & Equipment – there are a range of assets but it is deemed that any significant components in these assets will last as long as the main asset, unless specifically stated, and therefore are not subject to componentisation
- Infrastructure – these assets are not currently considered for componentisation as they are either held individually on the asset register, or held as a group with consistent useful lives
- Non-operational assets – this includes surplus and assets under construction, which are not normally depreciated
- Investment properties – these are normally non-depreciating assets, revalued annually and are not considered for componentisation
- Building assets - considered below

Component accounting is satisfied by separately accounting for only those significant components that have different useful lives and/or depreciation methods to the remainder of the asset. The policy determines which components will be recognised and depreciated separately, giving regard to the accounting concept of materiality, the levels of which have been determined after extensive analysis of the Council's asset register.

Useful Lives and Depreciation

The Council has established the following significant components (based upon similar useful lives) in addition to the host asset (main structure), which would have a continuation to its existing useful life:

- Building Structure (new – 60 years)
- Building Roof: Traditional and External (new - 40 years)
- Building Roof: Non traditional and Mechanical & Electrical (new – 25 years)

Where the host/main asset is the structure and only other elements are being componentised then the structure continues to depreciate on its existing useful life.

Revaluations

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.

De Minimis

De minimis thresholds are used to identify individual assets that can be disregarded for componentisation. The assumption being made is that lower value assets can be excluded from component accounting, as they are unlikely to impact materially on the Authority's core financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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.

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. 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.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts, while amounts below this are credited to revenue. 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.

(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. 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

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 – then the Department for Communities and Local Government or DCLG), 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. 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

Intangible assets included in the balance sheet are capitalised at cost and represent the rights to use software licences over a period of more than 12 months. Intangible assets are 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.

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 in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve.

Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have 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).

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.

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.

Leased payments received are apportioned as follows and transferred from Deferred Capital Receipts to the Capital Receipts Reserve:

- 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

In particular:

- Income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- Income from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where 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. The difference is not material.

(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. Support functions are primarily charged directly to the Finance and Resources portfolio.

(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.

Main provisions include where the County Council self-funds significant elements of risk whilst retaining external insurance for major risks and some specific areas. An insurance provision is maintained which receives contributions from premiums charged to services, meets the cost of claims and attracts interest on the balance. The balance on the provision represents the estimated value of outstanding claims.

Details of these accounts and their purpose are shown in disclosure Note 14. Where the obligation is within a 12-month period these are classed as short-term provisions on the Balance Sheet.

(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 Note 40 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.

NOTES TO THE FINANCIAL STATEMENTS

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 into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables:

Loans and receivables 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.

For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

Available for Sale:

Available-for-sale assets 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.

Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument.

Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

NOTES TO THE FINANCIAL STATEMENTS

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

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

Note 9 presents the accounting for financial instruments with disclosure pertinent to the scope, significance and risk of financial instruments held by the County Council.

c) Soft Loans

A soft loan is a loan (made to a voluntary organisation) issued at a below market rate. The Code states that de minimis principles can be applied to soft loans. For the purposes of the Statement of Accounts, it might not be necessary to apply the detailed accounting treatment where only a low value of such advances have been made and/or there has not been significant discounting of interest rates.

With this principle in mind, the County Council has decided to treat soft loans below £500,000 in value as de minimis. For the reporting period any soft loans transactions have fallen below this de minimis level, and thus there are no accounting entries in the Statement of Accounts.

(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) Internal Interest

Interest is not credited to internal funds as treasury management receipts are treated as a corporate resource. The only exception is where it is good practice or regulatory requirement to pay interest, for instance schools' balances.

(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 is administered by the NHS.

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

NOTES TO THE FINANCIAL STATEMENTS

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:

- 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.

NOTES TO THE FINANCIAL STATEMENTS

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 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

NOTES TO THE FINANCIAL STATEMENTS

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

The Authority acts 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 has responsibility for ensuring that all decisions and activities undertaken by the LEP comply 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. Whilst the Authority receives income and incurs expenditure on behalf of the LEP, it is acting merely as an intermediary, and therefore accounts 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.
- 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. The Authority was represented on the Board of both entities during the reporting period. However, the Authority has concluded that it does not have significant influence over either West Sussex Music Trust or Aspire Sussex and therefore consolidated group accounts have not been prepared.
- The Authority acts as Accountable Body to the Coast to Capital Local Enterprise Partnership (LEP). As Accountable Body, the Authority has responsibility for ensuring that the LEP complies with all relevant laws and funding conditions. However, the financial and operating policy decisions of the LEP are made or delegated by its Board, consisting of representatives of its member bodies. The Authority has therefore judged that it is 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.

