

# West Sussex County Council Statement of Accounts 2019/20 Contents

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# Narrative Report 2019/20

## **West Sussex County Council**

### **Introduction to West Sussex**

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

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

### **West Sussex County Council's vision**

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

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

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

The Council faces a number of challenges by 2022, which will be influenced by a variety of factors, many of which will now be affected by both Covid-19 and Brexit, including:

- The resident population of West Sussex is projected to increase to around 883,900 by 2022 (currently 871,682 in 2020), although this is likely to change due to the impact of Covid-19 and Brexit
- About 26,000 babies will be born in West Sussex by 2022 (around 8,500 each year)
- The proportion of the county population that is over 65 years old will continue to rise, to around 23.6% (currently 23.2% in 2020)
- Around 17% of residents in West Sussex report living with long-term health problems or disabilities although this may be affected by the current pandemic
- The West Sussex population is about 58% urban and 42% rural which brings challenges for many services. For example, in social care, population sparsity leads to higher delivery costs and makes it more difficult for commercial providers to keep their staff

- The median West Sussex house price in West Sussex is £326,000 at September 2019 impacting the affordability of housing for our residents with a median earnings to median house price ratio of 10:43. As a result of Covid-19, the housing market is estimated to crash by 10-15%, but there is the potential for high earners from London, who are now working from home long term, to move into the area to boost the market, particularly around the M25.
- At the current rate of increase the median weekly earnings for a full-time employee resident in West Sussex is projected to reach around £625 by 2022. Currently the median weekly earnings in West Sussex is £602, which is significantly below the South East average of £636, although this gap has narrowed slightly in the last year and may continue to narrow by 2022. As a result of Covid-19, however, the weekly earnings for towns like Crawley may well be reduced in the future because of the significant impact on aviation.

Further details of the [West Sussex Plan](#) can be found on our website.

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

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

## Political and Democratic Structures

At the end of March 2020, the County Council was made up of 70 councillors (known as members), controlled by the Conservatives. The political composition was:

- Conservative: 54
- Liberal Democrat: 8
- Labour: 5
- Independent Conservative: 2
- Independent: 1

The Council follows the Leader and Cabinet model as its democratic structure, with functions allocated across the full Council itself, the Cabinet and a range of committees. Many functions are delegated from the Cabinet and committees to officers. The Council's Constitution explains how the County Council operates, how decisions are made and the procedures which are followed to make sure that these are efficient, transparent and accountable to local people. Further details can be found on the [Council's website](#).

During 2019, concerns were raised by external inspections about the effectiveness and soundness of some parts of the Council's governance arrangements. In response, the Council agreed a number of improvements in December 2019, focusing particularly on the executive and scrutiny functions, to ensure adequate transparency and enhanced decision-making. These included new monthly cabinet meetings held in public to take collective decisions.

In April 2020, in response to the Covid-19 emergency, the Government passed new Regulations enabling formal local authority meetings to be held virtually. Prior to this, committee members were required to be physically present. The Council has produced new Standing Orders to cover the requirements for virtual meetings, which include that public meetings must be capable of being heard or viewed via the internet. These new Standing Orders are part of the Constitution and are available online [here](#).

## Management Structure

In support of the democratic structure, the officer management structure of the Council is headed by an Executive Leadership Team (ELT), led by the interim Chief Executive, Becky Shaw who started in January 2020. The role of ELT is to work closely with the Leader and Cabinet to ensure the delivery of public services for the residents of West Sussex. ELT is comprised of:

- Chief Executive
- Chief Fire Officer
- Executive Director of Adults and Health
- Executive Director of Children, Young People and Learning
- Executive Director of Place Services
- Director of Finance and Support Services
- Director of Human Resources and Organisational Change
- Director of Law and Assurance

## Council Employees

At the end of March 2020 the Council employed 4,562 full time equivalents (5,188 people), excluding school-based employees, in both full and part time contracts. Key facts about our workforce include:

**Gender** – Across the Council, 68.5% of employees are female and 31.5% are male.

**Age** – The Council has an older age profile than the working age population of West Sussex, with 25.8% of employees aged 55+ and those aged 16–24 are particularly under-represented at only 3.6% of the workforce.

**Ethnicity** – 2.3% of the workforce are recorded as belonging to black and minority ethnic groups. However, 41.1% of employees are of unknown ethnicity, so the actual proportion could be higher or lower.

In line with the Government guidance in relation to Covid-19, the Council adopted a policy of advising employees to work from home, where possible, in March 2020. This way of working is already within the Council's flexible working policies and an established way of working for a number of staff, albeit not to the level that was experienced in March 2020. The scale of the workforce that have stayed at home can be gauged by the rise in the number of users accessing the Council's network remotely. Before the pandemic, the number of remote users peaked at around 400 per day and this number rose to between 3,600 and 4,000 when staff were advised to work from home where possible.

Lockdown started just before the first quarter of 2020/21 and there is evidence of a notable increase (27%) in sickness when compared to the figures for the first quarter of 2019/20. In addition, there has been a change in the levels of sickness days lost attributed to 'Anxiety, Stress, Depressions & Mental Health', with more days lost in the first quarter of 2020/21 than the average for 2019/20 and the same quarter in that year.

## **West Sussex Plan Performance for 2019/20**

The Council measured its performance for 2019/20 against the West Sussex Plan, which was approved in October 2017. The Performance Framework supports this plan and sets out 67 measures to monitor performance against the five priority areas within the plan: Best Start in Life; A Prosperous Place; A Strong, Safe and Sustainable Place; Independence for Later Life and A Council that works for the Community.

Against these priorities we have successfully achieved or exceeded 33 targets (49%), with a further 18 (27%) close to meeting the target, giving an overall total of 76%. There were 16 measures however which failed to meet the target. Some key highlights and challenges are summarised below.

### **Best Start in Life**

Our key successes this year include exceeding our target for healthy weight in year 6 children, where we achieved 70.4% against a target of 66.8% and remain in the top quartile of all local authorities nationally. Our performance has remained good whilst averages nationally and for the South East have dropped to 64.3% and 68.9% respectively.

As part of the Troubled Families programme, we achieved 3,940 families turned around by December 2020, ahead of the target deadline. National results show West Sussex as one of the foremost authorities in the local delivery of the government's ambitions for families. As a result, there has been tangible and sustainable improvements in the quality of life for vulnerable families across a range of factors, and these in turn have positive impacts across society.

In children's residential homes we aim to have 90% rated good or outstanding by 2022, and we have exceeded this by achieving 95.8% by year-end. The overall figure remains above the long-term target and shows an improvement of 4.1% compared to last year. The overall standard for our placements remains very high, and in excess of the national picture.

Improvement is still required for some areas and these include the number of children looked after per 10,000 where year-end performance shows 46.5 per 10,000, against a target of 40.5 (top quartile of statistical neighbours by 2022) and the number of children looked after with 3 or more placements during the year, where our year-end performance was 11.1% against a target of 7.5% or less (top quartile of statistical neighbours by 2022).

Over the last few years key stage attainment has been improving however, this has not been reflected in attainment for disadvantaged pupils, where we aim to minimise the attainment gap between disadvantaged pupils and their peers to be better than the national average by 2022. Current performance indicates West Sussex is still not performing as well as national averages - Key Stage 1 attainment gap is 24.1% against a target of 19%, Key Stage 2 performance gap is 25.3% against a target of 19.6% and Key Stage 4 performance gap is 0.76 against a target of 0.57. Performance is linked directly to a small number of poorer performing schools and academies.

### **A Prosperous Place**

Key successes include within Highways, maintaining our A-Roads that are considered poor and requiring maintenance to below 5%. We continue to remain better than target and have done so since 2016. We have also exceeded the targeted amount of new cycle track this year and achieved 28.65km against a target of 17.9km.

West Sussex continues to be in the top quartile compared with its statistical neighbours in terms of gross weekly pay levels of full-time workers resident in West Sussex currently at £602.20. The levels in West Sussex are slightly higher than the national average of £591.30 but lower than the regional average at £636.00. We also remain in the top quartile for those economically active who are employed, where performance was 81.2% against a target of 79.4% (top quartile of statistical neighbours by 2022). However, our GVA remains below the South East average with only a small increase this year to £26,589 against the south east average of £30,356.

Less successful this year was our performance on the number of apprentices and the number of adults with learning difficulties in employment. This year saw growth in the apprenticeship starts, however, this was not enough to offset the significant drop in apprenticeship starts in the previous academic year, due to government delays introducing the new Apprenticeship Standards, which reduced the number of opportunities for apprentices and employers alike.

For adults with learning disabilities in paid employment we continue to underperform with current performance at 2% against a target of 6% by 2022. For many people with a learning disability in receipt of formalised social care, employment has not been a key part of their life, from childhood through to adulthood. Improving the expectation of paid work will require a significant culture change, as well as increasing the number of employment opportunities.

### **A Strong, Safe Sustainable Place**

We exceeded our target for generating renewable energy (16,236MWh against a target of 9,141MWh), as a result of a further eight solar photovoltaic (PV) systems installed, of which six were installed at schools. During 2019/20 these systems have generated enough electricity to power over 5,500 standard UK homes for an entire year. We also exceeded our carbon reduction target to 15,100 tonnes against a target of 16,011 tonnes. Crime rates for West Sussex also remain below the regional average with latest results showing an average of 67.1 whereas the South East average is 80.5 per 1,000 population.

Homelessness, killed or seriously injured on roads, and hospital admissions for intentional self-harm remain a challenge with no significant improvements this year.

The latest results for living in temporary accommodation (1.93 per 1,000 households) show an increase compared to last year (1.64 per 1,000 properties). Sourcing affordable accommodation options for households who are reliant on Universal Credit to pay the rent continues to be challenging in the face of reluctant landlords. This is further compounded by rising rental prices as pressure is put on the private rented market by working households moving out of south London boroughs and Brighton to find more affordable housing. A set of design principles have been developed to inform future joint commissioning across the local partnerships enabling continued investment in housing related support services.

Killed and seriously injured is an extremely challenging target and one where interventions implemented will take time to impact upon outcomes. The increase this year from 102 to 104 per billion miles (against a target of 54) is linked to Sussex Police's switch to a national collision-recording database in May 2019. Like many other authorities who have transferred to the system, West Sussex has experienced a large increase in the number of serious casualties who would formally have been recorded as slight casualties. The new database known as CRASH selects the casualty severity from recorded injuries, which is more accurate than the previous manual entries.

Performance against the emergency hospital admissions for intentional self-harm measure remains challenging, increasing from 222.2 per 100,000 population to 235.1 against a target of 175.65 by 2022, as self-harm is due to multiple and inter-related risk factors, meaning there is no single or simple approach that impacts on this. The indicator only measures activity at the upper end of the pathway, i.e. hospital admissions, and it is difficult to assess the effect of preventative interventions which may have a positive effect downstream. Our preventative measures include targeting people before they start to self-harm and promoting mental wellbeing across the population (with greater intensity to those groups at high risk of poor mental health or self-harm). This includes 'whole school approaches' to build a positive culture and ethos around mental and emotional wellbeing.

### **Independent for Longer in Later Life**

Main successes are the quality of care in residential care homes and community care at home. Both these measures are exceeding their targets to remain in the top quartile of statistical neighbours, despite care providers in West Sussex reporting that recruiting and retaining an experienced and qualified workforce continues to impact their businesses.

We also continue to exceed our target for hip fractures in people aged 65+, to remain below 612 per 100,000. Latest results for West Sussex is 560 which is better than the national average of 558.

The measure - people who use services who say that those services have made them feel safe and secure - shows an improving picture, increasing from 87.1% to 91.9%. Although we are performing better than the national average (86.9%) and the South East average (89.3%), we missed achieving our target of 93%.

### **A Council that works for the Community**

This year we greatly exceeded our target to webcast our formal member meetings. Performance has risen from 27.6% to 61.4% this year. This improved performance is in line with the decision by the full Council that there should be a presumption in favour of webcasting all meetings of Planning Committee, Scrutiny Committees and formal meetings of the Cabinet in addition to the routine webcasting of all full Council meetings.

We also exceeded our target to increase the number of resident issues considered at County Local Committees in spite of two meetings being cancelled due to the current Covid-19 situation. We achieved 59% against a target of 50%. The main themes were proposed reductions in front line services funding, a proposed cycling event, school placement and performance, grant funding for community activity and local Highways concerns.

In contrast, response times to Freedom of Information requests dropped to 83% in February, against a target of 95%, although year-to-date average was 90.75%. This is a disappointing result after some promising months. Reminders were issued across the council that this is a corporate target and all officers are encouraged to deal with requests without delay. Due to Covid-19, resources were redirected and as a result March data is unavailable.

Full details of the outcomes against all 67 of the targets can be found on the [West Sussex Performance Dashboard](#).

## External Performance Assessment and Review

Two key service areas were subject to independent external assessment during 2018/19, with updates on the progress made in each of these areas during 2019/20 set out below:

### Fire and Rescue Service

In November 2018, Her Majesty's Inspectorate of Constabulary and Fire and Rescue Service (HMICFRS) undertook an inspection of our Fire and Rescue Service. The report was published on 20 June 2019 and rated the service as requiring improvement in areas of service effectiveness and efficiency and as inadequate in relation to supporting its people. An Improvement Board chaired by the Chief Executive was established and a new Chief Fire Officer was appointed in September. The Council agreed £1.4m of funding to deliver the improvements required following the HMICFRS report. In addition to this, £0.4m of funding was provided as part of the 2018/19 outturn to begin to address concerns. A further £1.7m has been included in the 2020/21 budget recognising that there is a need for ongoing funding within the service to ensure continuous improvement and embed the changes made in 2019/20. In 2019/20, the Fire Improvement plan spent £0.671m from the available £1.8m reserve allocation. Of the balance remaining, £0.282m has been held in the Fire Improvement Plan Reserve to fund one-off items which have slipped into 2020/21, with the remaining balance returned to the Contingency budget to help the in-year corporate overspend.

HMICFRS revisited the service in January 2020, following the inspection in November 2018. In a letter to the Chief Fire Officer, the inspectors noted that the Fire and Rescue Service has made 'tangible improvements' in a number of areas and could see an 'accelerated pace with the improvement work over the past few months'. The inspectorate will continue to monitor progress through updates from the service and through data returns with the next inspection due in 2021.

As progress of the improvement plan continues, challenges have been encountered in terms of recruiting to the additional posts (along with the associated uniform and training provision); this has been partly due to capacity within the Council to recruit at the pace required and also inherent difficulties in recruiting within the service. It had been expected that all posts would be filled by the end of March, however there may be some delay in full recruitment due to the recent emergence of the Covid-19 pandemic.

### Children's Services

Ofsted undertook an inspection of our Children's Services in 2018/19, with their findings being announced in May 2019. The inspection looked at three areas - the impact of leaders on social work practice with children and families, the experiences and progress of children who need help and protection and the experiences and progress of children in care and care leavers. In all three areas inspectors found services to be inadequate and as a result the overall effectiveness was judged to be inadequate. As a result of this outcome the Department for Education (DfE) appointed John Coughlan, Chief Executive of Hampshire County Council, as Commissioner for Children's Services in West Sussex. His initial task was to form a view as to whether the Council had the capacity and capability to improve its children's services to a satisfactory standard and gathered evidence between May and August 2019. The Commissioner's findings were published on 17 December 2019. His report contained criticisms, both of fundamental weaknesses within Children's Services, and of underlying defects of leadership, governance and culture within the corporate environment of the County Council. On this basis his main recommendation, accepted by the DfE, was that the children's service should be transferred to an Alternative Delivery Model, in the form of a Children's Trust. Work on setting up the Trust is underway. John Coughlan has been reappointed as Commissioner and will continue to work with West Sussex and with Hampshire County Council as our 'Partner in Practice' during 2020. This will ensure that the improvements noted to date are sustained and built upon in advance of the set-up of a Children's Trust.

Despite the serious findings, the Commissioner has acknowledged that recent service improvements provide some encouragement that a return to sound operational practice in Children's Services is feasible. The capacity for improvement has been confirmed by Ofsted in their first Monitoring Visit in December 2019. Ofsted recognised that staff turnover and workload pressure have been reduced, and that timeliness and quality have improved, supported by case supervision and management oversight of practice. There remain variations in quality and consistency, which we are determined to resolve, to ensure that each child is receiving the appropriate level of support and care.

The Council has committed at the highest level to turning around the service as its top priority. The improvements recognised by Ofsted are encouraging, but we remain determined to drive improvement to a level that properly and consistently supports our vulnerable children and young people.

## **Financial Performance**

The budget for 2019/20, agreed by County Council in February 2019, 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 2019/20 and 2020/21 were developed as part of the budget process, on the basis of maximising efficiency, finding new ways of service provision and engaging partners in collaboration. The budget for 2019/20 assumed savings of £23.4m and by the year end, £16.7m was achieved as originally envisaged or was delivered by other means. The balance, £6.7m, was not delivered in the financial year and was reported as part of the portfolio overspending position as outlined below. This includes:

- £0.9m in the Adults and Health portfolio, including £0.5m relating to the reform of Lifelong Services which has now been reprofiled to 2020/21 (with a further £0.5m included within the Children and Young People portfolio which has been reprofiled to 2021/22)
- £2.3m in Children and Young People portfolio, including £0.8m relating to the Children Looked After Commissioning Strategy which, following the Ofsted inspection report published in May 2019, the numbers of Children Looked After placements increased to unprecedented levels, meaning the savings assumed from the implementation of the commissioning strategy developed before the inspection could not be delivered in 2019/20; and a further £0.5m relating to the reform of Lifelong Services (as outlined above)
- £2.3m in the Economy and Corporate Resources portfolio, including £1.5m of savings relating to the Whole Council Design Programme which were to be delivered through improved use of technology to streamline back office processes, improving the customer journey by offering multiple ways to interact with the Council and efficiencies resulting from the replacement of the Council's Business Management Processes - these projects have not been delivered to the anticipated timelines; £0.6m relating to the Human Resources and Organisational Change service which had planned to make savings in year which, due to service changes and the additional support required by the organisation, did not come to fruition and £0.3m Legal Services were unable to achieve their saving due to Surrey County Council withdrawing from the ORBIS public law project.

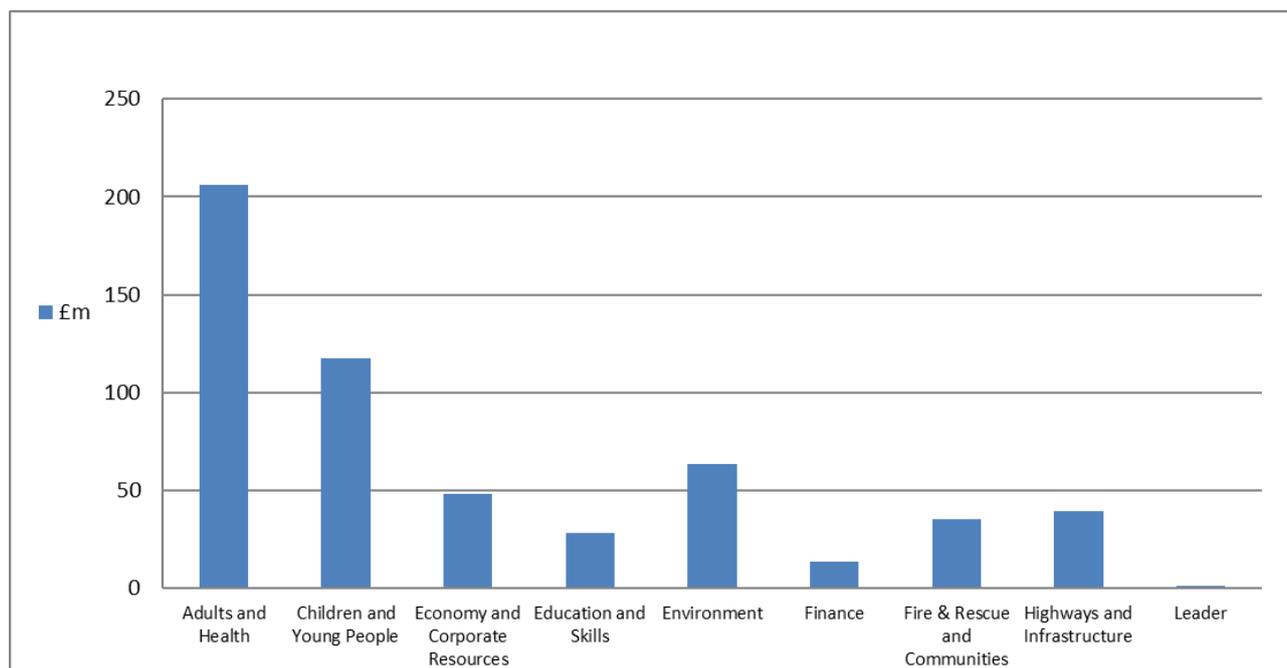
In addition, the Council made a £4.0m payment to Amey, in settlement of the highway's procurement litigation, which was funded from reserves.