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 makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt 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 £0.7m 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 of £3.5m, which is not considered to be material in the context of the Authority's £1.9billion 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 2018	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	10%	207,353
0.5% increase in the Salary Increase Rate	1%	28,322
0.5% increase in the Pension Increase Rate	8%	176,470

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 2018	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	9%	33,730
1 year increase in member life expectancy	3%	11,242
0.5% increase in the Salary Increase Rate	1%	3,202
0.5% increase in the Pension Increase Rate	8%	28,593

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 2018/19 Code of Practice. Amendments made to two standards, *IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses* and *IAS7 Statement of Cash Flows: Disclosure Initiative*, are expected to have a negligible impact on the Authority's Statement of Accounts. The introduction of a new accounting standard, *IFRS 15 Revenue from Contracts with Customers*, may require the Authority to make additional disclosures about when and how it recognises the income it is due, but is not anticipated to impact on the amounts recognised in its core financial statements.

The 2018/19 Code also adopts *IFRS 9 Financial Instruments*. This new standard will introduce new classifications for financial assets, and a change in the requirement for recognising impairments. The impact of these changes, as detailed below, is not likely to be material, and transitional arrangements adopted by the 2018/19 Code mean that all changes will be applied prospectively and will not require a restatement of 2017/18 balances.

At the reporting date, the Authority held £24.8m in pooled investments which, under the new arrangements, would be reclassified from *Available for Sale* to *Fair Value through Profit and Loss*. As such, any future movement in the value of these investments could have a direct and immediate impact on the General Fund Balance (presently, gains and losses in the value of Available for Sale financial instruments are only realised when the asset is disposed). A 5% change in market values could therefore have an immediate General Fund impact of £1.2m. Central government may introduce a statutory override to prevent short-term fluctuations from impacting on the General Fund Balance, but details of this arrangement have not yet been confirmed.

The new standard also requires an expected credit losses model to be adopted when assessing those financial assets not categorised as fair value for impairment. The Authority has adopted strict credit quality arrangements as part of its Treasury Management Strategy, and the high credit quality of the Authority's investment counterparties is likely to result in an immaterial expected credit loss position.

NOTES TO THE FINANCIAL STATEMENTS

45. Firefighters' Pension Scheme

2016/17			2017/18	
£000	£000		£000	£000
	-1,811	Contributions receivable		
		Employees		-1,650
		Employers		
-2,071		Normal	-2,016	
<u>0</u>		Early retirements	<u>0</u>	
	-2,071			-2,016
	0	Transfer values from employers of contributors joining the fund		-17
	<u>-69</u>	Charges in respect of ill-health early retirements		<u>-39</u>
	-3,951			-3,722
		Benefits payable		
	6,943	Pensions		7,314
		Lump sum benefits		
2,018		Commutations	2,621	
<u>48</u>		Lump sum retirement benefits	<u>0</u>	
	2,066			2,621
		Payments to and on account of leavers		
	200	Transfer values to employers of contributors leaving the fund		0
	<u>116</u>	Refunds of contributions		<u>16</u>
	9,325			9,951
	5,374	Net amount payable for the year before top up grant from the Home Office		6,229
	-3,449	Top up grant received from the Home Office		-3,475
	-1,925	Top up grant receivable from the Home Office		-2,754
	<u>0</u>	Net amount payable/receivable for the year		<u>0</u>

Net Assets Statement

At 31 March 2017 £000		At 31 March 2018 £000
	Current Assets	
1,925	Pension top up grant receivable from the Home Office in respect of year to reporting date	2,754
<u>581</u>	Payments in advance	<u>687</u>
2,506		3,441
	less: Current Liabilities	
-2,506	Creditors	-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

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 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 Financial Reporting Standards (IFRS)	Standards for the preparation and presentation of financial statements as issued by the International Accounting Standards Board (IASB) since 2001.
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.

GLOSSARY OF FINANCIAL TERMS

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.
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.

GLOSSARY OF FINANCIAL TERMS

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 2018 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, the related Notes 1 to 44 and the Expenditure and Funding Analysis; and the firefighters' pension fund financial statements comprising the Fund Account and the Net Assets Statement in 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 2017/18.

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 2018 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 2017/18.

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, Performance and Procurement's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance, Performance and Procurement 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 2017/18, other than the financial statements and our auditor's report thereon. The Director of Finance, Performance and Procurement 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

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, 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 2018.

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, Performance and Procurement

As explained more fully in the Statement of Responsibilities set out on page 14, the Director of Finance, Performance and Procurement 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 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance, Performance and Procurement 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 2018.

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 (NAO) 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.

Helen Thompson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
24 July 2018

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 2017/18

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 2018.

Katharine Eberhart
Director of Finance, Performance and Procurement

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 2018 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

2016/2017		Notes	2017/2018
£000			£000
Dealings with members, employers and others directly involved in the scheme			
121,758	Contributions received	7	124,719
3,349	Transfers in from other Pension Funds	8	36,921
125,107			161,640
(101,219)	Benefits paid	9	(107,235)
(6,342)	Payments to and on account of leavers	10	(8,288)
(107,561)			(115,523)
17,546	Net additions/(withdrawals) from dealings with members		46,117
(14,731)	Management Expenses	11	(17,334)
2,815	Net additions/(withdrawals) including Fund management expenses		28,783
Returns on investments			
55,538	Investment income	12	51,571
(834)	Taxes on income	13A	(1,158)
425	Other income		169
754,544	Profit and (losses) on disposal of investments and changes in the market value of investments	14A	226,622
809,673	Net return on investments		277,204
812,488	Net increase in net assets available for benefits during the year		305,987
2,985,801	Add opening net assets of the scheme		3,798,289
3,798,289	Closing net assets of the scheme		4,104,276

Net Asset Statement

At 31 March 2017 £000		Notes	At 31 March 2018 £000
3,766,546	Total investment assets	14	4,066,693
(792)	Investment liabilities	14	(6,154)
3,765,754	Net investment assets / (liabilities)		4,060,539
38,259	Current assets	21	51,379
(5,724)	Current liabilities	22	(7,642)
3,798,289	Net assets of the scheme available to fund benefits at the end of the reporting period		4,104,276

Note: the Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2018. The actuarial present value of promised retirement benefits is disclosed at Note 20.

Notes to the Accounts

NOTE 1: DESCRIPTION OF THE FUND

The Local Government Pension Scheme (LGPS) is a national defined benefit funded scheme, managed locally by administering authorities.

At 31 March 2018 the West Sussex Pension Fund had a diversified portfolio totalling £4,104m invested in equities and bonds, property, cash and private equity. This figure includes current assets and liabilities.

The following description of the Fund is a summary only. For more detail, reference should be made to the West Sussex Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) regulations.

a. General

The Scheme is governed by the Public Service Pensions Act 2013 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 pension scheme is administered 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.

The Fund is overseen by the Pensions Panel which is a committee of West Sussex County Council and comprises seven County Councillors, a district and borough representative, a scheduled body representative (currently vacant) and an employee representative. A Pension Advisory Board has also been established to assist the County Council to ensure the scheme complies with legislative requirements and any requirements of the Pensions Regulator.

b. Membership

Membership of the LGPS is open to all local government employees who have contracts of employment for more than three months and 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, related employer and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

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

There are 193 active employer organisations within the West Sussex Pension Fund including the County Council itself, as detailed below:

	31 March 2017	31 March 2018
Number of employers with active members	183	193
Number of active members in Scheme		
County Council	14,354	14,755
Other employers	12,259	13,082
Total	26,613	27,837
Number of pensioners		
County Council	9,789	10,111
Other employers	8,710	8,956
Total	18,499	19,067
Number of deferred pensioners		
County Council	14,805	15,734
Other employers	9,801	10,400
Total	24,606	26,134

The number of deferred pensioners excludes 1,720 frozen refunds (2016/17: 1,735) and 27 leavers for whom no formal paperwork has been received (2016/17: 28).

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 2018.
- 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 2018.

A secondary contribution rate (previously known as deficit amount or past service adjustment) may also be charged. This rate is either paid as a monetary value or as an additional percentage of pensionable pay.

d. Benefits

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

	Service pre 1 April 2008	Service 31 March 2008-1 April 2014
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x salary	No automatic lump sum

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).