During the year the County Council approved a Flexible Use of Capital Receipts Strategy, which enabled the Council to fund the revenue costs of transformation work from capital receipts.

The total spending on revenue projects eligible for charging against capital receipts was £4.0m.

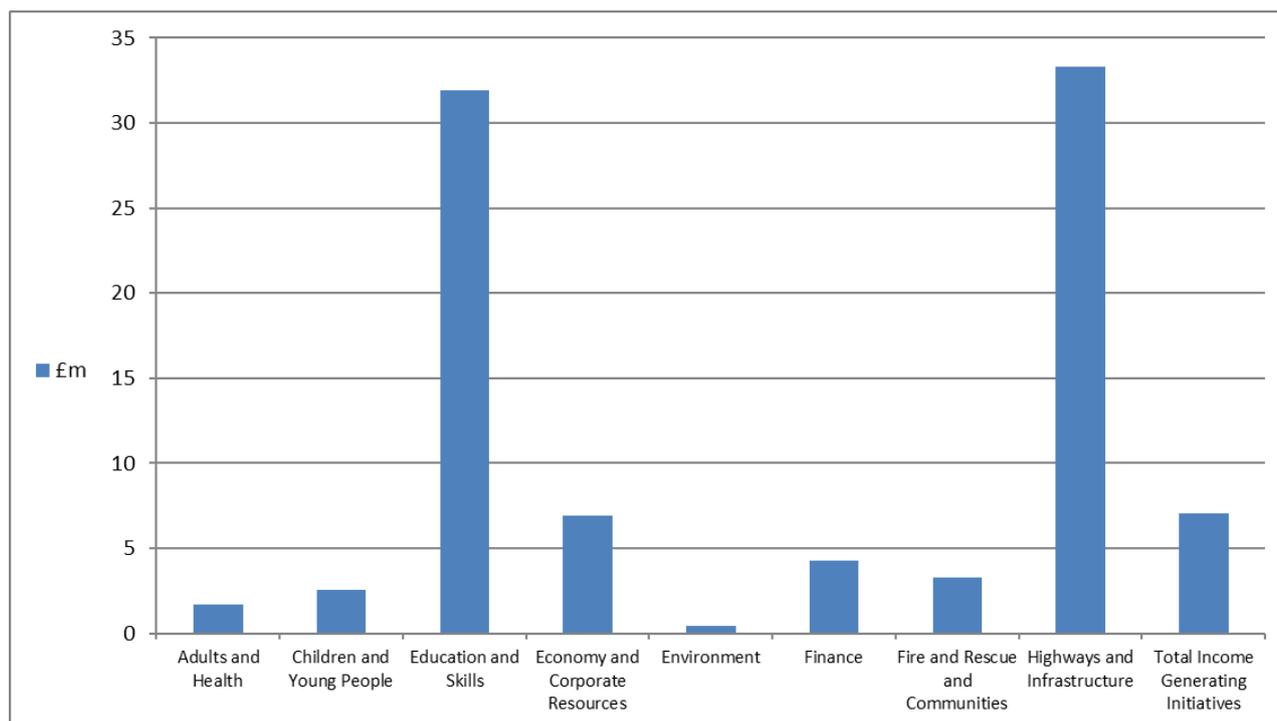
The revenue spending for 2019/20 on portfolio budgets is £553.9m, an overspend of £16.3m within the portfolio budgets. The overspend is mitigated by a variety of means, including the flexible use of capital receipts (£4.0m) as outlined above, the use of available reserves and one-off funding and income (£4.7m), and the use of the contingency balance (£1.3m), leaving a net overspend of £6.3m which was met from a draw-down from the Budget Management Reserve. Full details are set out in the outturn Total Performance Monitor (TPM). The TPM is the Council’s monitoring and reporting mechanism for finance performance (revenue and capital), savings delivery, and business performance. It is regularly scrutinised by the Performance and Finance Scrutiny Committee and available from Committee papers on the Council’s website. Graph 1 below illustrates the net outturn spend for the year, by portfolio:

Graph 1: Revenue Outturn 2019/20



Spending on the County Council’s capital programme totalled £91.5m for the year, against the capital programme of £109.7m (as approved at County Council in February 2019 and adjusted for slippage from 2018/19), a total variation of £28.9m or 20.2%. Graph 2 below sets out the capital outturn for 2019/20, by portfolio:

Graph 2: Capital Outturn 2019/20



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

April		
Project	Location	Description
Healthy Pupils Capital Fund	Various	Programme of grant awards to schools for building works and equipment to support healthy living
Rake Primary School	Chichester	Provision of a modular classroom to address issues regarding the adequacy of the teaching space
Westhampnett Solar Farm	Chichester	Construction of a solar farm at Westhampnett
Churchill Court Acquisition	Crawley	Purchase of a commercial investment property in the Manor Royal Business District, Crawley
City Park Acquisition	Hove	Purchase of a commercial investment property in Hove
May		
Project	Location	Description
Alternative Provision School	Arun	Works at Flintstones Centre, Littlehampton to facilitate transfer from North Mundham site
Accommodation Optimisation	Chichester	Refurbishment of County Hall rooms to facilitate new ways of working programme objectives
July		
Project	Location	Description
Northgate Primary School	Crawley	Basic Need expansion to provide additional form of entry.
Better Connected Broadband	Various	Second phase of roll-out of superfast broadband making the technology commercially available to an extra 3,000 premises
Fire Accommodation Pressures	Various	Block programme of internal improvements at Fire Stations

August		
Project	Location	Description
Manor Royal Outdoor Media	Crawley	Installation of advertising screens at locations across the Manor Royal Business District
September		
Project	Location	Description
DfT Road Fund	Various	Additional grant funding awarded by DfT for targeted asset management works to improve the condition of the highway
October		
Project	Location	Description
A285 Road Safety	Chichester	A programme of road safety improvements on the A285 between Halnaker and Petworth
January		
Project	Location	Description
Angmering School	Arun	Basic Need expansion to provide additional form of entry
Maidenbower School	Crawley	Expansion of Special Support Centre to include provision of drama studio
Windmills Junior School	Mid Sussex	Conversion of former art room to general classroom to cover bulge class
County Hall Car Parking	Chichester	Works to improve car park to standards required for Pay and Display charging
PropCo – Angel’s Nursery	Arun	Capital design stage for development of surplus land in Barnham, Arun. Key Decision to sell land
February		
Project	Location	Description
OPE/ Growth Programme – Burrscroft Demolition	Adur	Demolition of vacant former care home site in Shoreham as part of OPE/ Growth programme site facilitation
March		
Project	Location	Description
Stonepillow DAAT Grant	Arun	Grant funding payment for drug and alcohol dependency services in Arun

In 2019/20 a further one school obtained Academy status, at which point the building ceased to be a County Council asset (resulting in an asset to the value of £9.6m being removed from the Balance Sheet). Furthermore, the Council has revalued the land that this Academy occupies to reflect the restricted use to the authority (resulting in a further reduction of £2.1m to the Balance Sheet). As of March 2020 there are 71 schools with Academy status in the County, with a further 214 schools remaining under local authority control. There are two further academy conversions currently planned for the coming year.

## Reserves and Balances

The Balance Sheet distinguishes between “usable” and “unusable” reserves. An analysis of the movement in reserve balances during 2019/20 is provided by the Movement in Reserves Statement, and is summarised below:

Table 1: Movement in Reserve Balances 2019/20

	Balance at 1 April 2019 £000	2019/20 Movement £000	Balance at 31 March 2020 £000
General Fund	20,286	0	20,286
Earmarked Reserves	163,313	18,403	181,716
Capital Grants Unapplied Account	44,669	10,918	55,587
Capital Receipts Reserve	0	3,959	3,959
Total Usable Reserves	228,268	33,280	261,548
Unusable Reserves	606,870	369,365	976,235
Total Authority Reserves	835,138	402,645	1,237,783

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 2020 is £20.3m, which (at 3.4% of the net expenditure budget for 2020/21) is considered to be a prudent buffer against the significant financial pressures affecting the Council, although this does not include the impact of Covid-19. The General Fund would provide some 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 £181.7m are held as at 31 March 2020; this includes £20.5m relating to the Covid-19 Emergency Fund grant received in March 2020 and £20.5m one-off business rates pilot funding that the Council is committed to spending in conjunction with the districts and boroughs. 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 £474.0m is offset by a matching notional reserve ensuring there is no impact on the local taxpayer.

## Future Capital Programme and Borrowing

The County Strategy for the period 2020/21 to 2024/25 was approved by full Council in February 2020 and sets out the five-year capital programme. The strategy is the foundation for proper long-term planning of capital investment and how this links into the Council's overall corporate objectives and strategic priorities. The total value of schemes in the 2020/21 to 2024/25 capital programme is £712.3m, comprising £551.0m for the core programme and £161.3m for income generating initiatives.

The authority borrows prudentially for capital investment purposes. During the first quarter of 2019/20, the council borrowed £100m on a 50-year maturity loan basis at an average rate of 2.22% and external debt repayments of £7.0m were made during the year. Outstanding Public Works Loans Board borrowing as at 31 March 2020 was £481.8m (excluding accrued interest), with an average interest rate of 4.1%. This borrowing should be seen in the context of the long-term assets valued at £2.2 billion on the Balance Sheet.

Due to the market volatility caused by the current Coronavirus pandemic, the Council's valuers have invoked a "material valuation uncertainty" clause in relation to their work undertaken for 31 March 2020 valuation purposes.

## **Performance and Financial Monitoring**

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

## **The impact of Covid-19 on the provision of Council services**

A wide range of council services have been significantly impacted since the start of the pandemic, including Adults' Services, Children and Family Centres, Highways, Household Waste Recycling Sites, Libraries, Marriages and Civil Partnerships, Record Office and Schools.

The Council has committed to supporting suppliers and the local economy during this time of economic uncertainty, including paying supplier invoices as quickly as possible to support their cashflows. This is in addition to the support offered by the Government and is designed to work in parallel with it and prioritises support that preserves life, protects the vulnerable, aids the recovery or maintains essential services.

## **Financial impact of Covid-19**

The Covid-19 pandemic is affecting all aspects of the Council's services to our residents. It is not known how long the current situation is going to last, however assessments of the potential implications for the remainder of 2020/21 are being kept under constant review.

As at the end of July 2020, our modelling indicates that the estimated costs (including foregone income) arising from the pandemic will be in the region of £70m in 2020/21, representing excess expenditure of £27.4m above the funding provided by the Government of £42.6m. In the absence of additional funding from the Government, the shortfall will have to be funded by either service reductions or through reserves. The unplanned use of reserves will reduce the financial resilience of the Council. Potentially, if the economic downturn is significant, it is likely the income take from council tax will be significantly lower than currently projected figure. This could result in our gross pressure increasing to c£85 million, and a revised funding gap of approximately £42m.

The Government has also provided some additional ring-fenced funding to support specific responses to aspects of the national emergency, such as infection control within care providers, local track and trace services and support for the local public transport network, however this funding is not available to support the additional costs incurred by the Council as described above, i.e. any funds not spent on the ring-fenced activities specified must be returned to the Government.

When calculating the estimate, we have looked at a number of different categories of expenditure or loss of income:

- Direct costs from Covid-19 activities – increased Adults Social Care costs including; accelerated hospital discharge, increased demand for residential care, supporting the domiciliary care markets, 20% and 10% payment in advance to domiciliary care providers and residential homes, staff working additional hours supporting the 8am-8pm service now being provided, cost of personal protective equipment, and additional cost of updating the IT infrastructure to enable the workforce to work from home.
- Cost associated from being in lockdown – pressure on services including Children's Social Care as the number of vulnerable children increases, a reduction of fees and charges and commercial income.

- Impact of the Council's planned activities – savings plans will be impacted in 2020/21 as efforts have been refocused on Covid-19 measures. Also, the capital programme delivery and cost avoidance projects will be impacted as the construction industry has paused during this time.
- Cost of recovery – looking at how we will emerge will bring additional costs including:
  - dealing with a backlog of work where activity has been paused
  - costs to ensure social distancing can be maintained in our buildings
  - costs of transporting students to school while maintaining social distancing
  - costs incurred in developing cycle and footway initiatives
- Cost related to the local economy including:
  - significant fall in anticipated income arising from Business Rates, particularly as a result of the impact of Gatwick on the local area
  - a loss in Council Tax collection due to increased levels of hardship
  - loss of 'growth' in Council Tax base due to very little, if any, housing development
  - a potential reduction in LEP funding necessary to deliver significant road schemes in the county

The Council is also closely monitoring its cashflow position to ensure that there are sufficient funds available to meet its future financial obligations. Any surplus cash is being held in instant access accounts or on very short-term deposits to ensure it is available should it be required. If it were to prove necessary, the Council's Treasury Management Strategy allows for up to £40m of borrowing, through short term loans, to cover unexpected cashflow shortages. Having reviewed its cashflow projections, the Council is satisfied that it continues to be a going concern for at least the next twelve months.

However, the pandemic is likely to have a significant impact on the Council's financial planning over the medium-term as the longer-term economic impacts are understood.

## **Plans for the Council's Recovery post Covid-19**

A Reset and Reboot plan was presented to County Council in July setting out the corporate, service and financial challenges facing the Council in 2020/21 and beyond, along with an approach to settle the Council's priorities for the future and how it will work to achieve them.

The reset is "what" we do next and involves creating a new business plan, which will define the outcomes we will deliver during the next 12 months and be based on the work of members, our learning from Covid-19 and key service improvement work already underway. The service improvements in Children's, the Fire Service and Adults' will be included and, given the pressure on the West Sussex economy following Covid-19 and potential pressure post Brexit and recession, our work with partners will be an essential part of future working.

The reboot is the "how" we achieve these outcomes and involves a number of steps. Guided by the Leader and Cabinet, members will be provided with the tools and developments to support effective leadership and scrutiny. We will develop senior officers to strengthen collective leadership and part of that will involve delivering a small number of demonstrator projects where we will test new ways of working. We have demonstrated our capability and commitment to our residents during Covid-19. Our focus now is to continue to build on these positives and create at the core of the organisation a focus on the communities we serve, effective leadership, strong officer/member relationships, a commitment to partnership working and a valued and high-performing workforce.

## Financial Outlook

The last 12 months have seen some extraordinary events related to the financial outlook for the Council and for local government. In September 2019, the Chancellor at the time, Sajid Javid, presented a single year Spending Round (SR19) for 2020/21, with a full multi-year Spending Review due in 2020. SR19 increased spending by £13.8bn, the "fastest increase in day-to-day spending in 15 years", which left little headroom within the Government's fiscal targets. No Government department suffered a real terms decrease and most had a real terms increase. Local authorities saw a £2.9bn increase comprising: £1.0bn Social Care grant; £1.6bn Council Tax revenues (from rises in the tax base, plus increases in the core and Adult Social Care precepts); and £0.3bn from inflationary rises in the business rates retention system. The net impact of these on the Council's budget for 2020/21 was a £19.6m increase in funding, of which £13.8m was our share of the £1.0bn Social Care grant.

Due to the General Election, there was no Autumn Budget as scheduled. The local government finance settlement for 2020/21 confirmed SR19's figures and added £0.4m funding compared to our Medium Term Financial Strategy (MTFS). The Council's Budget report of 14 February 2020 concluded that: in future, most local authority funding will be from council tax and business rates; revenues will not keep up with demand and cost increases, without large council tax rises and efficiency increases; accordingly, a council's financial sustainability is likely to depend strongly on how it responds to its area's demographic changes, as well as its ability to achieve savings and raise revenues from local taxes and other sources.

The UK left the EU on 31 January 2020 and is in transition negotiations until 31 December 2020.

The current Chancellor, Rishi Sunak, presented the Spring Budget on 11 March 2020. It focused on mitigating the economic risk of Covid-19 and levelling up the country. It included £12bn of measures to deal with Covid-19 with £5bn for NHS and other services, £7bn for business. Announcements affecting local government included: £2.5bn reduction in business rates (some related to Covid-19, some continuing the trend for taking retail, leisure, hospitality and smaller businesses out of business rates) with compensating grants paid to local authorities; £0.5bn hardship fund; £2.5bn pothole fund spread over five years; and further devolution to directly elected mayors with £4.2bn increased funding over five years.

On 16 March, the Prime Minister, Boris Johnson set out 'a very substantial change' to the UK's social distancing and shielding measures. On 17 March, the Chancellor announced that local authorities will be fully compensated for the new measures and the Ministry of Housing, Communities and Local Government (MHCLG) began to publish Covid-19 guidance for local government. On 19 March MHCLG announced £1.6bn funding to help local authorities respond to Covid-19 pressures including support for the adult social care workforce and services helping the most vulnerable, including homeless people. On 28 April, MHCLG announced £1.6bn more emergency funding for local authorities and that the scheduled implementation of 75% business rate retention from 1 April 2021 will no longer go ahead. A further third tranche of £500m of funding was announced on 2 July 2020. West Sussex County Council's shares of emergency funding were £20.5m in the first batch, £15.9m in the second and £5.0m in the third tranche – a total of £41.4m of un-ringfenced funding to respond to spending pressures within the Council. In addition, the Government has recently announced that it will reimburse authorities for 75% of income losses occurring in 2020/21 as a result of Covid-19, with authorities being responsible for losses up to a 5% threshold. For the Council, this is estimated to be £1.2m.

Prior to the impact of Covid-19, the Council's MTFS included: £66m service demand pressures (over 70% in social care), £53m inflation, £29m available savings; £78m increase in council tax and £34m other costs and funding changes to give a budget gap of £45.0m for the period 2020-24.

The Council's initial estimates of the impact of Covid-19 on its finances indicate a pessimistic scenario of over £70m in increased revenue costs, savings foregone and lost income in 2020/21. Many capital construction projects are delayed (again affecting future planned savings), capital receipts are expected to be about £9m lower in 2020/21 and the values of later receipts reduced by about 10% overall. While the Government has said it will "do what it takes" and has provided the Council with over £41m to date in emergency grant funding so far, the impact on the local economy, particularly around Gatwick Airport is likely to continue throughout the medium term.

Given the extraordinary level of uncertainty facing the Council and the country, it is vitally important we draw on our good track record of delivering even more sustainable savings and responding innovatively to the challenges we face.

There is clearly a risk that the savings levels needed to balance the budget and cushion impacts to be felt in future years will not be achieved, or will be delivered late. That risk is magnified by a variety of factors, including the uncertainties regarding central and local government finances and the significant savings already actioned. These risks will be managed in several ways and reserves are more important than ever as a safeguard. As at 31 March 2020, the Council's total earmarked reserves (excluding schools) is £167.2m. These earmarked reserves are held to fund future commitments and large programmes of work that the County Council has entered in to, such as the Service Transformation Reserve and reserves for specific long-term contracts (e.g. Waste Management MRMC Reserve, Street Lighting PFI Reserve or Waste Management PFI Reserve). Also within total earmarked reserves are £20.5m one-off business rates pilot reserve that the Council is committed to spending in conjunction with the districts and boroughs and £20.5m Covid-19 Emergency Fund grant allocated in March 2020. If we exclude these exceptional amounts, the County Council's earmarked reserves have depleted to £126.2m. This is a decrease of £14.4m when compared to the reserves held at March 2019.

The financial resilience of the Council will need continued vigilance and resourcefulness to provide the strengthening it will need in future years, in the face of the on-going financial challenges reflected within the MTFs and emerging through the Covid-19 pandemic.

## **Future Opportunities**

In rising to its financial challenges, the Council has built organisational capacity to achieve efficiencies, generate additional income and transform its functions. In March 2020, the Council had a clear plan for refocusing and remobilising service led improvement. However, the Covid-19 lockdown has made the future much more uncertain. The County Council will take forward service led improvement as part of its wider reset planning for the likely future post pandemic operating environment.

## **Corporate Risks**

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

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

Risk	Mitigation
Covid-19 - risk to the delivery of WSCC's services	Initiation of corporate response and business continuity plans. Increased partnership working. Robust communications plan.
Brexit – Impact on the Council and partners to deliver services	Data gathering and network liaison. Corporate Management Team planning sessions.
Non-compliance and lack of standardisation in some systems and processes	Education and communication of current governance arrangements and areas of non-compliance (by directorate). Continued improvement of systems and processes where required.
Recruitment and retention – Council not seen as an attractive place to work	New and revised governance and strategies, data gathering and targeted recruitment projects.
Financial sustainability of Council – Central Government funding and budget balancing	Stakeholder engagement to influence funding decisions and initiatives. Proactive management of potential budget impacts and savings options.
Cyber-security – Loss of and system failure	Robust IT governance and education of staff, collaborative working and periodic testing.
Health and Safety – Lack of H&S awareness and accountability	Robust Health and Safety governance, reporting systems and training.
Social care provisions – Failure leading to personal and/or reputational harm	Improvement/development of current governance arrangements and stakeholder groups.
Benefits from transformation are not realised	Maintain robust project and programme governance, including benefits tracking, and consistent collaboration with key stakeholders.
Fire and Rescue Service fails to deliver the HMIC improvement plan,	Ensure robust project and programme governance in place and monitor delivery.
Death or serious injury of a child where the Council is found to have failed in their duty	Implementation of Practice Improvement Plan (PIP) and proactive support to services.
Corporate leadership, governance and culture recommendations/improvements not delivered	Improvement of governance arrangements, senior leadership development and stability, and engagement with external stakeholders i.e. LGA.
Lack of suitably qualified and experienced Approved Mental Health Professionals (AMHP)	Alignment with best practice governance arrangements, recruitment into key roles.
The setting up of a children's trust diverts council resources from core service delivery	Appointment of experienced staff to deliver project and interim resource to support workstreams.
Children's services will fail to deliver an acceptable provision to the community.	Deliver Children First Improvement Plan. Continued work with partner in practice (Hampshire County Council).

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. In addition, ELT and Cabinet review the key corporate risks monthly, with the Regulation, Audit and Accounts Committee receiving quarterly updates on the risks and mitigation plans in place to address them.

## West Sussex Statement of Accounts

The Statement of Accounts on the following pages sets out the Council's income and expenditure for the year, and its financial position at 31 March 2020. The format and content of the financial statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, which in turn is underpinned by International Financial Reporting Standards. It comprises core and supplementary statements. The Core Statements are as follows:

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

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

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

### Provisions and contingencies

The Council continues to hold both short and long term provisions which total £26.4m at 31 March 2020, of which £4.3m relates to the insurance provision and £21.1m relates to the Non-Domestic Rates (NDR) Appeals provision.

### Changes to accounting policies

The County Council accounting policies have been updated, to streamline the policies to reflect the recommended format in the Code and to update them to reflect feedback from last year's audit and other minor changes, including a new 'Going Concern' accounting policy (xxix). The Pension Fund policies have also been updated to reflect minor changes.

### Conclusion

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

## **West Sussex Pension Fund**

The Local Government Pension Scheme (LGPS) is a national defined benefit pension scheme administered by West Sussex County Council on behalf of 198 active employers and 79,548 members (contributors, pensioners and deferred).

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

### **Administration**

Responsibility for administration for the Pension Fund has been undertaken by Hampshire County Council since 6 March 2019. Feedback from members and employers has been positive, and the team were able to report full compliance with key performance indicators at the end of the year.

### **Funding**

Every three years the Fund is required to undertake a full actuarial valuation of its assets and liabilities. The latest full valuation based on assets and liabilities as at March 2019 has shown that the fund is 112% funded. The valuation sets employer contributions from 1 April 2020 to 31 March 2023.

### **Assets**

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

	31 March 2019 £m	31 March 2020 £m
Equities	2,165	1,985
Bonds	1,557	1,656
Direct Property	377	366
Private Equity	111	91
Cash or cash equivalents	99	87
Total	4,309	4,185

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

During the year, the Fund's assets returned -2.14% compared to the market of -1.38%. These returns are impacted by an overall market decline and considerable volatility in the final months of the year. However, in the first quarter of 2020/21 investment markets have rebounded with the fund returning to 31 December 2019 valuations.

The Pension Fund is a long-term investor, and as shown in the table below, has benefited from strong active management of the Fund’s investments, which have provided higher returns, net of fees, to the Fund over the long term than the benchmark index. This helps manage the cost of benefits.

	12 months	3 years pa	10 years pa
Total Fund	-2.14%	3.92%	8.53%
Benchmark	-1.38%	3.05%	7.99%
Difference	-0.76%	0.87%	0.54%

The Pension Fund has chosen to invest responsibly rather than divest or restrict the investment opportunities. All investments are managed on behalf of the Pension Fund by external fund managers who make investment decisions. However, the fund managers are required to demonstrate that they have invested in the best performing companies that are financially and environmentally sustainable, adopt high standards of governance and provide financial benefit. In turn, the fund managers invest considerable resources to support their research driven investment decision making, long term stewardship and engagement with companies on the future direction and the risks associated with their business, including climate change. In addition, as part of this responsible stewardship the Pension Committee has requested that its fund managers actively vote on its behalf. Over the last 12 months the fund managers voted at 100% of domestic and 96% of overseas meetings and had informed engagements with invested companies.

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

# Statement of Responsibilities

## **The Chief Financial Officer's responsibilities:**

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

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

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

The Director of Finance and Support Services has also:

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

I certify that the Statement of Accounts set out in the following pages presents a true and fair view of the financial position of the County Council as at 31 March 2020, and of its income and expenditure for the year ending on that date.

**Katharine Eberhart**  
**Director of Finance and Support Services**  
**20 November 2020**

## **The County Council's responsibilities:**

The County Council is required to:

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

I confirm that the Statement of Accounts were considered and approved by the Regulation, Audit and Accounts Committee at its meeting on 20 November 2020 on behalf of West Sussex County Council.

**Dr Nigel Dennis**  
**Chairman of the Regulation, Audit and Accounts Committee**  
**20 November 2020**

## 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
<b>Balance at 1 April 2018</b>	<b>-20,286</b>	<b>-174,663</b>	<b>0</b>	<b>-13,627</b>	<b>-208,576</b>	<b>-601,304</b>	<b>-809,880</b>
Movement in Reserves during 2018/19:							
Total Comprehensive Income and Expenditure	-31,929	-	-	-	-31,929	6,671	-25,258
Adjustments between Funding and Accounting Basis (Note 2)	43,279	-	0	-31,042	12,237	-12,237	0
<b>(Increase)/Decrease before Reserve Transfers</b>	<b>11,350</b>	<b>-</b>	<b>0</b>	<b>-31,042</b>	<b>-19,692</b>	<b>-5,566</b>	<b>-25,258</b>
Transfers to/from Earmarked General Fund Reserves (Note 3)	-11,350	11,350	-	-	0	-	0
<b>(Increase)/Decrease in 2018/19</b>	<b>0</b>	<b>11,350</b>	<b>0</b>	<b>-31,042</b>	<b>-19,692</b>	<b>-5,566</b>	<b>-25,258</b>
<b>Balance at 31 March 2019</b>	<b>-20,286</b>	<b>-163,313</b>	<b>0</b>	<b>-44,669</b>	<b>-228,268</b>	<b>-606,870</b>	<b>-835,138</b>
Movement in Reserves during 2019/20:							
Total Comprehensive Income and Expenditure	-2,041	-	-	-	-2,041	-400,604	-402,645
Adjustments between Funding and Accounting Basis (Note 2)	-16,362	-	-3,959	-10,918	-31,239	31,239	0
<b>(Increase)/Decrease before Reserve Transfers</b>	<b>-18,403</b>	<b>-</b>	<b>-3,959</b>	<b>-10,918</b>	<b>-33,280</b>	<b>-369,365</b>	<b>-402,645</b>
Transfers to/from Earmarked General Fund Reserves (Note 3)	18,403	-18,403	-	-	0	-	0
<b>(Increase)/Decrease in 2019/20</b>	<b>0</b>	<b>-18,403</b>	<b>-3,959</b>	<b>-10,918</b>	<b>-33,280</b>	<b>-369,365</b>	<b>-402,645</b>
<b>Balance at 31 March 2020</b>	<b>-20,286</b>	<b>-181,716</b>	<b>-3,959</b>	<b>-55,587</b>	<b>-261,548</b>	<b>-976,235</b>	<b>-1,237,783</b>

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 £202,002,000 as at 31 March 2020.

## 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 2019 £000	Notes	31 March 2020 £000
1,957,034 Property, Plant & Equipment	4	1,972,822
267 Heritage Assets	5	280
79,569 Investment Property	7	91,401
780 Intangible Assets	8	390
49,353 Long Term Investments	9	62,215
20,326 Long Term Debtors	9	28,894
<b>2,107,329 Long Term Assets</b>		<b>2,156,002</b>
74,302 Short Term Investments	9	210,683
7,507 Assets Held for Sale	10	1,840
161 Inventories	N/A	374
106,229 Short Term Debtors	11	119,172
81,310 Cash and Cash Equivalents	12	66,513
<b>269,509 Current Assets</b>		<b>398,582</b>
-15,975 Short Term Borrowing	9	-16,439
-118,456 Short Term Creditors	13	-132,295
-15,121 Short Term Provisions	14	-23,199
-2,883 Short Term PFI Liability	15	-2,973
-93 Short Term Finance Lease Liability	16	-99
<b>-152,528 Current Liabilities</b>		<b>-175,005</b>
-381,834 Long Term Borrowing	9	-474,819
-6,108 Long Term Provisions	14	-3,165
-99,479 Long Term PFI Liability	15	-95,010
-1,639 Long Term Finance Lease Liability	16	-1,703
-818,564 Pension Liability	17	-473,985
-79,481 Capital Grants Receipts in Advance	25	-91,195
-2,067 Other Long Term Liabilities	9	-1,919
<b>-1,389,172 Long Term Liabilities</b>		<b>-1,141,796</b>
<b>835,138 Net Assets</b>		<b>1,237,783</b>
-228,268 Usable Reserves	MIRS	-261,548
-606,870 Unusable Reserves	19	-976,235
<b>-835,138 Total Reserves</b>		<b>-1,237,783</b>

These financial statements replace the unaudited financial statements certified by the Director of Finance and Support Services on 7 August 2020.

Katharine Eberhart  
**Director of Finance and Support Services**

**20 November 2020**

## 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.

2018/19 (Restated)			2019/20		
Net Expenditure Chargeable to the General Fund £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000	Net Expenditure Chargeable to the General Fund £000	Adjustments between Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
196,732	-5,870	190,862	206,167	1,771	207,938
		Adults and Health			
100,955	5,326	106,281	117,316	11,689	129,005
		Children and Young People			
51,751	5,074	56,825	48,040	8,870	56,910
		Economy and Corporate Resources			
20,727	-63,078	-42,351	28,549	16,968	45,517
		Education and Skills			
63,559	-8,170	55,389	63,712	3,878	67,590
		Environment			
17,125	30,891	48,016	13,864	2,117	15,981
		Finance			
36,107	1,064	37,171	35,551	5,409	40,960
		Fire & Rescue and Communities			
32,309	25,092	57,401	39,249	26,797	66,046
		Highways and Infrastructure			
1,406	106	1,512	1,495	134	1,629
		Leader			
520,671	-9,565	511,106	553,943	77,633	631,576
		Net Cost of Services			
-509,321	-33,714	-543,035	-572,346	-61,271	-633,617
		Other Income and Expenditure			
<b>11,350</b>	<b>-43,279</b>	<b>-31,929</b>	<b>-18,403</b>	<b>16,362</b>	<b>-2,041</b>
		<b>(Surplus) or Deficit</b>			
		-20,286	-20,286		
		Opening General Fund Balance			
		Add (Surplus)/Deficit on General 11,350	-18,403		
		Fund Balance in Year			
		Add Transfers to/(from) Earmarked General Fund			
		-11,350	18,403		
		Reserves in Year			
		<b>-20,286</b>	<b>-20,286</b>		
		<b>Closing General Fund Balance</b>			

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 £202,002,000 as at 31 March 2020.

## 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.

2018/19 (Restated)				2019/20		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
352,655	-161,793	190,862	Adults and Health	383,322	-175,384	207,938
179,707	-73,426	106,281	Children and Young People	203,529	-74,524	129,005
63,064	-6,239	56,825	Economy and Corporate Resources	60,715	-3,805	56,910
410,952	-453,303	-42,351	Education and Skills	518,372	-472,855	45,517
65,727	-10,338	55,389	Environment	79,275	-11,685	67,590
50,869	-2,853	48,016	Finance	18,939	-2,958	15,981
43,557	-6,386	37,171	Fire & Rescue and Communities	49,184	-8,224	40,960
80,841	-23,440	57,401	Highways and Infrastructure	85,178	-19,132	66,046
1,522	-10	1,512	Leader	1,661	-32	1,629
<b>1,248,894</b>	<b>-737,788</b>	<b>511,106</b>	<b>Cost of Services</b>	<b>1,400,175</b>	<b>-768,599</b>	<b>631,576</b>
10,072	0	10,072	Other Operating Expenditure (Note 22)	19,100	0	19,100
106,636	-52,380	54,256	Financing and Investment Income and Expenditure (Note 23)	86,225	-50,999	35,226
0	-607,363	-607,363	Taxation and Non-Specific Grant Income (Note 24)	0	-687,943	-687,943
<b>1,365,602</b>	<b>-1,397,531</b>	<b>-31,929</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>1,505,500</b>	<b>-1,507,541</b>	<b>-2,041</b>
		-86,714	(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Chargeable to the Revaluation Reserve (Note 4)			4,648
		11	Fair Value Gains/(Losses) released from Financial Instruments Revaluation Reserve and recognised in Financing and Investment Income (Note 19)			0
		93,374	Actuarial (Gains) and Losses on Remeasurement of Pension Scheme Assets and Liabilities (Note 17)			-405,252
	<b>6,671</b>		<b>Other Comprehensive Income and Expenditure</b>			<b>-400,604</b>
	<b>-25,258</b>		<b>Total Comprehensive Income and Expenditure</b>			<b>-402,645</b>

## 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.

2018/19 (Restated) £000	2019/20 £000
-31,929 Net (surplus) or deficit on the provision of services	-2,041
Adjustments to net surplus or deficit on the provision of services for non cash	
-28,504 movements (Note 34)	-115,332
Adjustments for items included in the net surplus or deficit on the provision of	
<u>78,766</u> services that are investing and financing activities (Note 35)	<u>93,589</u>
18,333 Net cash flows from Operating Activities	-23,784
-72,677 Investing Activities (Note 36)	126,730
<u>16,974</u> Financing Activities (Note 37)	<u>-88,149</u>
-37,370 Net (increase)/decrease in cash and cash equivalents	14,797
<u>-43,940</u> Cash and cash equivalents at the beginning of the reporting period	<u>-81,310</u>
<b><u>-81,310</u> Cash and cash equivalents at the end of the reporting period (Note 12)</b>	<b><u>-66,513</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Prior Period Adjustment

The Authority has made a prior year adjustment in preparing its 2019/20 Statement of Accounts. This is detailed below.

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

In accordance with the requirements of the *CIPFA Code of Practice on Local Authority Accounting*, the Authority presents its Comprehensive Income and Expenditure Statement (and associated notes) on a cabinet member portfolio basis to reflect local reporting arrangements. The Authority made a number of changes to its portfolio structure in August 2019 and October 2019, and therefore the 2019/20 financial statements have been prepared using this revised portfolio structure. Furthermore, and in accordance with the requirements of *IAS1 Presentation of Financial Statements*, the 2018/19 comparators in the Comprehensive Income and Expenditure Statement (and associated notes) have also been restated on this revised reporting basis. The impact of this restatement is disclosed below.

#### *Comprehensive Income and Expenditure Statement*

<b>Cabinet Member Portfolio Structure (pre August 2019)</b>	<b>2018/19 Net Expenditure £000</b>	<b>Cabinet Member Portfolio Structure (post October 2019)</b>	<b>2018/19 Net Expenditure (Restated) £000</b>
Adults and Health	190,855	Adults and Health	190,862
Children and Young People	105,877	Children and Young People	106,281
Corporate Relations	46,153	Economy and Corporate Resources	56,825
Education and Skills	-42,351	Education and Skills	-42,351
Environment	53,967	Environment	55,389
Finance and Resources	48,437	Finance	48,016
Highways and Infrastructure	57,401	Fire & Rescue and Communities	37,171
Leader (including Economy)	11,763	Highways and Infrastructure	57,401
Safer, Stronger Communities	39,004	Leader	1,512
<b>Cost of Services</b>	<b>511,106</b>	<b>Cost of Services</b>	<b>511,106</b>

#### *Expenditure and Funding Analysis*

<b>Cabinet Member Portfolio Structure (pre August 2019)</b>	<b>2018/19 Net Expenditure Chargeable to the General Fund £000</b>	<b>Cabinet Member Portfolio Structure (post October 2019)</b>	<b>2018/19 Net Expenditure Chargeable to the General Fund (Restated) £000</b>
Adults and Health	196,732	Adults and Health	196,732
Children and Young People	100,551	Children and Young People	100,955
Corporate Relations	42,974	Economy and Corporate Resources	51,751
Education and Skills	20,727	Education and Skills	20,727
Environment	62,265	Environment	63,559
Finance and Resources	17,546	Finance	17,125
Highways and Infrastructure	32,309	Fire & Rescue and Communities	36,107
Leader (including Economy)	9,762	Highways and Infrastructure	32,309
Safer, Stronger Communities	37,805	Leader	1,406
<b>Net Cost of Services</b>	<b>520,671</b>	<b>Net Cost of Services</b>	<b>520,671</b>

<b>Cabinet Member Portfolio Structure (pre August 2019)</b>	<b>2018/19 Adjustments between Funding and Accounting Basis £000</b>	<b>Cabinet Member Portfolio Structure (post October 2019)</b>	<b>2018/19 Adjustments between Funding and Accounting Basis (Restated) £000</b>
Adults and Health	-5,877	Adults and Health	-5,870
Children and Young People	5,326	Children and Young People	5,326
Corporate Relations	3,179	Economy and Corporate Resources	5,074
Education and Skills	-63,078	Education and Skills	-63,078
Environment	-8,298	Environment	-8,170
Finance and Resources	30,891	Finance	30,891
Highways and Infrastructure	25,092	Fire & Rescue and Communities	1,064
Leader (including Economy)	2,001	Highways and Infrastructure	25,092
Safer, Stronger Communities	1,199	Leader	106
<b>Net Cost of Services</b>	<b>-9,565</b>	<b>Net Cost of Services</b>	<b>-9,565</b>

## NOTES TO THE FINANCIAL STATEMENTS

This revised portfolio structure has also been reflected in the prior year comparators in notes 6 Capital Expenditure and Capital Financing, 21 Segmental Income and 25 Grants Credited to Services.

The Balance Sheet is unaffected by this change, and therefore no 'third' balance sheet (providing comparators as at 1 April 2018) has been presented as part of this restatement. The Movement in Reserves Statement and Cash Flow Statement are also unaffected. There are no implications for the General Fund Balances or any other reserves arising from this change.

### **2. Adjustments between Accounting Basis and Funding Basis under Regulations**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

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

#### **General Fund Balance**

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

#### **Capital Receipts Reserve**

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

#### **Capital Grants Unapplied**

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

## NOTES TO THE MOVEMENT IN RESERVES STATEMENT

2019/20	Usable Reserves		
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
<b>Adjustments to the Revenue Resources</b>			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
• Pensions costs (transferred to or from the Pensions Reserve)	-60,673	-	-
• Financial instrument revaluations (transferred to the Financial Instruments Revaluation Reserve or, for equity investments, the Capital Adjustment Account)	-2,104	-	-
• Council tax and NDR (transferred to or from the Collection Fund Adjustment Account)	-1,773	-	-
• Holiday pay (transferred to the Accumulated Absences Account)	-392	-	-
• 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)	20,895	-	-82,437
<b>Total Adjustments to Revenue Resources</b>	<b>-44,047</b>	<b>-</b>	<b>-82,437</b>
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	11,209	-11,209	-
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)	-57	57	-
Write down of finance lease debtor (transfer from Deferred Capital Receipts Reserve)	-234	-	-
Statutory provision for the repayment of debt (transfer to the Capital Adjustment Account)	16,470	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	297	-	-
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>27,685</b>	<b>-11,152</b>	<b>-</b>
<b>Adjustments to Capital Resources</b>			
Use of the Capital Receipts Reserve to finance capital expenditure	-	7,901	-
Application of capital grants to finance capital expenditure	-	-	71,519
Cash payments in relation to deferred capital receipts	-	-708	-
<b>Total Adjustments to Capital Resources</b>	<b>-</b>	<b>7,193</b>	<b>71,519</b>
<b>Total Adjustments</b>	<b>-16,362</b>	<b>-3,959</b>	<b>-10,918</b>

## NOTES TO THE MOVEMENT IN RESERVES STATEMENT

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

## 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 2019/20.

	Balance at 1 April 2018	Transfers Out 2018/19	Transfers In 2018/19	Balance at 31 March 2019	Transfers Out 2019/20	Transfers In 2019/20	Balance at 31 March 2020
	£000	£000	£000	£000	£000	£000	£000
Adult Social Care Transformation Fund	-1,743	1,233	0	-510	420	0	-90
Budget Management	-26,704	0	-3,406	-30,110	17,556	-2,398	-14,952
Business Infrastructure	-1,187	481	0	-706	60	0	-646
Business Rates Pilot Fund	0	0	0	0	619	-21,082	-20,463
Capital Expenditure	-4,010	4,010	0	0	0	0	0
Capital Infrastructure	-12,028	0	0	-12,028	0	0	-12,028
Covid-19 Emergency Fund	0	0	0	0	3	-20,528	-20,525
Crawley Schools PFI	-7,199	6,717	-117	-599	531	-87	-155
Dedicated Schools Grant (DSG)	-5,489	2,050	-2,806	-6,245	9,721	-1,737	1,739
Deprivation of Liberty Safeguarding	-1,000	139	0	-861	659	0	-202
Economic Growth	0	0	-1,297	-1,297	0	0	-1,297
Highways Commuted Sums	-3,063	6	0	-3,057	807	-1,110	-3,360
Highways On-Street Parking	-806	1,669	-1,831	-968	1,900	-2,582	-1,650
Infrastructure Works Feasibility	-298	600	-1,650	-1,348	1,351	-1,000	-997
Insurance	-8,049	2,693	0	-5,356	13	-502	-5,845
Interest Smoothing Account	-803	0	-275	-1,078	0	0	-1,078
Recycling & Waste PFI	-12,415	0	-64	-12,479	1,800	-62	-10,741
School Balances	-14,995	14,995	-16,452	-16,452	16,452	-16,241	-16,241
Schools Sickness and Maternity Scheme	-2,085	0	0	-2,085	152	0	-1,933
Service Transformation Fund	-11,513	4,766	0	-6,747	1,437	-6,500	-11,810
Social Care Support Grant 2018/19	0	548	-2,065	-1,517	0	0	-1,517
Special Support Centres	0	0	0	0	0	-1,845	-1,845
Statutory Duties	-2,350	55	-142	-2,437	0	0	-2,437
Strategic Economic Plan	-1,977	682	0	-1,295	234	0	-1,061
Street Lighting PFI	-19,142	0	-4,380	-23,522	226	-289	-23,585
Unapplied Revenue Grants	-1,804	1,623	-162	-343	99	-175	-419
Waste Materials Resource Management Contract (MRMC)	-29,216	1,300	-141	-28,057	1,500	-143	-26,700
Other Earmarked Reserves	-6,787	4,571	-2,000	-4,216	4,042	-1,704	-1,878
<b>Earmarked Reserves</b>	<b>-174,663</b>	<b>48,138</b>	<b>-36,788</b>	<b>-163,313</b>	<b>59,582</b>	<b>-77,985</b>	<b>-181,716</b>

The **Adult Social Care Transformation Fund** holds the funding announced as part of the 2017/18 local government finance settlement. Funds are applied to pump-prime transformational investment in adult social care.