There are a number of ancillary benefits provided under the Scheme including early retirement, ill-health retirement and death benefits. More details can be found on the Fund’s 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 2017/18, 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 2018 reporting period. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) basis, is disclosed at Note 20.

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.

Employer secondary contributions are accounted for on an accruals basis.

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

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the reporting period and are calculated in accordance with the LGPS regulations.

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

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

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

c. Investment income

i. Interest income

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

Stock lending income is recognised by the Fund as it accrues.

ii. Dividend income

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 an investment asset.

iii. Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as an investment asset.

iv. Property-related income

Property income consists primarily of rental income and is accounted for on an accruals basis.

v. Movement in the net market value of investments

Changes to the net market value of investments (including investment properties) are recognised as income or expense and comprise all realised and unrealised profit/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 reporting period. Any amounts due but unpaid are disclosed in the Net Asset Statement as current liabilities.

e. Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments 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 Code does not require any breakdown of Pension Fund administration expenses. However in the interests of greater transparency, 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:

Administrative expenses

All administrative expenses are accounted for on an accruals basis representing the annual charge relating to the Capita Pensions Administration, staff costs for officers related to interaction with employers and associated management, accommodation and other overheads relating to those officers.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are recharged. Associated management, accommodation and other overheads are apportioned to this activity. The Fund's external advisors, audit and actuary fees are also included in oversight and governance costs.

Investment management expenses

All management expenses 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 and therefore increase or reduce as the value of these investments change.

Transaction costs are accounted for on an accruals basis.

The Fund has negotiated that an element of Baillie Gifford's fee is performance related. Baillie Gifford's performance related fees were £5.4m in 2017/18 (2016/17 - £2.9m).

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. This is included in investment management costs.

Net Asset Statement

g. Financial assets

Investments are shown at market value at the reporting date. A financial asset is 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 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016)

h. Freehold and leasehold properties

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

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. Derivatives

The Fund does not invest directly in derivatives. However, the Fund may use derivatives to assist with the efficient transition of portfolio assets during a portfolio restructure or fund manager change.

k. 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.

The day-to-day activity of the fund managers includes forward dated trades which means that assets and liabilities can be generated with a settlement date falling outside the accounting period. This is reflected in the accrued values for investments shown in the statements.

l. 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.

m. 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. As permitted under the Code the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Asset Statement (Note 20).

n. Additional voluntary contributions

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

o. Contingent assets and contingent liabilities

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

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

Contingent assets and liabilities are not recognised in the Net Asset Statement but are disclosed by way of narrative in the notes (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 appointed 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 and have been summarised in 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.

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

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 2018 would result in an approximate 10% increase to employer liability (£448m).</p> <p>A one year increase in member life expectancy at year ended 31 March 2018 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 2018 would result in an approximate increase in employer liability of 1% (£65m).</p> <p>A 0.5% increase in the pension increase rate at year ended 31 March 2018 would result in an approximate 8% increase in employer liability (£357m).</p>
Sensitivity analysis	The sensitivity analysis is based on historical data.	Actual experience relative to assumptions will result in a greater or lesser impact on the financial assets of the Fund.
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>	The total private equity investment in the financial statements is £121.1m. There is a risk that this investment may be under or overstated in the accounts.

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<p>Freehold and leasehold property</p>	<p>Independent valuation for freehold and leasehold investment property has been provided at 31 March 2018 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

There have been no notable events occurring after the balance sheet date.

NOTE 7: CONTRIBUTIONS RECEIVED

By Category		2016/17	2017/18
		£000	£000
	Employers	96,259	98,279
	Members	<u>25,499</u>	<u>26,440</u>
		<u>121,758</u>	<u>124,719</u>

By Authority		2016/17	2017/18
		£000	£000
	Scheduled bodies	99,541	102,307
	Resolution bodies	4,978	5,416
	Admitted bodies	9,469	7,955
	Academies	<u>7,770</u>	<u>9,041</u>
		<u>121,758</u>	<u>124,719</u>

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

By Category		2016/17	2017/18
		£000	£000
	Individual transfers	3,349	8,454
	Bulk transfers	<u>-</u>	<u>28,467</u>
		<u>3,349</u>	<u>36,921</u>

The bulk transfer above relates entirely to City College Brighton and Hove (CCBH) who transferred from East Sussex County Council on 1 April 2017. CCBH merged with Northbrook College, an existing Fund employer, to form Greater Brighton Metropolitan College.