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

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 **Business Rates Pilot Fund** holds the gains arising from the 75% local retention pilot scheme in 2019/20. The fund will be invested jointly by the County Council and its billing authorities on project work with economic benefit, but is reflected in the County's accounts as the lead authority.

## NOTES TO THE MOVEMENT IN RESERVES STATEMENT

- The **Capital Expenditure** reserve was established to support expenditure within the capital programme as part of the capital financing strategy and therefore reduce the underlying borrowing requirement.
- The **Capital Infrastructure** reserve was created to support capital plans over the longer term, thus avoiding the need to borrow and incurring the associated long term capital financing costs. In 2020/21, the balance of the reserve will be consolidated within the Budget Management Reserve.
- The **Covid-19 Emergency Fund** holds the unspent balance of monies allocated by central government in March 2020 to support local authorities with pressures arising from the coronavirus pandemic.
- The **Crawley Schools PFI, Recycling & Waste PFI** and **Street Lighting 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)** is ring-fenced, and can only be applied to finance expenditure on schools. This includes individual school budgets and central expenditure on educational services provided on a County-wide basis. The deployment of the reserve, including the basis for holding a deficit balance, is detailed further 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 **Economic Growth** reserve is held to support the West Sussex Plan, ensuring that West Sussex remains a 'prosperous place' with a strong and vibrant economy through the delivery of the Economic Growth Plan.
- The **Highways Commuted Sums** reserve holds a balance of contributions received from developers in respect of future maintenance costs of non-standard highways infrastructure.
- The **Highways On-Street Parking** reserve holds the surplus of charges over enforcement and associated costs, which is used to finance on street parking development and eligible transport network expenditure.
- The **Infrastructure Works Feasibility** reserve provides revenue funding for feasibility works to support the development of the Council's capital programme.
- The **Insurance** reserve is held in respect of the Authority's self-funding insurance scheme, and provides for the risk of unknown future claims (i.e. in excess of the known claims as provided for in the insurance provision - see Note 14).
- The **Interest Smoothing Account** 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 Fund** 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 **Social Care Support Grant 2018/19** reserve holds the balance of monies allocated to the Council as announced in the Local Government Finance Settlement in February 2018 to support the provision of adult social care. This has been earmarked as a contribution towards funding the cost of delivering the Adults' Improvement Programme.
- The **Special Support Centres** reserve is held to fund the creation of special support centres at mainstream schools, thereby negating any additional borrowing requirement (and associated financing costs) in the capital programme.
- 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, 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 2019/20	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
<b>Cost or Valuation</b>							
At 1 April 2019	1,485,971	114,218	605,396	39,493	11,533	2,256,611	178,224
Additions	18,649	11,165	34,133	394	17,310	81,651	377
Donations	11,708	0	0	0	0	11,708	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-26,907	0	0	-2,438	0	-29,345	-5,283
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	21,017	0	0	-1,359	0	19,658	0
Disposals	-49	-738	0	0	0	-787	0
Derecognition - Academies	-9,643	0	0	0	0	-9,643	0
Derecognition - Finance Leases	-2,866	0	0	0	0	-2,866	0
Derecognition - Other	-9,096	-10,767	-29,924	0	-53	-49,840	-1,227
Assets reclassified (to)/from Assets Held for Sale	-268	0	0	-924	0	-1,192	0
Assets reclassified (to)/from Investment Property	0	0	0	370	0	370	0
Transfer in asset category	19,142	0	0	629	-19,771	0	0
<b>At 31 March 2020</b>	<b>1,507,658</b>	<b>113,878</b>	<b>609,605</b>	<b>36,165</b>	<b>9,019</b>	<b>2,276,325</b>	<b>172,091</b>
<b>Accumulated Depreciation and Impairment</b>							
At 1 April 2019	0	-43,579	-255,998	0	0	-299,577	-26,297
Depreciation charge	-35,309	-11,901	-32,716	-824	0	-80,750	-5,815
Depreciation written out to the Revaluation Reserve on revaluation	24,156	0	0	541	0	24,697	2,130
Depreciation written out to the Surplus/Deficit on the Provision of Services on revaluation	10,969	0	0	170	0	11,139	0
Impairment (losses)/reversals recognised in the Revaluation Reserve	0	0	0	0	0	0	0
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0
Derecognition - Academies	0	0	0	0	0	0	0
Derecognition - Finance Leases	75	0	0	0	0	75	0
Derecognition - Other	212	10,767	29,924	0	0	40,903	1,227
Depreciation written out on newly classified Assets Held for Sale	0	0	0	10	0	10	0
Depreciation written out on newly classified Investment Property	0	0	0	0	0	0	0
Transfer in asset category	-103	0	0	103	0	0	0
<b>At 31 March 2020</b>	<b>0</b>	<b>-44,713</b>	<b>-258,790</b>	<b>0</b>	<b>0</b>	<b>-303,503</b>	<b>-28,755</b>
<b>Net Book Value</b>							
<b>At 1 April 2019</b>	<b>1,485,971</b>	<b>70,639</b>	<b>349,398</b>	<b>39,493</b>	<b>11,533</b>	<b>1,957,034</b>	<b>151,927</b>
<b>At 31 March 2020</b>	<b>1,507,658</b>	<b>69,165</b>	<b>350,815</b>	<b>36,165</b>	<b>9,019</b>	<b>1,972,822</b>	<b>143,336</b>

## NOTES TO THE BALANCE SHEET

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

## 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 2020 for the construction or enhancement of Property, Plant and Equipment. It has commitments totalling £21.3m to be paid in 2020/21 and thereafter (commitments at 31 March 2019 were £32.1m). The major commitments are:

<b>Name of capital project</b>	<b>Programme duration</b>	<b>Outstanding Commitments £000</b>
Fire Vehicles and Appliances	2019-2021	1,815
Shelley County Primary School	2019-2022	1,707
Your Energy Sussex Programme	2019-2022	1,511
Horsham Combined Blue Light Centre	2019-2021	1,180
West Sussex Gigabit	2018-2021	1,086
Choices for the Future (In-House Social Care)	2019-2022	824
A2300 Corridor Capacity Enhancement, Burgess Hill	2018-2023	726
A29 Realignment, Bognor Regis	2019-2023	705
Manor Green Primary School, Crawley	2019-2022	702
A259 Corridor Capacity Enhancement, East Arun	2019-2023	527

### 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 2020. Valuations were instructed by the Director of Finance and Support Services, and carried out by external independent valuers: Montagu Evans Chartered Surveyors, 5 Bolton Street, London, W1J 8BA. Valuations were undertaken in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS) and the CIPFA Code of Practice.

The valuer has invoked a 'material valuation uncertainty' clause in relation to their work undertaken for 31 March 2020 valuation purposes, due to the market volatility caused by the coronavirus pandemic. Further detail is provided in Note 43 Assumptions made about the future and other major sources of estimation uncertainty.

## 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 2019/20. 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 2020, are as follows:

	<b>Quoted prices in active markets for identical assets (Level 1) £000</b>	<b>Other significant observable inputs (Level 2) £000</b>	<b>Significant unobservable inputs (Level 3) £000</b>	<b>Fair value as at 31 March 2020 £000</b>
Commercial	0	0	2,461	2,461
Office Units	0	3,550	1,626	5,176
Residential	0	0	24,752	24,752
Sub Total	0	3,550	28,839	32,389
De minimis	0	0	3,776	3,776
<b>Total</b>	<b>0</b>	<b>3,550</b>	<b>32,615</b>	<b>36,165</b>

Comparative figures as at 31 March 2019:

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

## 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

	<b>Fair Value as at 31 March 2020 £000</b>	<b>Valuation technique used to measure Fair Value</b>	<b>Unobservable inputs</b>	<b>Range (weighted average used)</b>	<b>Valuation process</b>
Commercial	461	Market Approach	Land sale comparables	£750,000 to £1,250,000 per hectare	Analysed industrial and commercial land sales in region. Considered size of site, layout, location, planning restrictions and discounted comparables accordingly.
	2,000	Comparable approach	Industrial rent and yield comparables	£50,000 to £90,000 per annum	Analysed industrial rents and yields and made appropriate discounts depending on the size, quality, and location of the building. Applied market norms for both void periods and rent free periods.
Office Units	251	Comparable approach	Land sale comparables, residential sales, office comparables	Office rents between £10.00 - £22.50 per sq ft	Land values with residential potential analysed in and around local area. Discounted for location, planning consent, potential residential development size, access, change of use.
	1,375	Market Approach	Office comparables in local areas	Office rents between £9.50 - £11.00 per sq ft	Land values with residential potential analysed in and around local area. Discounted for location, planning consent, potential residential development size, access, change of use.

**NOTES TO THE BALANCE SHEET**

	<b>Fair Value as at 31 March 2020 £000</b>	<b>Valuation technique used to measure Fair Value</b>	<b>Unobservable inputs</b>	<b>Range (weighted average used)</b>	<b>Valuation process</b>
Residential	14,347	Market Approach	Residential land sale comparables	£400,000 - £2,000,000 per hectare	Analysed land values with residential potential in and around local area. Discounted for location, planning consent, potential residential development size, access, and build costs.
	8,141	Market Approach	Residential sales comparables	£200,000 - £500,000 per dwelling	Analysed land values with residential potential in and around local area. Discounted for location, planning consent, potential residential development size, access, and build costs.
	821	Market Approach	Residential sales values and land values	Land £15,000-£2,000,000 per hectare/ Dwellings £215,000 - £450,000	Valued as both a residential sales value and a land value. Discounted for type of property, size, layout of plot, location within the town, and condition. Discounts on the land for shape, size, type of land, future development opportunities.
	343	Market Approach	Residential comparables	£300 - £350 per sq ft	Carried out a development appraisal on the site, using comparable scheme evidence to provide a basis of value. Applied discounts to take into account planning constraints, location of the site, change of use.
	1,100	Comparable Method of Valuation / Market Approach	Land sales, residential sales	£1,150,000 - £1,400,000 per hectare	Analysed land values with residential potential in and around local area. Discounted for location, unusual nature and layout of the sites, planning consent, access, build costs and proximity to a school. Analysed commercial land comparables taking into account existing buildings on site, size and layout of site.

### 5. Heritage Assets

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

The Authority recognises one Heritage Asset on its balance sheet. Halnaker Windmill is a tower mill which stands on Halnaker Hill, northwest of Chichester. Originally built as the feudal mill of the Goodwood Estate, the surviving mill is thought to date from the 1740s. The carrying value of the mill on the Authority's balance sheet at 31 March 2020 is £280,000, which is inclusive of additional capital expenditure of £13,000 in 2019/20.

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 8<sup>th</sup> century. The assets of the Office are not valued for insurance purposes, and whilst they are of significance to the local community, their value is not considered to be material in the context of the Authority's £2.2billion 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

	2018/19 (Restated)		2019/20	
	£000	£000	£000	£000
<u>Capital Financing Requirement</u>				
Balance brought forward at 1 April		575,904		618,178
Capital Investment for the Year by Portfolio:				
Adults and Health	317		1,675	
Children and Young People	0		2,551	
Economy and Corporate Resources	5,092		12,610	
Education and Skills	26,798		31,955	
Environment	5,407		1,473	
Finance	39,158		4,550	
Fire & Rescue and Communities	4,934		3,295	
Highways and Infrastructure	32,190		33,390	
Finance Lease Notional Investment	0		463	
Recycling & Waste PFI Notional Investment	4,605		377	
		118,501		92,339
Source of Finance:				
Capital Receipts	-6,742		-7,901	
External Contributions	-3,105		-6,330	
External Contributions applied to REFCUS	-999		-501	
Specific Grants	-37,877		-65,189	
Specific Grants applied to REFCUS	-2,138		-3,924	
Revenue Contribution to Capital Outlay	-4,677		-297	
		-55,538		-84,142
Sums set aside from revenue (MRP)		-20,689		-16,470
<b>Balance carried forward at 31 March</b>		<b>618,178</b>		<b>609,905</b>
Change in Capital Financing Requirement		42,274		-8,273

REFCUS expenditure of £10.536m is included within portfolio totals in 2019/20 (2018/19 £5.33m). Included within this total is £4.051m (2018/19 £Nil) that has been capitalised in accordance with a direction issued by the Secretary of State for Housing, Communities and Local Government under the Local Government Act 2003. This direction provides local authorities with the freedom to use capital receipts from the sale of assets to help fund the revenue costs of transformation projects in order to achieve ongoing savings and reduce costs or demand for public services.

	2018/19	2019/20
	£000	£000
Explanation of change in CFR:		
Increase in underlying need to borrow	58,358	7,357
Assets acquired under finance leases	0	463
Assets acquired under PFI contracts	4,605	377
Less the total of the Minimum Revenue Provision	-20,689	-16,470
	42,274	-8,273

## NOTES TO THE BALANCE SHEET

### Reconciliation of the Capital Financing Requirement to the Balance Sheet

	<b>31 March 2019</b>	<b>31 March 2020</b>
	<b>£000</b>	<b>£000</b>
Capital Financing Requirement	<u>618,178</u>	<u>609,905</u>
Property Plant & Equipment (Note 4)	1,957,034	1,972,822
Heritage Assets (Note 5)	267	280
Investment Property (Note 7)	79,569	91,401
Intangible Assets (Note 8)	780	390
Equity Investments (Note 9) <sup>1</sup>	4	2
Other Long Term Liabilities (Note 9) <sup>2</sup>	-2,067	-1,919
Assets Held for Sale (Note 10)	7,507	1,840
Capital Adjustment Account (Note 19)	-990,726	-1,039,859
Revaluation Reserve (Note 19)	<u>-434,190</u>	<u>-415,052</u>
	<u>618,178</u>	<u>609,905</u>

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

<sup>2</sup> 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:

<b>2018/19</b> <b>£000</b>	<b>2019/20</b> <b>£000</b>
-360 Rental income from investment property	-1,732
0 Direct operating expenses arising from investment property	0
10 (Gains) and losses on sale of investment property	55
-415 Change in fair value of investment property	-12,245
<b>-765 Net (gain)/loss</b>	<b>-13,922</b>

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:

<b>2018/19</b> <b>£000</b>	<b>2019/20</b> <b>£000</b>
31,376 Balance at 1 April	79,569
Additions:	
34,890 Purchases	0
117 Subsequent expenditure	139
-10 Disposals of Investment Properties	-182
415 Net gains from fair value adjustments	12,245
Transfers:	
12,781 (To)/from Property, Plant and Equipment	-370
0 (To)/from Assets Held for Sale	0
<b>79,569 Balance at 31 March</b>	<b>91,401</b>

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.

The valuer has invoked a 'material valuation uncertainty' clause in relation to their work undertaken for 31 March 2020 valuation purposes, due to the market volatility caused by the coronavirus pandemic. Further detail is provided in Note 43 Assumptions made about the future and other major sources of estimation uncertainty.

## 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 2019/20. 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 2020, are as follows:

	<b>Quoted prices in active markets for identical assets (Level 1) £000</b>	<b>Other significant observable inputs (Level 2) £000</b>	<b>Significant unobservable inputs (Level 3) £000</b>	<b>Fair value as at 31 March 2020 £000</b>
Agricultural	0	0	3,997	3,997
Commercial	0	0	60,711	60,711
Residential	0	0	21,320	21,320
Sub Total	0	0	86,028	86,028
De minimis	0	0	5,373	5,373
<b>Total</b>	<b>0</b>	<b>0</b>	<b>91,401</b>	<b>91,401</b>

Comparative figures as at 31 March 2019:

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

## 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

	<b>Fair Value as at 31 March 2020 £000</b>	<b>Valuation technique used to measure Fair Value</b>	<b>Unobservable inputs</b>	<b>Range (weighted average used)</b>	<b>Valuation process</b>
Agricultural	2,879	Market Approach	Agricultural land sales	£15,000 - £40,000 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.
	630	Market Approach	Agricultural land sales	Rents - £45,000 to £65,000	Valued as an investment valuation. Specialist nature of the lease, specialist nature of the site and length of lease unexpired.
	488	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	49,608	Income Approach	Commercial rents and yields	£600,000 to £1,500,000 per annum (yields 5% to 7.5%)	Analysed comparable sites and applied an opinion of a capitalisation yield on the received income. Analysed similar income streams to understand the yield position to apply to the income stream. Analysed covenant strength, length of lease, level of rent comparative to market rent, repair clause.
	10,711	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.
	392	Market Approach	Car parking space values	£5,000 per space	Analysed car parking space values in the local area, valued on the basis of 558 spaces. Discounted by 30 years to represent the current Management Agreement in place expiring in 30 years.

**NOTES TO THE BALANCE SHEET**

	<b>Fair Value as at 31 March 2020 £000</b>	<b>Valuation technique used to measure Fair Value</b>	<b>Unobservable inputs</b>	<b>Range (weighted average used)</b>	<b>Valuation process</b>
Residential	17,399	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.
	550	Income Approach	Residential rental and sales values	£30,000 - £35,000 per annum	Valued as a smallholding with a variety of outbuildings on site. Discounts for size of buildings, size of site, location within the county, demand, market conditions, and previous sales values.
	650	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.
	1,474	Market Approach	Residential sales and land values	£15,000 - £21,000 per hectare for land and £205,000 - £475,000 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.
	1,247	Market Approach	Residential sales comparables	£250,000 to £475,000 per dwelling	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 £390,000 charged to revenue in 2019/20 was charged to the Economy and Corporate Resources portfolio in the Net Cost of Services. The movement on Intangible Asset balances during the year is as follows:

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 April		
- Gross carrying amounts	4,580	3,583
- Accumulated amortisation	-3,400	-2,803
Net carrying amount at start of year	1,180	780
Purchases	0	0
Amortisation for the period	-400	-390
<b>Balance at 31 March</b>	<b>780</b>	<b>390</b>
Comprising:		
Gross carrying amounts	3,583	3,483
Accumulated amortisation	-2,803	-3,093
	780	390

**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 2019/20 are classified in accordance with the Code of Practice as follows:

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

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

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

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

At 31 March 2020 the Council did not have (or elect to hold) any investments to be measured at fair value through other comprehensive income. Balances in bank call accounts and money market funds (both instant access) are shown under 'Cash and Cash Equivalents' in the Balance Sheet as they represent highly liquid investments that are readily convertible to known amounts of cash.

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

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

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

The Council's Treasury Management Strategy approves temporary borrowing for cash flow purposes from UK local authorities and financial institutions authorised by the Prudential Regulation Authority (PRA) to operate in the UK. Excluding the Council's main provider of banking service (Lloyds) where overdraft facilities exist, no such borrowing was taken during 2019/20. Additionally the Council holds cash on behalf of the Chichester Harbour Conservancy as part of the Harbour's own investment strategy. This is presented as short term borrowing as the amount held is available for repayment back to the Chichester Harbour Conservancy on any given notice.

At 31 March 2020, the Council did not hold any derivative financial liabilities, for example forward contracts on fixed rate investments where interest rates had moved in the other party's favour since the contract was agreed.

**Transaction Costs:**

During 2019/20 transactions costs relating to the Council's financial instruments (loans and investments) have been charged in full to the Comprehensive Income and Expenditure Statement.

## NOTES TO THE BALANCE SHEET

### a. Financial Instruments Balances

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

	Long Term		Current	
	1 April	31 March	1 April	31 March
	2019	2020	2019	2020
<b>Financial Assets</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Investments (including accrued interest)	10,011	24,977	74,002	210,389
Cash and cash equivalents	0	0	81,815	66,513
Trade Debtors	20,326	28,894	33,304	32,798
Amortised cost	<u>30,337</u>	<u>53,871</u>	<u>189,121</u>	<u>309,700</u>
Fair value through other comprehensive income	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Pooled funds (including accrued interest)	39,338	37,236	300	294
Equity investments	4	2	0	0
Fair value through profit and loss	<u>39,342</u>	<u>37,238</u>	<u>300</u>	<u>294</u>
Total Financial Assets	<u>69,679</u>	<u>91,109</u>	<u>189,421</u>	<u>309,994</u>
Soft loans provided <sup>1</sup>	235	979	20	276

<sup>1</sup> Included within trade debtors total.

	Long Term		Current	
	1 April	31 March	1 April	31 March
	2019	2020	2019	2020
<b>Financial Liabilities</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Borrowing <sup>1</sup> (principal amount)	-381,834	-474,819	-11,977	-11,975
Accrued interest (PWLb)	0	0	-3,998	-4,464
PFI liability	-99,479	-95,010	-2,883	-2,973
Finance lease liability	-1,639	-1,703	-93	-99
Other long-term liabilities	-2,067	-1,919	0	0
Trade Creditors	0	0	-83,518	-71,714
Cash and cash equivalents	0	0	-505	0
Amortised cost	<u>-485,019</u>	<u>-573,451</u>	<u>-102,974</u>	<u>-91,225</u>
Fair value through profit and loss	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Financial Liabilities	<u>-485,019</u>	<u>-573,451</u>	<u>-102,974</u>	<u>-91,225</u>

<sup>1</sup> The County Council began long-term borrowing during 2000/01; including £100m additional borrowing that was arranged during the first quarter of 2019/20 (PWLb 50-year maturity loans at an average rate of 2.22%). All outstanding loans at 31 March 2020 are scheduled to be repaid between 2020 and 2069.

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 2020/21.

#### (i) Soft Loans

In accordance with the 2019/20 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 for the purchase of a multi-purpose vessel at a borrowing rate of 2.56%. The Council estimates that had interest been charged at market rates (assumed as 4% above the prevailing Bank of England base interest rate) interest receivable in the Comprehensive Income and Expenditure Statement would have increased by £5,300 (considered below de minimis for full disclosure).

## NOTES TO THE BALANCE SHEET

Additionally, during 2019/20 the Council introduced the "Financial Support for Recruitment and Retention-Employee Loan" scheme, whereby eligible employees (in posts designated by the Council as hard to fill) could apply for interest free loans up to £10,000 with repayment terms over a maximum 5-year period. The Council estimates that had interest on these loans been charged at market rates (assumed at 4% above the prevailing Bank of England base interest rate, as per an illustrative APR for such personal bank loans) interest receivable in the Comprehensive Income and Expenditure Statement would have increased by £21,350. Again this is considered to be below the de minimis for full disclosure in the financial statements as per the Council's accounting policy for soft loans as detailed at Note 41.

The position relating to soft loans at 31 March 2020 is therefore:

	2018/19 £000	2019/20 £000
Balance brought forward	267	255
Loans advance	0	1,153
Repayments Received	-20	-161
Interest charged to Comprehensive I&E Statement (CIES)	7	7
Expected credit loss allowance (movement charged to CIES)	1	1
Soft Loans Total (within trade debtors)	255	1,255

### (ii) Other

During 2019/20, with regard to financial instruments the County Council had no unusual movements, reclassification of instruments, derecognition of instruments or defaults and breaches.

### b. Financial Instruments - Gains and Losses

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

	2018/19			2019/20		
	Financial Liabilities	Financial Assets		Financial Liabilities	Financial Assets	
	Amortised Cost £000	Amortised Cost £000	Fair Value through Profit and Loss £000	Amortised Cost £000	Amortised Cost £000	Fair Value through Profit and Loss £000
<b>Interest:</b>						
Expense	-39,577	-	-	-31,242	-	-
Income	-	2,280	948	-	2,709	1,523
Total Interest	-39,577	2,280	948	-31,242	2,709	1,523
<b>Fair value gains/losses:</b>						
Equity	0	0	-17	0	0	-2
Multi-asset income funds	0	0	299	0	0	-1,427
Property funds	0	0	-655	0	0	-675
Ultra-short dated bond funds	0	0	89	0	0	187
Total fair value gains/losses	0	0	-284	0	0	-1,917
<b>Other:</b>						
Fee expense (brokerage)	0	0	-38	-35	-11	0
ECL allowance (prior year reversal)	0	27	0	0	15	0
ECL allowance at 31 March	0	-15	0	0	-41	0
Total fair value gains/losses	0	12	-38	-35	-37	0
Total gains and losses recognised in Surplus or Deficit on Provision of Services (CIES)	-39,577	2,292	626	-31,277	2,672	-394

## NOTES TO THE BALANCE SHEET

The Ministry of Housing, Communities and Local Government (MHCLG) introduced a statutory override for English local authorities effective from 1 April 2018 for an initial 5-year period up to 31 March 2023, whereby fair value movements on qualifying pooled funds are accounted for through the financial instruments revaluation reserve. The Council has maintained this accounting policy throughout 2019/20 with regard to its multi-asset income and property pooled funds.

### c. Financial Instruments - Fair Values

The basis for recurring fair value measurements are:

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

#### (i) Fair Value of Financial Assets

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

Financial Assets (measured at fair value through profit & loss)	Fair Value Level	Valuation technique used to measure Fair Value	Original Invested Value £000	2018/19 Fair Value £000	2019/20 Fair Value £000
Fidelity Multi-Asset Income Fund	1	Unadjusted quoted prices in active markets (see note below) <sup>1</sup>	7,500	7,728	7,009
NinetyOne Diversified Income Fund	1		7,500	7,571	6,863
Accrued interest (multi-asset funds)	1		n/a	76	72
Hermes Property Unit Trust	2	Prices obtained directly from respective Fund Managers (see note below) <sup>2</sup>	10,000	9,504	9,363
Local Authorities' Property Fund	2		10,000	9,843	9,491
Lothbury Property Trust	2		5,001	4,692	4,510
Accrued interest (property funds)	2		n/a	224	222
Shareholding in the UKMBA Plc	3	Discounted cash flow (see note below) <sup>3</sup>	200	4	2
			40,201	39,642	37,532

<sup>1</sup> The Council's fair value measurement of its multi-asset income pooled funds is based directly from quoted market prices at 31 March 2020.

<sup>2</sup> The Council's fair value measurement of its property pooled funds is based directly from the bid/redemption prices obtained from the respective fund managers; indicating the value that units can be sold (in accordance with the Code of Practice). However, following the outbreak of the Novel Coronavirus (Covid-19) being declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, the three Property Fund Managers have added the material uncertainty clause below with regard to their valuations:

*"Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that you keep the valuation of these properties under frequent review".*

Given this material uncertainty clause, Fund Managers have temporarily suspended redemptions in recognition of the market conditions for underlying properties caused by the economic consequences of the Coronavirus pandemic. The Council's fair value measurement of its property pooled funds (£23.6m at 31 March 2020) has therefore been moved from Level 1 to Level 2 of the hierarchy, reflecting that there was no active market in these instruments at (or shortly after) 31 March 2020. The Council expects that on removal of the suspension by the respective Fund Managers, the fair value of the Council's property pooled funds will return to Level 1.

## NOTES TO THE BALANCE SHEET

<sup>3</sup> Equity in the UK Municipal Bond Agency (UKMBA) plc have been valued at the company's share capital valuation (£0.01 per share) as shown within their latest audited financial statements (no assumptions made regarding future profits).

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

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

- For Public Works Loan Board (PWLB) loans, New Loan Rates effective at 31 March 2020 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. 128/20.
- The fair values of PFI schemes and finance lease liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA rated corporate bond yield.
- For long-term investments, covered bonds and other securities, prevailing (benchmark where applicable) market rates have been used to provide the fair value at 31 March 2020.
- The fair value of other financial instruments (including those with a maturity of less than 12 months), trade debtors and trade creditors, is assumed to approximate the carrying amount (no fair value hierarchy level).

	Fair Value Level	2018/19		2019/20	
		Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Financial Liabilities</b>					
PWLB borrowing (including accrued interest)	2	-392,848	-498,662	-486,299	-568,930
PFI and finance lease liabilities	2	-104,094	-207,977	-99,785	-188,203
Other liabilities (Waste PFI deferred income)		-2,067	-2,067	-1,919	-1,919
Short-term (non-PWLB) borrowing		-4,961	-4,961	-4,959	-4,959
Trade creditors <sup>1</sup>		-83,518	-83,518	-71,714	-71,714
Bank current accounts		-505	-505	0	0
<b>Total Financial Liabilities</b>		<b>-587,993</b>	<b>-797,690</b>	<b>-664,676</b>	<b>-835,725</b>

<sup>1</sup> Excludes receipts in advance (£23.247m at 31 March 2020) and statutory creditors (£37.334m at 31 March 2020) 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, council tax prepayments and leave accrued by employees.

The fair value of financial liabilities is greater than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2020) arising from a commitment to pay interest to lenders above current market rates.

	Fair Value Level	2018/19		2019/20	
		Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
<b>Financial Assets (held at amortised cost)</b>					
British government securities (LT investment)	1	11	6	0	0
Bank covered bond	1	7,880	7,915	10,002	9,887
Other long-term investments	2	10,137	10,169	15,099	15,289
Short-term investments (less than 1-year to maturity)		65,985	65,985	210,265	210,265
Cash & cash equivalents		81,815	81,815	66,513	66,513
Trade debtors <sup>1</sup>		53,630	53,630	61,692	61,692
<b>Total Financial Assets</b>		<b>219,458</b>	<b>219,520</b>	<b>363,571</b>	<b>363,646</b>

<sup>1</sup> Excludes payments in advance (£28.107m at 31 March 2020) and statutory debtors (£58.267m at 31 March 2020) including HM Revenue & Customs (VAT repayment), government department accruals, council tax arrears and provision for doubtful debts.

The fair value of financial assets is higher than the carrying amount because the Council's investment portfolio includes two fixed rate loans (2-year investment durations) with a UK local authority and a UK Registered Social Landlord whereby the interest rates receivable are higher than the rates available for similar investments at the Balance Sheet date. The fair value of the 3-year bank covered bond is based on the actual market price sourced from the custodian manager. This shows a net notional future gain (based on economic conditions at 31 March 2020) attributable to the commitment to receive interest above current market rates.

#### **d. Nature and Extent of Risk Arising From Financial Instruments**

##### **(i) Key Risks**

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

- **Credit Risk:** The possibility that other parties might fail to pay amounts due to the Council.
- **Liquidity Risk:** The possibility that the Council might not have funds available to meet its commitments to make payments.
- **Re-financing Risk:** The possibility that the Council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- **Market Risk:** The possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates, stock market movements or foreign currency exchange rates.

##### **(ii) Overall Procedures for Managing Risk**

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

Risk management is carried out by a central treasury management team, under policies approved by County Council in the annual Treasury Management Strategy. The Council maintains written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk, and the investment of surplus cash through treasury management practices (TMPs).

##### **(iii) Credit Risk**

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

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 published on the Council's website.

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

The annual investment strategy further approved investments in BBB+ rated corporate (non-bank) organisations up to a maximum duration of 100 days; and the National Westminster Bank plc (ring-fenced part of the bank) up to a maximum of one year given the part nationalised status of the bank. The total level of internally managed investments with corporates (non-bank) rated below A- being limited to a maximum of £30m (£10m maximum per organisation); such investments being classified as 'non-specified' in accordance with MHCLG Investment Guidance.

Throughout 2019/20 the Council continued to make use of an HSBC custodian service provided by King & Shaxson Ltd, thereby diversifying its investment portfolio into financial instruments approved within the annual investment strategy; namely covered bonds, certificate of deposits (CDs) and corporate bonds. Additionally, investments in externally managed pooled funds (including multi-asset income, property and ultra-short dated bond funds) continue to be approved for Council investment.

## NOTES TO THE BALANCE SHEET

The table below summarises the fair value/amortised cost of the Council's investment portfolio at 31 March 2020 and confirms that all investments were made in line with the Council's approved credit rating criteria:

Counterparty	Credit rating criteria met when investment placed	Credit rating criteria met on 31 March 2020	Balance invested at 31 March 2020				Total
			Up to 1 month	>1 month; <6 months	>6 month; <1 Year	>1 year	
			£000	£000	£000	£000	
Bank Unsecured: <sup>1</sup>							
-UK Bank	YES	YES	291	40,053	5,010	0	45,354
-Non-UK Bank	YES	YES	10,103	5,049	0	0	15,152
-Money market funds	YES	YES	66,222	0	0	0	66,222
Bank Secured <sup>2</sup>	YES	YES	0	15	0	9,987	10,002
Housing Associations	YES	YES	0	80	0	9,990	10,070
Local authorities	YES	YES	15,185	60,244	74,650	5,000	155,079
Pooled funds <sup>3</sup>	n/a	n/a	294	0	0	37,236	37,530
Other	n/a	n/a	0	0	0	2	2
			<b>92,095</b>	<b>105,441</b>	<b>79,660</b>	<b>62,215</b>	<b>339,411</b>

<sup>1</sup> The Council's exposure to credit risk in relation to its unsecured investments in banks and money market funds at 31 March 2020 (£126.7m) cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sums will be specific to each institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2020 that such risks were likely to materialise.

<sup>2</sup> The credit quality of £10.0m 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.

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

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

	Long Term		Short Term	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
AAA (Covered Bonds, Pooled Funds/MMFs)	0	9,987	87,975	66,237
AA+	0	0	0	0
AA (including UK Government)	11	0	0	0
AA- (Assumed UK Local Authority Rating)	10,000	5,000	38,029	165,238
A+	0	0	14,791	15,239
A	0	0	0	30,108
A-	0	9,990	15,022	80
Multi-Asset Income Funds	15,299	13,872	76	72
Property Funds	24,039	23,364	224	222
UK Municipal Bond Agency <sup>1</sup>	4	2	0	0
<b>Total</b>	<b>49,353</b>	<b>62,215</b>	<b>156,117</b>	<b>277,196</b>

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

**(iv) Amounts Arising from Expected Credit Losses**

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

Additionally, the Council had one third party loan outstanding with the Littlehampton Harbour Board which is considered as low credit risk given that annual repayments continue to be deducted from precepts paid by the Council to the Harbour Board. As a consequence the Council has applied a 12-month expected credit loss model to this loan in 2019/20.

Expected Credit Loss Allowance (Trade Debtors): The Council does not generally allow credit for its trade debtors, however £30.7m of the total £61.7m debtor balance is past its due date for payment. The amount overdue at 31 March 2020, none of which has been impaired, can be analysed by age as follows:

	<b>£000</b>
Up to one month overdue	2,066
Greater than one month up to three months	4,179
Greater than three months up to six months	4,817
Greater than six months up to one year	4,523
Greater than one year up to two years	6,480
Greater than two years up to five years	7,024
More than five years	1,608
<b>Total</b>	<b>30,697</b>

Included within the £30.7m trade debtor balance that is past its due payment date, the Council has identified that £3.392m 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 2020, none of this liability has actually been impaired due to continued negotiations between the Council's Legal Services team and the relevant debtors.

<b>Movement in Expected Credit Loss Allowances</b>	<b>2018/19</b>	<b>2019/20</b>	<b>Movement</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Financial investments held at amortised cost (12-month ECL)	-6	-33	-27
Loan to the Littlehampton Harbour Board (12-month ECL)	-9	-8	1
Provision for bad debts (Lifetime ECL model; detailed above)	-1,697	-3,392	-1,695
Provision for council tax & business rate debts	-11,236	-16,523	-5,287
<b>Total</b>	<b>-12,948</b>	<b>-19,956</b>	<b>-7,008</b>

Collateral (Trade Debtors): The Council initiates a legal charge on property where, for instance, clients require the assistance of the Council's Adult Services but cannot afford to pay immediately; the total debt relating to such cases at 31 March 2020 was £9.2m.

**(v) Liquidity Risk**

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

The Council has ready access to borrowings at favourable rates from the money markets to cover any day-to-day cash flow need. Additionally, whilst the Public Works Loan Board provides access to longer-term funds, it also acts as a lender of last resort to councils (although it will not provide funding to a council whose actions are unlawful). The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. As a consequence there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

## NOTES TO THE BALANCE SHEET

The maturity analysis of financial assets (including accrued interest and any expected credit loss adjustments) is as follows:

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Less than one year	156,117	277,196
Between one and two years	10,000	14,990
Between two and three years	0	9,987
More than three years	39,353	37,238
<b>Financial Assets Total</b>	<b>205,470</b>	<b>339,411</b>

Trade debtors (£61.7m) are not included in the table above.

### **(vi) Refinancing Risk**

The Council maintains significant debt and investment portfolios and is therefore exposed to the risk that it will need to refinance a proportion of its investments and borrowings at a time of unfavourable interest rates. Whilst the cash flow procedures employed by the Council are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of long-term financial liabilities and long-term financial assets.

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

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- 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 following table provides a maturity analysis of the Council's financial liabilities (excluding accrued interest) and the associated contractual interest obligations, alongside the maximum limits for fixed interest rates maturing in each period:

	<b>Minimum Approved Limit</b>	<b>Maximum Approved Limit</b>	<b>Principal Maturity</b>		<b>Interest Obligation</b>	
			<b>2018/19</b>	<b>2019/20</b>	<b>2018/19</b>	<b>2019/20</b>
			<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Less than 1 year	0%	25%	11,977	11,975	17,536	19,493
Between 1 and 5 years	0%	35%	20,563	13,563	67,675	75,840
Over 5 years to 10 years	0%	45%	74,913	122,023	75,434	82,470
Over 10 years to 15 years	0%	65%	246,343	199,233	38,606	38,990
Over 15 years to 20 years	0%	25%	15	0	8,888	19,987
Over 20 years to 25 years	0%	25%	15,000	15,000	8,339	18,780
Over 25 years to 30 years	0%	25%	0	0	5,595	16,695
More than 30 years	0%	40%	25,000	125,000	7,896	48,893
<b>Financial Liabilities Total</b>			<b>393,811</b>	<b>486,794</b>	<b>229,969</b>	<b>321,148</b>

### **(vii) Market Risk**

#### **Interest Rate Risk**

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

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;

## NOTES TO THE BALANCE SHEET

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

Borrowings are not carried at fair value on the Council's balance sheet, so nominal gains and losses on fixed rate debt would not impact the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund balance.

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

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

At 31 March 2020 the Council held no variable long term borrowings, but held 38% (£129m) 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.

During 2019/20 total interest of £2.5m has been charged to the Comprehensive Income and Expenditure Statement in respect of all the Council's variable rate investments, representing a 1.51% rate of return on an average investment portfolio of £167.2m. If all applicable rates had been 1% higher the financial impact would have been a £1.7m increase in interest charged to the Comprehensive Income and Expenditure Statement.

### **Price Risk**

The market prices of the Council's fixed/variable rate bond investments and units held in ultra-short dated bond funds during 2019/20 are governed by prevailing interest rates; the market risk associated with these investments is managed alongside interest rate risk.

At 31 March 2020 the Council held £37.5m (including accrued income) in multi-asset income and property pooled funds which is subject to price variations. During 2019/20 the price movements in these funds did not impact the General Fund Balance due to statutory regulations currently in force to ameliorate the impact of fair value movements. Given significant market volatility as a result of the Covid-19 global pandemic (impacting bond markets, equities and commercial property valuations), without these current regulations the Council would have recognised a £2.1m loss in the Surplus or Deficit on the Provision of Services in relation to its multi-asset income and property fund investments.