NOTE 9: BENEFITS PAID

By Category		2016/17	2017/18
		£000	£000
	Pensions	84,269	88,389
	Commutation and lump sum retirement benefit	13,724	16,032
	Lump sum death benefit	3,226	2,814
		<u>101,219</u>	<u>107,235</u>

By Authority		2016/17	2017/18
		£000	£000
	Scheduled bodies	91,523	95,901
	Resolution bodies	1,046	1,656
	Admitted bodies	7,834	8,479
	Academies	816	1,199
		<u>101,219</u>	<u>107,235</u>

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

2016/17		2017/18
£000		£000
257	Refunds of contributions	407
136	Bulk transfers	325
5,949	Individual transfers	7,556
<u>6,342</u>		<u>8,288</u>

At the year-end there are further potential liabilities of £2.1m relating to possible transfers out of the pension scheme where the Fund is awaiting final decisions (Note 25).

NOTE 11: MANAGEMENT EXPENSES

2016/17		2017/18
£000		£000
870	Administrative costs	668
1,060	Oversight and governance costs	999
12,801	Investment management expenses	15,667
<u>14,731</u>		<u>17,334</u>

NOTE 11a: INVESTMENT MANAGEMENT EXPENSES

2016/17		2017/18
£000		£000
7,904	Management fees	9,120
2,888	Performance related fees	5,360
204	Custody fees	140
1,803	Transaction costs	1,045
2	In-house treasury management expenses	2
<u>12,801</u>		<u>15,667</u>

NOTE 12: INVESTMENT INCOME

2016/17		2017/18
£000		£000
39,320	Income from equities	34,613
1,671	Income from bonds	3,461
1,675	Private equity income	1,320
11,778	Property income (Note 12a)	11,698
272	Interest on cash deposits	279
822	Income from stock lending	200
<u>55,538</u>		<u>51,571</u>

NOTE 12a: PROPERTY INCOME

2016/17		2017/18
£000		£000
12,736	Rental income	13,193
(958)	Direct operating expenses	(1,495)
<u>11,778</u>		<u>11,698</u>

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

NOTE 13: OTHER FUND ACCOUNT DISCLOSURES

2016/17		2017/18
£000		£000
41	Pension Advisory Board	23
86	ACCESS pool	102
<u>127</u>		<u>125</u>

ACCESS is a collaboration of 11 Central, Eastern and Southern Shires, who are working together to collectively invest assets to significantly reduce investment costs whilst maintaining investment performance. The costs incurred for 2017/18 reflect the Fund's contribution towards the pool's establishment. These costs are included within oversight and governance costs in Note 11.

NOTE 13a: TAXES ON INCOME

2016/17		2017/18
£000		£000
1,527	Tax paid on dividend payments	1,717
(693)	Tax recoverable	(559)
<u>834</u>		<u>1,158</u>

NOTE 13b: EXTERNAL AUDIT COSTS

2016/17		2017/18
£000		£000
26	Payable in respect of external audit	26
<u>26</u>		<u>26</u>

These costs are included within oversight and governance costs in Note 11.

NOTE 14: INVESTMENTS

Market value 2016/17 £000		Market value 2017/18 £000
	Investment assets	
2,176,840	Equities	1,976,634
113,765	Bonds	155,462
917,746	Pooled investments	1,391,573
157,870	Private equity	121,051
285,820	Property (see note 14e)	344,585
105,999	Cash deposits	68,936
7,070	Investment income due	4,930
1,436	Amounts receivable for sales	3,522
<u>3,766,546</u>	Total investment assets	<u>4,066,693</u>
	Investment liabilities	
(786)	Amounts payable for purchases	(6,149)
(6)	Rental receipts in advance	(5)
<u>(792)</u>	Total investment liabilities	<u>(6,154)</u>
<u>3,765,754</u>	Net investment assets	<u>4,060,539</u>

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NOTE 14a: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

Current 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

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Previous Year					
	Market Value at 1 April 2016	Purchases during the year	Sales during the year	Change in market value during the year	Market Value at 31 March 2017
	£000	£000	£000	£000	£000
Bonds	48,612	80,544	(19,950)	4,559	113,765
Equities	1,989,772	693,395	(1,150,851)	644,524	2,176,840
Pooled investments	447,328	418,170	(7,489)	59,737	917,746
Pooled property investments	271	-	(305)	34	-
Private equity	150,318	6,637	(37,890)	38,805	157,870
Property	268,575	10,627	-	6,618	285,820
	2,904,876	1,209,373	(1,216,485)	754,277	3,652,041
Derivatives	(2)	261	(1,731)	1,472	-
Sub total	2,904,874	1,209,634	(1,218,216)	755,749	3,652,041
Other investment balances					
Cash deposits	81,660			(1,205)	105,999
Amount receivable for sales	2,341				1,436
Investment income due	8,418				7,070
Amount payable for purchases	(28,746)				(786)
Rental receipts in advance	(74)				(6)
Total assets	2,968,473			754,544	3,765,754

NOTE 14b: ANALYSIS OF INVESTMENTS

31 March 2017		31 March 2018
£000		£000
	Bonds	
	UK	
113,765	Public sector quoted	155,462
<u>113,765</u>		<u>155,462</u>
	Equities	
	UK	
355,328	Quoted	381,898
	Overseas	
1,821,512	Quoted	1,594,736
<u>2,176,840</u>		<u>1,976,634</u>
	Pooled funds	
	UK	
441,066	Corporate bonds	190,957
258,518	Government bonds	438,497
-	Fixed interest	348,490
	Overseas	
33,174	Currency	32,789
-	Corporate bonds	5,277
173,758	Fixed interest	355,617
11,230	Cash	19,946
<u>917,746</u>		<u>1,391,573</u>
157,870	Private equity	121,051
285,820	Property	344,585
-	Derivatives	-
<u>443,690</u>		<u>465,636</u>
105,999	Cash deposits	68,936
7,070	Investment income due	4,930
1,436	Amounts receivable for sales	3,522
<u>114,505</u>		<u>77,388</u>
<u>3,766,546</u>	Total investment assets	<u>4,066,693</u>
	Investment liabilities	
(786)	Amounts payable for purchases	(6,149)
(6)	Rental receipts in advance	(5)
<u>(792)</u>	Total investment liabilities	<u>(6,154)</u>
<u>3,765,754</u>	Net investment assets	<u>4,060,539</u>

NOTE 14c: INVESTMENTS ANALYSED BY FUND MANAGER

31 March 2017			31 March 2018	
%	£000		£000	%
Share of market value held by fund managers				
37.2	1,359,589	UBS Global Asset Management	1,486,250	37.3
50.7	1,848,763	Baillie Gifford & Co	2,037,419	51.1
2.5	91,301	Pantheon Ventures	67,469	1.7
1.8	66,568	Partners Group	53,582	1.3
7.8	285,820	Aberdeen Asset Management	344,585	8.6
100.0	3,652,041		3,989,305	100.0

		Analysis of investment assets - UBS		
22.0	298,854	UK equities	294,017	19.8
45.1	614,495	Overseas equities	536,121	36.0
8.4	113,765	Bonds	155,462	10.5
24.5	332,475	Bond and currency funds	500,650	33.7
100.0	1,359,589		1,486,250	100.0

		Analysis of investment assets - Baillie Gifford & Co		
3.1	56,473	UK equities	87,881	4.3
65.2	1,207,019	Overseas equities	1,058,615	52.0
31.7	585,271	Bond fund	890,923	43.7
100.0	1,848,763		2,037,419	100.0

Pantheon Ventures, Partners Group and Aberdeen Asset Management require no analysis of investments as each manager invests in only one asset class. Pantheon Ventures and Partners Group are invested solely in private equity. Aberdeen Asset Management invest solely in direct property on behalf of the Fund. 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 though 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 2017			31 March 2018	
%	£000		£000	%
Baillie Gifford managed funds				
15.4	585,271	Sterling Aggregate Bond Fund	890,923	21.7
UBS managed funds				
0.9	33,174	Currency Allocation Return Fund	32,789	0.8
7.9	299,301	UK Corporate Bond UK Plus Fund	467,861	11.4
24.2	917,746		1,391,573	33.9

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 2018, the value of quoted equities on loan was £144m.

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 £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 2017		31 March 2018
£000		£000
268,575	Opening balance	285,820
	Additions	
-	Purchase of existing property	29,063
10,037	New construction	6,757
590	Subsequent expenditure	2,854
-	Disposals	(100)
6,618	Net increase in market value	20,191
<u>285,820</u>	Closing balance	<u>344,585</u>

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

31 March 2017		31 March 2018
£000		£000
12,317	Within one year	13,999
45,618	Between one and five years	52,042
82,937	Later than five years	100,959
<u>140,872</u>	Total future lease payments due under existing contracts	<u>167,000</u>

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.

i. 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.

ii. Quoted bonds (Level 1)

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

iii. 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.

iv. 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.

v. Unquoted 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 2017 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 2017 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.