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

### **Inflationary Risk**

Inflationary risk relates to the diminution of the spending powers of the Council's cash holdings, or the potential escalation of financial liabilities if linked to inflation indices. Throughout 2019/20 the Council achieved a 1.27% return on its investment portfolio as compared against average UK CPI inflation of 1.74% during the same period. Latest Bank of England forecasts report that UK CPI inflation is likely to average around 0.6% in 2020 before returning to 2% by 2022. With low investment rates set to continue over the same period the Council may seek to partially mitigate any resulting inflationary risks through its prescribed cash flow procedures; including the identification of reserves that may be set aside for the continued use of longer-term (higher yielding) investments. 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

2018/19 £000	2019/20 £000
2,535 <b>Balance outstanding 1 April</b>	7,507
Assets newly classified as held for sale:	
7,892 - Property, Plant and Equipment	2,113
0 - Investment Property	0
Assets declassified as held for sale:	
-813 - Property, Plant and Equipment	-931
-606 Revaluation gains/(losses)	-5
-1,501 Assets sold	-6,844
<b>7,507 Balance outstanding at 31 March</b>	<b>1,840</b>

### 11. Short-Term Debtors

2018/19 £000	2019/20 £000
25,019 Central government bodies	22,917
15,606 Other local authorities	32,969
4,384 NHS bodies	5,353
61,220 Other entities and individuals	57,933
<b>106,229 Total</b>	<b>119,172</b>

### 12. Cash and Cash Equivalents

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

2018/19 £000	2019/20 £000
81,815 Cash held by the Authority	66,229
-505 Bank current accounts	284
<b>81,310 Total</b>	<b>66,513</b>

### 13. Short-Term Creditors

2018/19 £000	2019/20 £000
-16,585 Central government bodies	-27,455
-9,112 Other local authorities	-9,618
-4,119 NHS bodies	-4,115
0 Public corporations and trading funds	-1
-88,640 Other entities and individuals	-91,106
<b>-118,456 Total</b>	<b>-132,295</b>

## 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 2019 £000	Amounts used in 2019/20 £000	Additional provisions made in 2019/20 £000	Balance at 31 March 2020 £000
<u>Long-Term</u>				
Insurance	-5,267	2,622	-134	-2,779
Fire Pensions Opt-Out	-688	445	0	-243
Teachers' Pension Scheme	-153	10	0	-143
<b>Total Long-Term Provisions</b>	<b>-6,108</b>	<b>3,077</b>	<b>-134</b>	<b>-3,165</b>
<u>Short-Term</u>				
Accrued Leave	-9,448	9,448	0	0
Insurance	-1,595	2,649	-2,622	-1,568
Loss of Office	-287	287	0	0
NNDR Appeals	-3,791	3,791	-21,146	-21,146
NNDR 75% Local Retention Pilot	0	0	-290	-290
Property Tenancy Dispute	0	0	-195	-195
<b>Total Short-Term Provisions</b>	<b>-15,121</b>	<b>16,175</b>	<b>-24,253</b>	<b>-23,199</b>
<b>Grand Total Provisions</b>	<b>-21,229</b>	<b>19,252</b>	<b>-24,387</b>	<b>-26,364</b>

#### Long Term Provisions - Descriptions

The **Insurance** provision is maintained to meet claims relating to the County Council's self-funding insurance scheme, including for property, vehicle and liability risks. The balance on the provision represents the estimated obligation in relation to known claims as at 31 March 2020, adjusted to remove amounts for part-settled claims. The long-term element of the provision represents the value of claims estimated to be settled at various intervals over the next number of years (but not within one year).

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

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

### Short Term Provisions - Descriptions

The **Accrued Leave** provision recognises the value of holiday earned by staff but which had not taken at balance sheet date, in accordance with the requirements of Chapter 6 of the CIPFA Code of Practice (Employee Benefits). It is anticipated that staff will take any leave entitlement accrued at the balance sheet date in the subsequent financial year. This liability would not normally result in a direct cash settlement, other than through the routine payment of salaries, and therefore the impact on the Comprehensive Income and Expenditure Statement is mitigated via the Accumulated Absences Unusable Reserve (see Note 19). This provision has been reclassified as a short term creditor effective 31 March 2020.

The **Insurance** provision is maintained to meet claims relating to the County Council's self-funding insurance scheme, including for property, vehicle and liability risks. The balance on the provision represents the estimated obligation in relation to known claims as at 31 March 2020, adjusted to remove amounts for part-settled claims. The short-term element of the provision represents the value of claims estimated to be settled within one year.

The **Loss of Office** provision provided for the cost of redundancies to which the Authority was committed as at 31 March 2019. All obligations were settled in 2019/20.

As part of the introduction of the localised business rates system on 1 April 2013, a liability was assumed by NNDR (National 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 **NNDR 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 Authority entered into a 75% local business rates retention pilot scheme in 2019/20, and as a consequence the share of the billing authority collection fund provisions notionally attributable to West Sussex County Council increased from 10% (at 31 March 2019) to 55% (at 31 March 2020). In accordance with statutory arrangements the increase to provisions is mitigated via the Collection Fund Adjustment Account and so there is no impact on Usable Reserves.

A provision is held for monies owing to billing authorities under the **NNDR 75% Local Retention Pilot** which the Authority formed part of in 2019/20. Whilst the pilot arrangements ensured that the West Sussex Pool as a whole retained a greater share of business rates locally, individual billing authorities may have retained less than they would have under previous arrangements. Under the terms of this pilot, it was agreed that any billing authorities incurring such losses would be compensated from the additional funds retained by the wider Pool. As the administering authority for the Pool, the County Council therefore recognises this provision to recompense its billing authorities in its accounts; however, the liability is to be met by funds attributable to the Pool, and so there are no funding implications for the Council.

The Authority holds a provision for the anticipated settlement in 2020/21 of a **Property Tenancy Dispute**. The obligation is for third party legal costs relating to an eviction notice which was subject to arbitration.

**15. Private Finance Initiatives and Similar Contracts**Crawley Schools PFI

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

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

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

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

Recycling and Waste Handling PFI

In March 2004 the County Council entered into a 25-year PFI contract with Viridor Waste Management Ltd for recycling and waste handling. The annual charge is offset by government grant linked to notional credit approvals of £25m, with the balance being funded from the waste management budget. An initial contract variation was entered into in January 2019, extending the agreement by a further four years. A further contract variation was agreed in May 2019, whereby the monthly gate fee (unitary charge) was reduced in return for an upfront capital repayment of £1.8m made by the Council.

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 2020 £15.1m 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.

In 2017, the contractor notified the Council of its intention to refinance the scheme via a Deed of Variation in line with the terms and conditions of the Project Agreement. Subsequent to a competitive selection process, financial close on the refinancing was agreed in December 2018. The Authority achieved a sum of £3.8m by opting to take the refinancing gain as an upfront payment. These funds were allocated to the earmarked Street Lighting PFI Reserve in 2018/19 and are being released to the revenue account over the remaining life of the scheme.

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 2019 £000	Additions £000	Depreciation £000	Revaluation £000	Closing Balance at 31 March 2020 £000
Crawley Schools PFI					
Ifield Community College	27,346	0	-801	-35	<b>26,510</b>
Oriol High School	33,142	0	-1,001	-3,174	<b>28,967</b>
Recycling & Waste PFI					
Infrastructure	6,245	0	-352	0	<b>5,893</b>
Land and Buildings	14,054	0	-328	56	<b>13,782</b>
Plant and Equipment	4,264	377	-689	0	<b>3,952</b>
Street Lighting PFI	66,876	0	-2,644	0	<b>64,232</b>
<b>Total PFI Assets</b>	<b>151,927</b>	<b>377</b>	<b>-5,815</b>	<b>-3,153</b>	<b>143,336</b>

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

	Opening Balance at 1 April 2019 £000	Increase due to Investment £000	Repayment of Liability £000	Closing Balance at 31 March 2020 £000
Crawley Schools PFI	-25,848	0	860	<b>-24,988</b>
Recycling & Waste PFI	-13,845	-377	2,325	<b>-11,897</b>
Street Lighting PFI	-62,669	0	1,571	<b>-61,098</b>
<b>Total Liability</b>	<b>-102,362</b>	<b>-377</b>	<b>4,756</b>	<b>-97,983</b>

### Note (iii) – Payments due under PFI Contracts

	Repayment of Liability £000	Interest £000	Service Charges £000	Total £000
Within one year	2,973	11,069	26,423	<b>40,465</b>
Within two to five years	15,150	42,110	115,586	<b>172,846</b>
Within six to ten years	30,963	46,202	165,884	<b>243,049</b>
Within eleven to fifteen years	47,420	28,084	124,954	<b>200,458</b>
Within sixteen to twenty years	1,477	403	3,069	<b>4,949</b>
<b>Total</b>	<b>97,983</b>	<b>127,868</b>	<b>435,916</b>	<b>661,767</b>

## NOTES TO THE BALANCE SHEET

### 16. Leases

#### Authority as Lessee

##### *Finance Leases*

The Council has acquired a number of non-current assets 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:

<b>1 April 2019 £000</b>	<b>31 March 2020 £000</b>
30,197 Land and Buildings	28,127
0 Vehicles, Plant, Furniture and Equipment	3,769
0 Assets Under Construction	6,530
<u>30,197</u>	<u>38,426</u>

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:

<b>1 April 2019 £000</b>	<b>31 March 2020 £000</b>
1,732 Finance Lease Liability	1,802
1,150 Finance costs payable in future years	877
<u>2,882</u>	<u>2,679</u>

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

	<b>Minimum Lease Payments</b>		<b>Finance Lease Liabilities</b>	
	<b>1 April 2019 £000</b>	<b>31 March 2020 £000</b>	<b>1 April 2019 £000</b>	<b>31 March 2020 £000</b>
No later than one year	178	173	93	99
Later than one year and not later than five years	712	692	422	448
Later than five years	1,992	1,814	1,217	1,255
	<u>2,882</u>	<u>2,679</u>	<u>1,732</u>	<u>1,802</u>

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:

<b>1 April 2019 £000</b>	<b>31 March 2020 £000</b>
1,260 Not later than one year	1,376
2,184 Later than one year and not later than five years	2,817
454 Later than five years	866
<u>3,898</u>	<u>5,059</u>

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.

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £1.495m. Of this total, £0.760m was chargeable to the Highways and Infrastructure portfolio, £0.385m was chargeable to the Fire & Rescue and Communities portfolio, and £0.341m was chargeable to the Finance portfolio. A small balance of £0.009m was charged to other portfolios.

## NOTES TO THE BALANCE SHEET

### Authority as Lessor

#### Finance Leases

As at the reporting date, the Authority has leased out ten properties on finance leases (excluding peppercorn agreements). 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:

<b>1 April 2019 £000</b>	<b>31 March 2020 £000</b>
7,344 Finance lease debtor	7,110
3,639 Unearned finance income	3,359
0 Unguaranteed residual value of property <sup>1</sup>	0
<b>10,983</b> Gross investment in the lease	<b>10,469</b>

<sup>1</sup> 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:

	<b>Gross Investment in the Lease</b>		<b>Minimum Lease Payments</b>	
	<b>1 April 2019 £000</b>	<b>31 March 2020 £000</b>	<b>1 April 2019 £000</b>	<b>31 March 2020 £000</b>
No later than one year	496	496	234	242
Later than one year and not later than five years	1,984	1,982	1,020	1,056
Later than five years	8,503	7,991	6,090	5,812
	<b>10,983</b>	<b>10,469</b>	<b>7,344</b>	<b>7,110</b>

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:

<b>1 April 2019 £000</b>	<b>31 March 2020 £000</b>
1,085 Not later than one year	3,344
840 Later than one year and not later than five years	9,581
248 Later than five years	8,394
<b>2,173</b>	<b>21,319</b>

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

	<b>Local Government Pension Scheme</b>		<b>Uniformed Firefighters</b>	
	<b>2018/19</b>	<b>2019/20</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b><u>Comprehensive Income and Expenditure Statement</u></b>				
<i>Cost of Services:</i>				
Current service cost	77,614	93,678	6,931	6,842
Past service cost (including curtailments)	12,787	196	15,008	0
(Gain)/loss from settlements	-213	0	0	0
<i>Financing and Investment Income and Expenditure:</i>				
Interest cost on defined benefit obligation	57,149	57,703	10,315	9,435
Interest income on plan assets	-49,102	-46,989	0	0
<i>Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services</i>	98,235	104,588	32,254	16,277
<i>Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement:</i>				
Remeasurement (gains) and losses	97,671	-360,897	-4,297	-44,355
<i>Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</i>	195,906	-256,309	27,957	-28,078

### 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	-98,235	-104,588	-32,254	-16,277
<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>				
Employers' contributions payable to scheme	49,651	51,393		
Retirement benefits payable to pensioners			8,494	8,799

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

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

	<b>Funded Liabilities: Local Government Pension Scheme</b>		<b>Unfunded Liabilities: Uniformed Firefighters</b>	
	<b>2018/19</b>	<b>2019/20</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Opening balance at 1 April	-2,094,358	-2,376,650	-374,720	-394,183
Current service cost	-77,614	-93,678	-6,931	-6,842
Interest cost	-57,149	-57,703	-10,315	-9,435
Contributions by scheme participants	-12,152	-12,989	-1,692	-1,691
Remeasurement gains and (losses):				
Actuarial gains/(losses) arising from changes in demographic assumptions	0	114,959	27,682	12,188
Actuarial gains/(losses) arising from changes in financial assumptions	-176,267	210,626	-27,120	34,017
Other experience	-949	107,180	3,735	-1,850
Past service cost (including curtailments)	-12,787	-196	-15,008	0
Transfers to/(from) other authorities	0	0	0	-97
Benefits paid	53,262	61,269	10,186	10,587
Liabilities extinguished on settlements	1,364	0	0	0
Closing balance at 31 March	-2,376,650	-2,047,182	-394,183	-357,306

## NOTES TO THE BALANCE SHEET

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

	<b>Local Government Pension Scheme</b>		<b>Uniformed Firefighters</b>	
	<b>2018/19 £000</b>	<b>2019/20 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Opening balance at 1 April	1,816,232	1,952,269	0	0
Interest income on plan assets	49,102	46,989	0	0
Remeasurement gains and (losses):				
Return on plan assets (excluding interest income)	79,545	-71,868	0	0
Contributions by scheme participants	12,152	12,989	1,692	1,691
Employer contributions	49,651	51,393	8,494	8,799
Benefits paid	-53,262	-61,269	-10,186	-10,587
Transfers (to)/from other authorities	0	0	0	97
Settlements	-1,151	0	0	0
Closing balance at 31 March	<u>1,952,269</u>	<u>1,930,503</u>	<u>0</u>	<u>0</u>

### Scheme History

	<b>2015/16 £000</b>	<b>2016/17 £000</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
<b>Present value of liabilities:</b>					
Local Government Pension Scheme	-1,697,262	-2,044,784	-2,094,358	-2,376,650	-2,047,182
Uniformed Firefighters	-315,563	-375,993	-374,720	-394,183	-357,306
<b>Fair value of assets:</b>					
Local Government Pension Scheme	1,396,312	1,716,646	1,816,232	1,952,269	1,930,503
Uniformed Firefighters	0	0	0	0	0
<b>Net defined liability:</b>					
Local Government Pension Scheme	-300,950	-328,138	-278,126	-424,381	-116,679
Uniformed Firefighters	-315,563	-375,993	-374,720	-394,183	-357,306
<b>Total</b>	<u>-616,513</u>	<u>-704,131</u>	<u>-652,846</u>	<u>-818,564</u>	<u>-473,985</u>

The liabilities show the underlying commitments that the Authority has in the long run to pay post-employment (retirement) benefits. The total liability of £473.985m 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 2021 is £47.037m. Payments (net of employee contributions) in respect of the Uniformed Firefighters scheme for the year to 31 March 2021 are projected to be £8.134m.

## 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 2019.

The principal assumptions used by the actuary have been:

	<b>Local Government Pension Scheme</b>		<b>Uniformed Firefighters</b>	
	<b>2018/19 £000</b>	<b>2019/20 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>
Mortality assumptions:				
Longevity at 65 for current pensioners:				
▪ Men	23.6	22.2		
▪ Women	25.0	24.2		
Longevity at 60 for current pensioners:				
▪ Men			27.3	26.4
▪ Women			29.4	28.5
Longevity at 65 for future pensioners:				
▪ Men	26.0	23.3		
▪ Women	27.8	25.9		
Longevity at 60 for future pensioners:				
▪ Men			28.4	27.5
▪ Women			30.6	29.7
Rate of increase in salaries	3.2%	2.3%	3.5%	2.8%
Rate of increase in pensions	2.5%	1.9%	2.5%	1.9%
Rate of inflation			3.5%	2.8%
Rate for discounting scheme liabilities	2.4%	2.3%	2.4%	2.3%

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:

	<b>31 March 2019 %</b>	<b>31 March 2020 %</b>
Equity Securities	47%	50%
Debt Securities	3%	2%
Private Equity	3%	2%
Real Estate	9%	8%
Investment Funds and Unit Trusts	35%	34%
Cash and Cash Equivalents	3%	4%
	<b>100%</b>	<b>100%</b>

Further information regarding the composition and measurement of the scheme's assets, and the risks associated with holding those assets, can be found in the West Sussex Pension Fund financial statements at the rear of this document (see notes 14 and 18 respectively).

**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 2019/20, the County Council paid £32.512m to Teachers' Pensions in respect of teachers' retirement benefits. This represents 16.48% of pensionable pay for the period to August 2019, and 23.68% of pensionable pay from September 2019. Employer contributions of £25.089m were made in 2018/19 (16.48% of pensionable pay). The Council was in receipt of a grant from the Department for Education in 2019/20 to support it with the cost of the September 2019 increase to the employer contribution rate (see Note 25).

The contributions due to be paid in the 2020/21 financial year are estimated to be £37.8m, reflecting the full year impact of the September 2019 contribution rate increase.

## NOTES TO THE BALANCE SHEET

### 19. Unusable Reserves

1 April 2019 £000	31 March 2020 £000
9,448 Accumulated Absences Account	9,840
663 Financial Instruments Revaluation Reserve	2,765
-990,726 Capital Adjustment Account	-1,039,859
-2,577 Collection Fund Adjustment Account	-804
-8,052 Deferred Capital Receipts Reserve	-7,110
818,564 Pensions Reserve	473,985
-434,190 Revaluation Reserve	-415,052
<b>-606,870 Total Unusable Reserves</b>	<b>-976,235</b>

#### 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.

2018/19 £000	2019/20 £000	£000
<b>9,541 Balance at 1 April</b>		<b>9,448</b>
-9,541 Settlement or cancellation of accrual made at end of the preceding year	-9,448	
9,448 Amounts accrued at the end of the current year	9,840	
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		392
<b>9,448 Balance at 31 March</b>		<b>9,840</b>

#### Financial Instruments Revaluation Reserve

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

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

2018/19 £000	2019/20 £000	£000
<b>296 Balance at 1 April</b>		<b>663</b>
-449 Upward revaluation of investments	0	
805 Downward revaluation of investments	2,102	
356		2,102
Accumulated gains and (losses) on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement		0
<b>663 Balance at 31 March</b>		<b>2,765</b>

## 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.

<b>2018/19</b>	<b>2019/20</b>	
<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>-895,315 Balance at 1 April</b>		<b>-990,726</b>
<i>Reversal of items relating to capital expenditure debited/credited to the Comprehensive Income and Expenditure Statement:</i>		
68,334 Charges for depreciation of non current assets	80,750	
400 Charges for amortisation of intangible assets	390	
0 Charges for impairment of non current assets	0	
Revaluation (gains) / losses on Property, Plant and Equipment and Assets Held for Sale	-30,792	
-100,014		
17 Revaluation (gains) / losses on equity investments	2	
5,330 Revenue Expenditure Funded from Capital Under Statute (REFCUS)	10,536	
Amounts written off on disposal or sale as part of the gain/loss on		
15,830 disposal to the Comprehensive Income and Expenditure Statement	29,184	
355 Release of deferred income from Private Finance Initiatives	-148	
0 Gains from Donated Assets	-11,708	
-9,748	78,214	
-9,021 Adjusting amounts written out of the Revaluation Reserve		-14,490
<b>-18,769</b>		<b>63,724</b>
<i>Capital financing applied in the year:</i>		
-6,742 Use of the Capital Receipts Reserve to finance new capital expenditure	-7,901	
Application of grants to capital financing from the Capital Grants		
-40,982 Unapplied Account	-71,519	
-3,137 Capital grants and contributions applied to REFCUS	-4,425	
Statutory provision for the financing of capital investment charged		
-20,689 against the General Fund balance	-16,470	
-4,677 Revenue Contribution to Capital Outlay	-297	
-76,227	-100,612	
Movements in the market value of Investment Properties debited/		
-415 credited to the Comprehensive Income & Expenditure Statement		-12,245
<b>-990,726</b>		<b>-1,039,859</b>
<b>Balance at 31 March</b>		

## 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.

<b>2018/19</b>	<b>2019/20</b>
<b>£000</b>	<b>£000      £000</b>
<b>-4,605 Balance at 1 April</b>	<b>-2,577</b>
4,605 Settlement or cancellation of accrual made at end of the preceding year	2,577
<u>-2,577</u> Amounts accrued at the end of the current year	<u>-804</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	1,773
<u><b>-2,577</b></u> <b>Balance at 31 March</b>	<u><b>-804</b></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.