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 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.

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	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

	Quoted market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Financial assets at fair value through profit and loss	2,290,605	917,746	157,870	3,366,221
Non-financial assets at fair value through profit and loss			285,820	285,820
Net investment assets	2,290,605	917,746	443,690	3,652,041

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 2017 £000	Transfers into / (out of) Level 3 £000	Net purchases / (sales) during the year £000	Unrealised gains / (losses) £000	Realised gains / (losses) £000	Market Value 31 March 2018 £000
Private equity	157,870	-	(47,966)	(13,138)	24,285	121,051
Property	285,820	-	38,574	20,091	100	344,585
	443,690	-	(9,392)	6,953	24,385	465,636

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 2017			31 March 2018	
Fair value through profit and loss	Loans and receivables		Fair value through profit and loss	Loans and receivables
£000	£000		£000	£000
		Financial assets		
113,765	-	Bonds	155,462	-
2,176,840	-	Equities	1,976,634	-
917,746	-	Bond and currency funds	1,391,573	-
157,870	-	Private equity	121,051	-
-	129,325	Cash	-	104,268
-	8,505	Investment balances	-	8,452
-	14,933	Debtors	-	16,047
3,366,221	152,763		3,644,720	128,767
		Financial liabilities		
-	(792)	Investment balances	-	(6,154)
-	(5,724)	Other current liabilities	-	(7,642)
-	-	Derivatives	-	-
-	(6,516)		-	(13,796)
3,366,221	146,247	Total	3,644,720	114,971
3,512,468		Grand total	3,759,691	

NOTE 17b: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2017		31 March 2018
£000		£000
	Financial assets	
747,659	Fair value through profit and loss	204,412
(1,205)	Loans and receivables	2,518
	Financial liabilities	
-	Fair value through profit and loss	-
746,454	Total	206,930

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 2017/18 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 31 March 2018 £000	Change %	Value on Increase £000	Value on Decrease £000	
	Asset type				
	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	

	Previous year				
	Value at 31 March 2017 £000	Change %	Value on Increase £000	Value on Decrease £000	
	Asset type				
	UK equities	355,328	15.80%	411,470	299,186
Overseas equities	1,821,512	18.40%	2,156,670	1,486,353	
Bonds	113,765	8.70%	123,663	103,868	
Bond funds	884,572	8.70%	961,530	807,614	
Cash	105,999	0.00%	105,999	105,999	
Property	285,820	14.20%	326,406	245,234	
Private equity	157,870	28.50%	202,863	112,877	
Currency fund	33,174	10.00%	36,491	29,856	
Total	3,758,040		4,325,092	3,190,987	

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 2018 and 31 March 2017 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 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)

Assets exposed to interest rate risk	Previous year		
	Value at 31 March 2017	Change in year in net assets available to pay benefits	
	£000	+100 BPS £000	-100 BPS £000
Asset type			
Cash and cash equivalents	105,999	1,060	(1,060)
Cash balances	23,326	233	(233)
Bonds	113,765	1,138	(1,138)
Total	243,090	2,431	(2,431)

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 2018		Increase	Decrease
	£000	%	£000	£000
Currency				
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		2,284,348	1,869,013

Assets exposed to currency risk	Previous year			
	Value at	Change	Value on	Value on
	31 March 2017		Increase	Decrease
	£000	%	£000	£000
Currency				
Overseas equities	2,434,144	10.00	2,677,558	2,190,730
Overseas bonds	92,479	10.00	101,727	83,231
Overseas private equity	157,870	10.00	173,657	142,083
Total	2,684,493		2,952,942	2,416,044

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 £68.9m in cash (31 March 2017: £106.0m) and cash internally managed by WSCC at 31 March 2018 was £35.3m (31 March 2017: £23.3m). This was held by institutions with the following credit ratings :

	Nominal amount	Nominal amount
	31 March 2017	31 March 2018
	£000	£000
AAA rated counterparties	129,325	15,000
AA- rated counterparties	-	-
A rated counterparties		89,268
TOTAL	129,325	104,268

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 2018, 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, this has been outweighed by higher than expected asset returns, particularly during 2016/17. The overall impact has been an estimated improvement in the funding level.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement 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 used valued ill health and death benefits in line with IAS 19.