<b>2018/19</b>	<b>2019/20</b>
<b>£000</b>	<b>£000</b>
<b>-7,570 Balance at 1 April</b>	<b>-8,052</b>
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the	
-708 Comprehensive Income and Expenditure Statement	0
226 Write down of Finance Lease debtor	234
0 Transfer to the Capital Receipts Reserve upon receipt of cash	708
<u><b>-8,052</b></u> <b>Balance at 31 March</b>	<u><b>-7,110</b></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.

<b>2018/19</b>	<b>2019/20</b>
<b>£000</b>	<b>£000</b>
<b>652,846 Balance at 1 April</b>	<b>818,564</b>
93,374 (Gains)/losses on remeasurement of pension assets/liabilities	-405,252
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	120,865
130,489 Employer's pensions contributions and direct payments to pensioners payable in the year	-60,192
<b>818,564 Balance at 31 March</b>	<b>473,985</b>

### 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.

<b>2018/19</b>	<b>2019/20</b>
<b>£000</b>	<b>£000      £000</b>
<b>-356,497 Balance at 1 April</b>	<b>-434,190</b>
-110,912 Upward revaluation of assets	-45,128
Downward revaluation of assets and revaluation losses not charged to the Surplus/Deficit on the Provision of Services	49,776
24,198 Impairment losses not charged to the Surplus/Deficit on the Provision of Services	0
<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	<b>4,648</b>
Difference between fair value depreciation and historical cost	8,642
4,790 depreciation	5,848
4,231 Accumulated gains on assets sold or scrapped	14,490
<b>9,021 Amount written off to the Capital Adjustment Account</b>	<b>14,490</b>
<b>-434,190 Balance at 31 March</b>	<b>-415,052</b>

## NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

### 20. Note to the Expenditure and Funding Analysis

#### Adjustments between Funding and Accounting Basis 2019/20

Adjustments from General Fund to Comprehensive Income and Expenditure Statement	Adjustments for Capital Purposes <sup>1</sup> £000	Net Pensions Adjustments <sup>2</sup> £000	Other Differences <sup>3</sup> £000	Total Adjustments £000
Adults and Health	266	6,748	-5,243	1,771
Children and Young People	3,888	8,177	-376	11,689
Economy and Corporate Resources	3,844	3,030	1,996	8,870
Education and Skills	535	18,333	-1,900	16,968
Environment	5,228	959	-2,309	3,878
Finance	-87	1,397	807	2,117
Fire & Rescue and Communities	5,214	207	-12	5,409
Highways and Infrastructure	32,139	1,538	-6,880	26,797
Leader	0	135	-1	134
Net Cost of Services	51,027	40,524	-13,918	77,633
Other Income and Expenditure	-99,607	20,149	18,187	-61,271
<b>Difference between General Fund Surplus and Comprehensive Income and Expenditure Surplus</b>	<b>-48,580</b>	<b>60,673</b>	<b>4,269</b>	<b>16,362</b>

## NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

### Adjustments between Funding and Accounting Basis 2018/19 (Restated)

Adjustments from General Fund to Comprehensive Income and Expenditure Statement	Adjustments for Capital Purposes <sup>1</sup> £000	Net Pensions Adjustments <sup>2</sup> £000	Other Differences <sup>3</sup> £000	Total Adjustments £000
Adults and Health	-8,346	4,522	-2,046	-5,870
Children and Young People	-60	5,344	42	5,326
Economy and Corporate Resources	2,287	1,979	808	5,074
Education and Skills	-67,069	11,957	-7,966	-63,078
Environment	-2,255	619	-6,534	-8,170
Finance	3,065	28,394	-568	30,891
Fire & Rescue and Communities	1,015	49	0	1,064
Highways and Infrastructure	31,045	1,009	-6,962	25,092
Leader	0	109	-3	106
Net Cost of Services	-40,318	53,982	-23,229	-9,565
Other Income and Expenditure	-77,613	18,362	25,537	-33,714
<b>Difference between General Fund Deficit and Comprehensive Income and Expenditure Surplus</b>	<b>-117,931</b>	<b>72,344</b>	<b>2,308</b>	<b>-43,279</b>

**<sup>1</sup> 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.

**<sup>2</sup> 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.

**<sup>3</sup> Other Differences**

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

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

## NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

### 21. Segmental Income

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

<b>Services</b>	<b>2018/19 (Restated) £000</b>	<b>2019/20 £000</b>
Adults and Health	-54,022	-58,924
Children and Young People	-1,554	-1,371
Economy and Corporate Resources	-2,265	-1,400
Education and Skills	-6,745	-6,884
Environment	-3,804	-5,377
Finance	-2,331	-4,307
Fire & Rescue and Communities	-3,343	-3,660
Highways and Infrastructure	-9,115	-10,149
Leader	0	0
<b>Total income analysed on a segmental basis</b>	<b>-83,179</b>	<b>-92,072</b>

## NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

### 22. Other Operating Expenditure

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
1,096	Levies	1,118
606	Assets Held for Sale (Gains)/Losses on Revaluation	5
-656	(Profit) / loss on sale of assets	-3,394
5,849	Loss on derecognition of Academy Schools	9,643
3,177	Loss on derecognition of other assets	8,937
0	Assets derecognised under finance leases	2,791
<b>10,072</b>	<b>Total</b>	<b>19,100</b>

### 23. Financing and Investment Income and Expenditure

<b>2018/19</b>		<b>2019/20</b>	
<b>£000</b>		<b>£000</b>	<b>£000</b>
39,577	Interest payable and similar charges	31,277	
-2,918	Interest receivable and similar income	-2,278	
			28,999
67,464	Pensions: interest cost on defined benefit obligation	67,138	
-49,102	Pensions: interest income on plan assets	-46,989	
			20,149
-360	Investment properties: income and expenditure	-1,732	
10	Investment properties: (gain)/loss on disposal	55	
-415	Investment properties: changes in fair value	-12,245	
			-13,922
<b>54,256</b>	<b>Total</b>		<b>35,226</b>

### 24. Taxation and Non Specific Grant Income

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
-434,162	Council tax income	-460,184
-84,863	Non domestic rates	-108,977
-12,122	Revenue Support Grant	0
-4,192	Other non-service government grants	-24,637
0	Gains from Donated Assets	-11,708
-72,024	Capital grants and contributions	-82,437
<b>-607,363</b>	<b>Total</b>	<b>-687,943</b>

## 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 Services	2018/19 (Restated)		2019/20	
	£000	£000	£000	£000
<u>Adults and Health</u>				
Improved Better Care Fund (MHCLG)	-15,517		-14,128	
Independent Living Fund (DoH)	-4,444		-4,309	
Local Reform and Community Voices Grant (DoH)	-465		-473	
Public Health Grant (DoH)	-19,214		-19,476	
Rapid Rehousing Pathway (MHCLG)	0		-335	
Social Care Support Grant (MHCLG)	-2,065		-5,243	
Syrian Vulnerable Persons Resettlement Programme (HO)	-250		-500	
Winter Pressures (MHCLG)	-3,303		-3,304	
Other	-266		-619	
		-45,524		-48,387
<u>Children and Young People</u>				
Adoption Support Fund (DfE)	-1,398		-1,479	
Dedicated Schools Grant (DfE)	-47,255		-48,940	
Public Health Grant (DoH)	-13,870		-12,957	
Social Care Support Grant (MHCLG)	0		-400	
Troubled Families (DfE)	-1,752		-1,191	
Unaccompanied Asylum Seeking Children (HO)	-2,304		-2,896	
Unaccompanied Asylum Seeking Children: Leaving Care (HO)	-800		-900	
Youth Justice Board Youth Offending Teams (MoJ)	-557		-555	
Other	-454		-662	
		-68,390		-69,980
<u>Economy and Corporate Resources</u>				
Coast to Capital LEP Core Funding (MHCLG)	-500		0	
LEP Local Growth Fund Capital Grant (MHCLG) <i>applied to REFCUS</i>	-653		-373	
Other	0		-205	
		-1,153		-578
<u>Education and Skills</u>				
16 to 19 Education 'Sixth Form' Funding (DfE)	-15,781		-13,543	
Adult Education (DfE)	-3,052		-3,142	
Basic Need Capital Grant (DfE) <i>applied to REFCUS</i>	-1,258		-2,924	
Dedicated Schools Grant (DfE)	-370,640		-378,553	
Extended Rights to Free Travel Grant (DfE)	-457		-417	
PE & Sport Premium Grant (DfE)	-3,441		-3,401	
Private Finance Initiative (MHCLG)	-4,532		-4,532	
Pupil Premium (DfE)	-14,059		-14,113	
School Improvement Monitoring and Brokering Grant (DfE)	-773		-806	
Teachers' Pay Grant (DfE)	-1,661		-3,715	
Teachers' Pension Employer Contribution Grant (DfE)	0		-7,304	
Universal Infant Free School Meals Grant (DfE)	-7,297		-7,150	
Other	-637		-812	
		-423,588		-440,412
<u>Environment</u>				
Private Finance Initiative (MHCLG)	-2,124		-2,124	
Other	-110		-73	
		-2,234		-2,197
<u>Finance</u>				
Inshore Fisheries & Conservation Support Grant (DEFRA)	-148		-148	
Other	-14		-13	
		-162		-161

## NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

<b>Grants Credited to Services (continued)</b>	<b>2018/19 (Restated)</b>		<b>2019/20</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<u>Fire &amp; Rescue and Communities</u>				
Fire Revenue Grant (HO)	-839		-2,575	
Public Health Grant (DoH)	-1,070		-535	
Other	-219		0	
		-2,128		-3,110
<u>Highways and Infrastructure</u>				
Bus Service Operators Grant (DfT)	-436		-436	
Private Finance Initiative (MHCLG)	-6,069		-6,069	
Other	-253		-371	
		-6,758		-6,876
<b>Total</b>		<b><u>-549,937</u></b>		<b><u>-571,701</u></b>

<b>Grants credited to Taxation and Non Specific Grant Income</b>	<b>2018/19</b>		<b>2019/20</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<u>Non Domestic Rates (MHCLG)</u>				
Business Rates Levy: National Surplus Redistribution	-1,197		-266	
Section 31 Business Rates Cap Grant	-4,878		-19,138	
Top-Up to Baseline Funding Level	-3,910		0	
		-9,985		-19,404
<u>Revenue Support Grant (MHCLG)</u>				
Upper Tier Funding	-10,036		0	
Fire and Rescue Funding	-2,086		0	
		-12,122		0
<u>Other Non-Service Government Grants</u>				
Brexit Preparations Grant (MHCLG)	-87		-175	
Covid-19 Emergency Fund (MHCLG)	0		-20,528	
New Homes Bonus Grant (MHCLG)	-4,105		-3,934	
		-4,192		-24,637
<u>Capital Grants and Contributions</u>				
Basic Need Grant (DfE)	-23,560		-31,227	
Devolved Formula Capital Grant (DfE)	-1,563		-2,822	
Flood Resilience and Pothole Action Fund (DfT)	-2,571		-772	
Healthy Pupils Capital Grant (DfE)	-752		0	
Highways Incentive Block (DfT)	-6,012		-2,300	
Highways Maintenance Grant (DfT)	-8,282		-11,043	
Integrated Transport Grant (DfT)	-2,801		-3,734	
LEP Local Growth Fund Capital Grant (MHCLG)	-7,896		-7,461	
Local Authority Major Schemes Grant - A2300 (DfT)	0		-1,965	
Local Full Fibre Networks Challenge Fund (DCMS)	-2,010		-3,087	
Roads Fund (DfT)	-3,389		-2,694	
School Conditions Allocation (DfE)	-7,908		-7,789	
West Sussex Safer Roads (DfT)	-2,160		0	
Section 106 Contributions	-2,641		-6,186	
Other Grants and External Contributions	-479		-1,357	
		-72,024		-82,437
<b>Total</b>		<b><u>-98,323</u></b>		<b><u>-126,478</u></b>

## 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:

<b>Capital Grants Receipts in Advance</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Devolved Formula Capital Grant (DfE)	-3,843	-2,443
Flood Resilience and Pothole Action Fund (DfT)	-772	0
LEP Local Growth Fund Capital Grant (MHCLG)	-3,784	-6,025
Local Authority Major Schemes Grant - A2300 (DfT)	0	-805
Roads Fund (DfT)	-2,694	0
SEND Special Provision Funding (DfE)	-833	-3,817
Social Care Capital Grant (DoH)	-1,839	-1,839
Section 106 Contributions	-62,484	-74,235
A Place to Live	-650	-650
Other Grants and External Contributions	-2,582	-1,381
	<b><u>-79,481</u></b>	<b><u>-91,195</u></b>

Key to Central Government Departments:

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:

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Fees payable to EY with regard to external audit services carried out by the appointed auditor for the year	92	91
Fees payable in respect of other services provided by EY during the year	0	0
<b>Total</b>	<b>92</b>	<b>91</b>

In 2019/20, Public Sector Audit Appointments Ltd made a further distribution to audited bodies of a surplus arising from the transfer of functions from the Audit Commission upon its abolition in March 2015. The amount distributed to West Sussex County Council was £10,950.

The Authority incurred further costs of £4,375 in 2019/20 (2018/19 £4,375) 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:

	<b>2018/19</b>	<b>2019/20</b>
	<b>£000</b>	<b>£000</b>
Basic Allowances	812	825
Other Allowances	360	373
Travel and Subsistence	62	63
<b>Total</b>	<b>1,234</b>	<b>1,261</b>

### 28. Environment Agency Services

Precepts payable to the Environment Agency in respect of flood defence for 2019/20 totalled £0.319m (2018/19 £0.306m).

## NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

### 29. Dedicated Schools Grant

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

Details of the deployment of DSG receivable for 2019/20 are as follows:

Notes	Central Expenditure £000	ISB £000	Total £000
A Final DSG for 2019/20 before academy and high needs recoupment			-598,200
B Academy and high needs figure recouped for 2019/20			171,310
Total DSG after academy and high needs recoupment for 2019/20			-426,890
Adjustment to 2018/19 DSG allocation			-603
Total DSG after academy/high needs recoupment and other adjustments			-427,493
Plus: Brought forward from 2018/19			-6,245
Less: Carry forward to 2020/21 agreed in advance			3,845
Total DSG available for distribution			-429,893
C Agreed initial budgeted distribution in 2019/20	-100,877	-327,311	-428,188
In year adjustments	-1,705	0	-1,705
Final budgeted distribution for 2019/20	-102,582	-327,311	-429,893
Less: Actual central expenditure	108,166		108,166
D Less: Actual ISB deployed to schools (Under)/overspend on distributed funds	5,584	327,311 0	327,311 5,584
Plus: Agreed carry forward to 2020/21			-3,845
<b>E Total (surplus)/deficit balance on DSG reserve at 31 March 2020</b>			<b><u>1,739</u></b>

#### 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 2019.
- (D) The ISB is regarded for DSG purposes as being spent by the Authority when it is deployed to a school's budget share.
- (E) This represents an accumulated deficit on the DSG Reserve. The School and Early Years Finance (England) Regulations 2020 require any accumulated DSG deficits to be held within the earmarked DSG Reserve, as local authorities cannot fund a deficit from the General Fund without approval from the Secretary of State. Whilst these statutory requirements do not take effect until 1 April 2020, this affects the manner in which the Authority can use the reserves it holds at 31 March 2020. Therefore, in order to provide a faithful representation of the Authority's financial position at the balance sheet date, the accumulated DSG deficit is being reported separately in these 2019/20 financial statements in accordance with the requirements of the Code and the Accounts and Audit Regulations 2015 to disclose the reserves attributable to schools.

## 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	2018/19 £000	2019/20 £000
<b>Expenditure</b>		
Employee benefits expenses	575,382	589,384
Other service expenses	705,398	760,448
Depreciation, amortisation and impairment	-31,695	38,103
Interest payments	107,041	98,415
Precepts and levies	1,096	1,118
(Gain)/loss on the disposal of non-current assets	8,380	18,032
<b>Total Expenditure</b>	<b>1,365,602</b>	<b>1,505,500</b>
<b>Income</b>		
Fees, charges and other service income	-188,211	-198,630
Interest and investment income	-52,020	-49,267
Income from Council Tax and Non-Domestic Rates	-519,025	-569,161
Gains from Donated Assets	0	-11,708
Government grants and contributions	-638,275	-678,775
<b>Total Income</b>	<b>-1,397,531</b>	<b>-1,507,541</b>
<b>(Surplus)/Deficit on the Provision of Services</b>	<b>-31,929</b>	<b>-2,041</b>

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 £70.939m in 2019/20 (£67.487m in 2018/19) in relation to staff employed at the Authority's voluntary aided and foundation schools are included within *Employee benefits expenses* above.

## NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

### 31. Officers' Remuneration

#### Bandings Disclosure

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

2018/19			2019/20	
Non schools	School based	<b>Banding</b>	Non schools	School based
156	136	£50,000 - £54,999	195	145
50	100	£55,000 - £59,999	94	107
32	57	£60,000 - £64,999	52	67
29	46	£65,000 - £69,999	37	42
8	26	£70,000 - £74,999	10	36
5	8	£75,000 - £79,999	13	11
2	4	£80,000 - £84,999	7	7
5	5	£85,000 - £89,999	5	4
2	2	£90,000 - £94,999	1	6
1	6	£95,000 - £99,999	0	4
2	1	£100,000 - £104,999	1	4
2	1	£105,000 - £109,999	1	2
3	2	£110,000 - £114,999	1	2
1	1	£115,000 - £119,999	3	1
1	0	£120,000 - £124,999	0	0
5	1	£125,000 - £129,999	3	0
1	0	£130,000 - £134,999	1	0
2	0	£135,000 - £139,999	0	0
1	0	£140,000 - £144,999	0	0
0	0	then	1	0
1	0	£150,000 - £154,999	1	0
1	0	£155,000 - £159,999	0	0
1	0	£160,000 - £164,999	0	0
1	0	then	0	0
1	0	£190,000 - £194,999	0	0
0	0	then	1	0
0	0	£395,000 - £399,999	1	0
<b>311</b>	<b>396</b>	<b>Total</b>	<b>427</b>	<b>438</b>

The number of staff with remuneration above £50,000 in 2019/20 was 865, an increase from 707 in 2018/19.

## NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

### Senior Officer Disclosure

The Council has reviewed what it considers to be its 'senior officer' structure for 2019/20 statutory reporting purposes. The below reflects a leaner, more balanced structure, with a greater focus on direct reports to the Chief Executive and other officers undertaking chief statutory roles. As a result, the number of posts featured in the 2019/20 disclosure has been reduced from the 2018/19 comparator provided.