31 March 2017		31 March 2018
£m		£m
(1,812)	Active members	(1,973)
(909)	Deferred pensioners	(902)
<u>(1,591)</u>	Pensioners	<u>(1,530)</u>
<u>(4,312)</u>	Present value of promised retirement benefits	<u>(4,405)</u>
3,798	Fair value of scheme assets (bid value)	4,104
<u>(514)</u>	Net liability	<u>(301)</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 2018 and 31 March 2017.

The Fund actuary estimates that the impact of the change in financial assumptions to 31 March 2018 is to decrease the actuarial present value by £86m. There is no impact from any change in demographic and longevity assumptions because they are identical to the previous period.

	31 March 2017	31 March 2018
	% p.a.	% p.a.
Inflation / pensions increase rate	2.4	2.4
Salary increase rate	3.1	3.1
Discount rate	2.6	2.7

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.

NOTE 21: CURRENT ASSETS

31 March 2017		31 March 2018
£000		£000
	Debtors:	
2,238	Contributions due - members	2,220
6,789	Contributions due - employers	7,794
592	Prepayments	1
2,790	Other debtors	1,460
<u>2,524</u>	Taxation	<u>4,572</u>
14,933		16,047
<u>23,326</u>	Cash balances	<u>35,332</u>
<u>38,259</u>		<u>51,379</u>

Analysis of debtors

31 March 2017		31 March 2018
£000		£000
4,132	Central government bodies	5,982
7,487	Other local authorities	6,663
1,746	Educational establishments	1,792
<u>1,568</u>	Other entities and individuals	<u>1,609</u>
<u>14,933</u>		<u>16,046</u>

NOTE 22: CURRENT LIABILITIES

31 March 2017		31 March 2018
£000		£000
863	Contributions	3
97	Benefits payable	327
<u>4,764</u>	Other current liabilities	<u>7,312</u>
<u>5,724</u>		<u>7,642</u>

Analysis of creditors

31 March 2017		31 March 2018
£000		£000
1,096	Central government bodies	1,124
639	Other local authorities	131
103	Educational establishments	228
<u>3,886</u>	Other entities and individuals	<u>6,159</u>
<u>5,724</u>		<u>7,642</u>

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

Market Value		Market Value
31 March 2017		31 March 2018
£000		£000
2,041	Standard Life	2,102
479	Equitable Life	435
<u>2,520</u>		<u>2,537</u>

AVC Contributions of £305,339 were paid directly to Standard Life during the year (2016/17: £189,267). 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(2)(b) of the LGPS Management and Investment of Funds regulations 2009 (as amended).

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 (2016/17: £0.9m) 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 £54.9m to the Fund in 2017/18 (2016/17: £56.1m - £44.9m contributions as a % of payroll, £11.2m as a lump sum). 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 2018, the Fund had a daily average investment balance of £38.1m (31 March 2017: £35.9m) earning interest of £0.163m (2016/17: £0.123m) in these funds at a rate of return of 0.33% (2016/17: 0.34%).

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, 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 2017/18 of £1.1m. The total Pension Fund contribution relating to Key Management Personnel is set out below:

31 March 2017	31 March 2018
£000	£000
16 Total apportioned remuneration	16

NOTE 25: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding commitments in private equity at 31 March 2018 totalled £30.3m (31 March 2017 : £36.4m).

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.

Estimates provided to members indicate that at year-end there are potential liabilities of £2.1m in respect of members who have enquired about transferring benefits out of the scheme and on whom the Fund is awaiting a final decision.

NOTE 26: CONTINGENT ASSETS

There were no contingent assets at the period end.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST SUSSEX PENSION FUND

Opinion

We have audited the Pension Fund financial statements for the year ended 31 March 2018 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 2017/18.

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 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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 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, Performance and Procurement's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance, Performance and Procurement 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 County Council Statement of Accounts 2017/18 other than the financial statements and our auditor's report thereon. The Director of Finance, Performance and Procurement 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, Performance and Procurement

As explained more fully in the Statement of the Responsibilities set out on page 14, the Director of Finance, Performance and Procurement 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 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance, Performance and Procurement 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 Pension Fund and the Pension Fund'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
24 July 2018

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.