The remuneration payable to the Authority's senior employees for 2019/20 was as follows:

		Amounts payable in period 1 April 2019 - 31 March 2020								
Post title (as at 31 March 2020)	Post holder <sup>1</sup>	Salary, fees and allowances £	Bonuses £	Expense allowances £	Compensation for loss of employment £	Benefits in Kind £	Total remuneration (excluding pension contributions) <sup>2</sup> £	Employer's pension contribution £	Total remuneration (including pension contributions) £	
Chief Executive <sup>3</sup>	Nathan Elvery	226,945			170,000		396,945	30,708	<b>427,653</b>	
Chief Executive <sup>4</sup>	Becky Shaw	Post holder not directly employed by West Sussex County Council - please see footnote below								
Executive Director for Communities and Public Protection <sup>5</sup>		35,000					35,000	8,485	<b>43,485</b>	
Executive Director for Adults and Health <sup>6</sup>	Kim Curry	150,000		9,000		52	159,052	36,365	<b>195,417</b>	
Executive Director for Place Services <sup>7</sup>	Lee Harris	153,727					153,727	37,269	<b>190,996</b>	
Interim Executive Director for Resource Services <sup>8</sup>		Post holder not directly employed by West Sussex County Council - please see footnote below								
Director of Law and Assurance		115,000					115,000	27,880	<b>142,880</b>	
Director of Finance and Support Services		125,000		79			125,079	30,304	<b>155,383</b>	
Director of Human Resources and Organisational Change <sup>9</sup>		85,159		4,000			89,159	20,304	<b>109,463</b>	
Interim Director of Human Resources and Organisational Change <sup>10</sup>		Post holder not directly employed by West Sussex County Council - please see footnote below								
Director of Public Health		130,000					130,000	18,694	<b>148,694</b>	
Director of Fire Service Operations and Chief Fire Officer <sup>11</sup>		35,296					35,296	13,165	<b>48,461</b>	
Chief Fire Officer <sup>12</sup>		81,667					81,667	23,520	<b>105,187</b>	
Director of Education and Skills		110,004		7,500		115	117,619	26,669	<b>144,288</b>	
Interim Director of Children and Family Services <sup>13</sup>		Post holder not directly employed by West Sussex County Council - please see footnote below								
Interim Director of Children Services <sup>14</sup>		Post holder not directly employed by West Sussex County Council - please see footnote below								
Interim Director of Children, Young People and Learning <sup>15</sup>		Post holder not directly employed by West Sussex County Council - please see footnote below								
Director of Adult Services <sup>16</sup>		76,613		17,000	23,969		117,582	16,048	<b>133,630</b>	

## NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

### Notes to 2019/20 Senior Officer Remuneration Disclosure

- <sup>1</sup> In accordance with the relevant legislation, senior officers are only identified by name where they have an annual salary of £150,000 or greater
- <sup>2</sup> 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
- <sup>3</sup> Chief Executive to 25 November 2019
- <sup>4</sup> Chief Executive from 6 January 2020 (shared with East Sussex County Council)
- <sup>5</sup> Executive Director for Communities and Public Protection to 30 June 2019
- <sup>6</sup> Previously Executive Director for Children, Adults, Families, Health and Education until 30 June 2019 and Executive Director for People Services until 31 October 2019
- <sup>7</sup> Acting Chief Executive for period 27 September 2019 to 5 January 2020
- <sup>8</sup> Interim Executive Director for Resource Services from 1 July to 31 October 2019
- <sup>9</sup> Director of Human Resources and Organisational Change to 31 December 2019
- <sup>10</sup> Interim Director of Human Resources and Organisational Change from 5 March 2020
- <sup>11</sup> Director of Fire Service Operations and Chief Fire Officer to 9 July 2019
- <sup>12</sup> Chief Fire Officer from 1 September 2019
- <sup>13</sup> Interim Director of Children and Family Services to 29 April 2019
- <sup>14</sup> Interim Director of Children Services from 15 April 2019 to 31 January 2020
- <sup>15</sup> Interim Director of Children, Young People and Learning from 1 February 2020
- <sup>16</sup> Director of Adults Services to 11 October 2019

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

Payments of £37,943 have been made to East Sussex County Council for the shared services of the Chief Executive from 6 January 2020

Payments of £83,055 have been made to Penna Plc for the services of the Interim Executive Director for Resource Services 1 July 2019 to 31 October 2019

Payments of £17,936 have been made to McLean Partnership for the services of the Interim Director of Human Resources and Organisational Change from 5 March 2020

Payments of £22,396 have been made to Tile Hill for the services of the Interim Director of Children and Family Services to 29 April 2019

Payments of £218,477 have been made to Penna Plc for the services of the Interim Director of Children Services from 15 April 2019 to 31 January 2020

Payments of £21,654 have been made to Manpower UK Ltd for the services of the Interim Director of Children, Young People and Learning from 1 February 2020

**NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

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

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

## NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

### Notes to 2018/19 Senior Officer Remuneration Disclosure

- <sup>1</sup> In accordance with the relevant legislation, senior officers are only identified by name where they have an annual salary of £150,000 or greater
- <sup>2</sup> 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
- <sup>3</sup> Director of Human Resources & Organisational Change from 3 April 2018
- <sup>4</sup> Director of Education and Skills to 3 September 2018
- <sup>5</sup> Director of Education and Skills from 1 December 2018
- <sup>6</sup> Director of Children & Family Services to 1 February 2019; salary includes payment in lieu of notice
- <sup>7</sup> Interim Director of Children & Family Services from 19 November 2018
- <sup>8</sup> Director of Adults' Services to 28 May 2018
- <sup>9</sup> Interim Director of Adults' Services to 4 July 2018
- <sup>10</sup> Interim Director of Adults' Services from 5 July to 19 December 2018
- <sup>11</sup> Director of Adults' Services from 7 January 2019
- <sup>12</sup> Director of Economy, Planning & Place to 9 July 2018

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

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

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

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

## NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

### Exit Packages

The Authority terminated, or made provision to terminate, the contracts of a number of employees in 2019/20. Total liabilities of £1.154m were incurred for the period (£2.511m in 2018/19).

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	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
£0 - £20,000	71	25	35	36	106	61	£747,022	£347,034
£20,001 - £40,000	7	6	16	10	23	16	£646,293	£450,274
£40,001 - £60,000	3	1	7	1	10	2	£501,503	£107,748
£60,001 - £80,000	0	1	1	0	1	1	£67,555	£79,365
£80,001 - £100,000	1	0	4	0	5	0	£442,966	£0
£100,001 - £150,000	0	0	1	0	1	0	£106,024	£0
£150,001 - £200,000	0	0	0	1	0	1	£0	£170,000
<b>Total</b>	<b>82</b>	<b>33</b>	<b>64</b>	<b>48</b>	<b>146</b>	<b>81</b>	<b>£2,511,363</b>	<b>£1,154,421</b>

## 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 West Sussex, Crawley and Horsham & Mid-Sussex Clinical Commissioning Groups.

	<b>2018/19</b>		<b>2019/20</b>	
	£000	£000	£000	£000
<b>Funding provided to the pooled budget:</b>				
West Sussex County Council	-	77,725	-	81,759
West Sussex Clinical Commissioning Groups (CCGs)	-	17,702	-	18,621
		- 95,427		- 100,380
<b>Expenditure met from the pooled budget:</b>				
West Sussex County Council	78,523		82,963	
West Sussex Clinical Commissioning Groups (CCGs)	17,883		18,895	
		96,406		101,858
Net (surplus)/deficit arising on the pooled budget during the year		979		1,478
Authority's share of the net (surplus)/deficit		797		1,204

#### 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.

	<b>2018/19</b>		<b>2019/20</b>	
	£000	£000	£000	£000
<b>Funding provided to the pooled budget:</b>				
West Sussex County Council	-	8,711	-	8,821
West Sussex Clinical Commissioning Groups (CCGs)	-	57,633	-	67,380
		- 66,344		- 76,201
<b>Expenditure met from the pooled budget:</b>				
West Sussex County Council	8,861		9,089	
West Sussex Clinical Commissioning Groups (CCGs)	58,623		69,426	
		67,484		78,515
Net (surplus)/deficit arising on the pooled budget during the year		1,140		2,314
Authority's share of the net (surplus)/deficit		150		268

## 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.

	<b>2018/19</b>		<b>2019/20</b>		
	£000	£000	£000	£000	
<b>Funding provided to the pooled budget:</b>					
West Sussex County Council	-	9,568	-	10,176	
West Sussex Clinical Commissioning Groups (CCGs)	-	38,854	-	57,607	
		- 48,422		- 67,783	
<b>Expenditure met from the pooled budget:</b>					
West Sussex District and Boroughs		7,690		8,298	
West Sussex County Council		25,350		26,130	
West Sussex Clinical Commissioning Groups (CCGs)		15,373		33,320	
		48,413		67,748	
Net (surplus)/deficit arising on the pooled budget during the year		-	9	-	35
Underspending brought forward		-	18	-	117
Interest earned on cash balances		-	90	-	112
		-	117	-	264
Balance carried forward		-	117	-	264

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 Improved Better Care Fund (iBCF) and Winter Pressures Grant (WPG) allocations directly from central government. Whilst the iBCF and WPG are 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 a WPG allocation of £3.3m in 2019/20, all of which has been recognised in the Comprehensive Income and Expenditure Statement for the period (see Note 25).

West Sussex County Council received an iBCF allocation of £16.7m in 2019/20, of which £11.3m has been recognised in the Comprehensive Income and Expenditure Statement for the period (in addition to £2.8m carried forward from 2018/19) per Note 25. The balance of £5.4m 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. Spending commitments had already been made against the majority of this carried forward balance at the reporting date.

**33. Related Parties**

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

Central Government

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

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2019/20 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 2019/20 goods and services to the value of £280,017 and £9,062 respectively were commissioned from these organisations.
- Director and Trustee of Coastal West Sussex MIND. In 2019/20, the Authority commissioned goods and services to the value of £175,578 from this entity and received income of £958.

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

Officers

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

An interest was declared by the Executive Director for Place Services, who until the end of September 2019 was a Trustee and Non-Executive Director of Transform Housing and Support. During the 2019/20 financial year (up to the end of September) the Council made payments totaling £6,576 to this entity. All contracts were entered into in full compliance with the Authority's standing orders for procurement.

## NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

### Other Public Bodies

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

In 2019/20 the Council incurred costs of £0.6m (2018/19 £1.1m) in relation to the administration of the Fund, and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund, and contributed £59.9m to the Fund in 2019/20 (2019/19 £57.5m). 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 2020 the Fund had a daily average investment balance of £107.7m held in Sterling (31 March 2019 £50.0m), earning interest of £0.68m (2018/19 £0.31m) in these funds at a rate of return of 0.63% (2018/19 0.62%). Additionally, the Fund has earned interest of £0.02m on investments held in foreign currency (2018/19 £0.13m).

### 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 2019/20 the precept on the County Council was £0.141m (2018/19 precept £0.146m).

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

In accordance with the requirements of the Code of Practice, these "single entity" financial statements include all income, expenditure, assets and liabilities of the Authority's maintained schools. Whilst the Authority has responsibility for distributing funding to its maintained schools, under the local management of schools the responsibility for spending this budget is delegated to the governing body of the school concerned. The Authority is therefore restricted in the extent to which it controls the income, expenditure, assets and liabilities included in its financial statements which relate to its maintained schools. At the reporting date, the Authority operated 214 maintained schools (214 at 31 March 2019). Non-current assets with a net book value of £1,115m (£1,093m at 31 March 2019) 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

	2018/19 (Restated) £000	2019/20 £000
Charges for depreciation of non current assets	-68,334	-80,750
Charges for amortisation of intangible assets	-400	-390
Revaluations gains/losses on Property, Plant and Equipment and Assets Held for Sale charged to the Surplus/Deficit on Provision of Services	100,014	30,792
Impairment of non current assets	0	0
Movements in the market value of Investment Property	415	12,245
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	-15,830	-29,184
Gains upon recognition of Donated Assets	0	11,708
Net reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-72,344	-60,673
Revaluation of financial instruments including expected credit losses (Increase) / decrease in creditors	-261	-1,944
Increase / (decrease) in debtors	36,982	-14,305
Increase / (decrease) in inventories	-7,137	22,091
Contributions (to) / from provisions	-16	213
	-1,593	-5,135
<b>Net adjustments for non-cash movements</b>	<b>-28,504</b>	<b>-115,332</b>

### 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

	2018/19 £000	2019/20 £000
Proceeds from the sale of Property, Plant and Equipment, Investment Property, Intangible Assets and Assets Held for Sale	6,742	11,152
Capital grants and contributions recognised in the Comprehensive Income and Expenditure Statement	72,024	82,437
	<b>78,766</b>	<b>93,589</b>

### 36. Cash Flow Statement – Investing Activities

	2018/19 (Restated) £000	2019/20 £000
Purchase of Property, Plant and Equipment, Investment Property and Heritage Assets	108,566	81,426
Purchase of short-term and long-term investments	204,612	404,538
Proceeds from short-term and long-term investments	-290,437	-253,931
Proceeds from the sale of Property, Plant and Equipment, Investment Property, Intangible Assets and Assets Held for Sale	-6,742	-11,152
Capital grants and contributions recognised in the Comprehensive Income and Expenditure Statement	-72,024	-82,437
Net position on capital grants and contributions receipts in advance	-16,652	-11,714
<b>Net cash flows from investing activities</b>	<b>-72,677</b>	<b>126,730</b>

### 37. Cash Flow Statement – Financing Activities

	2018/19 (Restated) £000	2019/20 £000
Repayment of PFI and finance lease liabilities	10,296	4,834
Receipts from short and long term borrowing	0	-100,000
Repayment of short and long term borrowing	7,016	7,015
Cash held for third parties	-338	2
<b>Net cash flows from financing activities</b>	<b>16,974</b>	<b>-88,149</b>

**38. Events after the Balance Sheet date**

The Statement of Accounts was authorised for issue by the Director of Finance and Support Services on 20 November 2020. Events taking place after this date are not reflected in the financial statements or notes.

There were no post balance sheet events between the reporting date and the date the accounts were authorised for issue.

**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. They are seeking to appeal a recent first instance decision against their claim. 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) The Council is on notice of the potential for claims associated with the possible exposure of a small number of individuals to harm during some building work undertaken for the Council. An investigation identified a low risk but the likelihood of future claims and any necessary provision for their resolution cannot be assessed at this time.

## NOTES TO THE FINANCIAL STATEMENTS

- (5) A number of part time staff are potentially affected by the outcome of litigation to which the County Council was not party but which may alter the legal and contractual rights of staff working on 'term time only' contracts, specifically in relation to the accrual of holiday entitlements. This may result in an additional and backdated claim for compensation. The existence of a liability is therefore dependent on future claims being made and as such a potential obligation cannot be measured with any reliability.
- (6) The Council is on notice of potential claims from its IT outsourcing partner in connection with a dispute relating to costs associated with a number of services under this contract. These claims are at an early stage and may yet be resolved but will be monitored for their potential financial consequences.

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

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

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

**(ii) Property, Plant and Equipment**

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

Recognition

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

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

Recognition - Schools

The Code confirms that local authority maintained schools (and the governing bodies thereof) are to be treated as entities for control purposes, and that the transactions of said schools shall be consolidated into the local authority single entity financial statements.

Non-current assets attributed to schools are therefore recognised in the Authority's balance sheet, subject to the Authority (or the school's governing body) having control over the asset and it being probable that future service potential will flow to the Authority (or to the school).

The Authority's policy is therefore to recognise the non-current assets of its maintained community and voluntary controlled schools on its balance sheet. The balance of control and service potential is considered to reside with independent trustees for foundation and voluntary aided schools, and so these assets are not consolidated into the Authority's balance sheet (the Council retains the statutory responsibility for land at voluntary aided schools, so this is recognised as an asset of the Authority).

## NOTES TO THE FINANCIAL STATEMENTS

A number of schools in the County now hold academy status. Academies are managed completely independently of the Authority, and funding is provided directly by central government. Whilst the Authority retains the freehold of the land, premises are leased to the academy on a finance-lease basis (typically for a 125 year term). Therefore academy buildings are derecognised from the Authority's balance sheet, and land is retained at a nominal value reflecting its restricted use.

### Measurement

Assets are initially measured at cost, comprising:

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

The Authority does not capitalise borrowing costs.

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

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

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

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

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

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to that Statement).

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

## NOTES TO THE FINANCIAL STATEMENTS

- 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 and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

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

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

### Depreciation

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

- Buildings – on a straight line basis over the remaining useful life of the property as estimated by the external valuer (initially 60 years)
- Vehicles, plant, furniture and equipment – individual useful life on a straight line basis as estimated by a suitably qualified officer
- Infrastructure – straight line basis over a period of 25 years for major road developments and 15 years for structural maintenance of carriageways and bridges (useful lives for other infrastructure assets to be estimated by a suitably qualified officer).

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

### Componentisation

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For assets which are subject to componentisation, the valuer has estimated remaining useful lives for the following significant components for depreciation purposes:

- Building Structure (initial 60 year useful life)
- Building Roof and Externals (initial 50 year useful life)
- Building Mechanicals and Electricals (initial 25 year useful life)

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

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

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

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

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

The asset will be revalued immediately before being reclassified as an Asset Held for Sale and then carried at the lower of this amount and fair value less costs of sale. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on the Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

A direction provided by the Secretary of State for Housing, Communities and Local Government under the Local Government Act 2003 provides for additional flexibility on the use of capital receipts until March 2022. Under this direction, authorities may apply capital receipts received in the years to which the direction applies to meet the revenue costs of transformation projects which deliver ongoing savings. The Authority's Flexible Use of Capital Receipts Strategy is subject to annual approval by full Council. Where this flexibility is applied, capital receipts are transferred out of the Capital Receipts Reserve to finance qualifying expenditure in accordance with the Code's requirements for the accounting of Revenue Expenditure Funded from Capital Under Statute (REFCUS).

### **(iii) Investment Property**

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

Investment Properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, Investment Properties are valued at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains or losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance. The gains and losses are therefore reversed out of the General Fund in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Rentals received in relation to Investment Properties are credited to the Financing and Investment income line and result in a gain for the General Fund balance.

### **(iv) Charges to Revenue for Non-Current Assets**

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

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

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

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

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

#### Supported Borrowing

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

#### Unsupported Borrowing

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

#### MRP – Finance Lease and PFI

In line with MHCLG regulations to mitigate the impact of the move to IFRS on the Council's revenue account, it is the policy of West Sussex County Council to make an annual MRP charge equal to the portion of the payment taken to the Balance Sheet to reduce the liability. However, where a lease premium is made (and immediately taken to write down the Balance Sheet liability), the Council shall spread the MRP charge over the useful life of the asset.

### **(v) Intangible Assets**

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

## NOTES TO THE FINANCIAL STATEMENTS

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

### **(vi) Government Grants and Contributions**

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

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

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

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Grants Unapplied Account via the Movement in Reserves Statement. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have applied to fund capital expenditure.

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

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

Where the Authority has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

### **(viii) Leases**

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

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

### The Authority as Lessee

#### Finance Leases

Property, Plant and Equipment held under finance leases is recognised on the Balance Sheet at the beginning of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower).

The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

#### Operating Leases

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

### The Authority as Lessor

#### Finance Leases

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

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

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

Lease rentals receivable are apportioned between:

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

### Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet and rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

### IFRS Transitional Rules

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

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

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 Initiatives (PFI) and Similar Contracts**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the PFI contractor.

As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the Property, Plant and Equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment. The Authority has three PFI schemes on its Balance Sheet - Crawley Schools, Recycling and Waste Handling and Street Lighting.

The original recognition of these assets at fair value was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Authority. The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- Payments towards liability – applied to write down the Balance Sheet liability towards the PFI operator
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

### **(x) Accruals of Income and Expenditure**

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

In particular:

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

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 undertaken and an allowance for doubtful debts has been made.

Under local management arrangements, school accounts have been closed shortly before the end of the reporting period. Consequently, school income, expenditure, debtors and creditors are shown on an estimated basis.

### **(xi) Overheads and Support Services**

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

### **(xii) Reserves**

The County Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund via 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 recognises the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settling the obligation, taking into account relevant risks and uncertainties.

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

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

### **(xiv) Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but are disclosed in a note to the accounts.

### **(xv) Financial Instruments**

#### a) Financial Liabilities

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

The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

### b) Financial Assets

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

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

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

#### Financial Assets Measured at Amortised Cost:

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument, and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

For most of the financial assets held by the Authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement. Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

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

#### Expected Credit Loss Model:

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

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

## NOTES TO THE FINANCIAL STATEMENTS

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

Financial Assets Measured at Fair Value through Profit or Loss:

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

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

Fair Value Measurements of Financial Assets:

The fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the Authority's financial assets are based on the following techniques:

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

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

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

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

### **(xvi) Cash and Cash Equivalents**

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

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

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

### **(xvii) Schools**

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

### **(xviii) Council Tax and Non-Domestic Rates**

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

#### Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the Authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the Authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the Authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

### **(xix) Value Added Tax**

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

### **(xx) Employee Benefits**

#### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year.

The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy, and are charged on an accruals basis to the Comprehensive Income and Expenditure Statement when the Authority can no longer withdraw the offer of those benefits or when the Authority recognises costs for a restructuring.

### **(xxi) Post-employment Benefits**

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

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

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

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

### The Local Government Pension Scheme and The Firefighters' Pension Scheme

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

- 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)

## NOTES TO THE FINANCIAL STATEMENTS

There are two related disclosures required by the regulations:

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

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

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

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

### **(xxiv) Prior Period Adjustments and Changes in Accounting Estimates**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **(xxv) Fair Value Measurement of Non-Financial Assets**

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

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

The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

## NOTES TO THE FINANCIAL STATEMENTS

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

### **(xxvi) Joint Operations and Other Pooled Budgets**

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

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

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

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

### **(xxvii) Events After the Reporting Period**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect

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

### **(xxviii) Local Enterprise Partnership**

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

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

### **(xxix) Going Concern**

These financial statements have been prepared on a going concern basis. Assets and liabilities are therefore reported on the assumption of continuing operations for the foreseeable future.

This approach is prescribed by the CIPFA Code of Practice on Local Authority Accounting. The Code confirms that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on the going concern basis of accounting.

The potential for abolition of an authority (or the transfer of its functions) by statute is not taken as negating the presumption of going concern. Even though assets may be taken from the authority, perhaps without compensation, the continued use of those assets for public benefit means that an individual authority does not need to consider the restriction on its own ability to make use of those assets from a going concern perspective.

An authority experiencing significant resource pressures does not therefore negate the presumption of going concern, because if an authority were in financial difficulty the prospects are that alternative arrangements might be made by central government for the continuation of services. However, references to such issues affecting financial resilience and sustainability will be made in various sections of the financial statements as appropriate, for example in Note 42 Critical Judgements in Applying Accounting Policies and Note 43 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty.

Considering the above, and the critical judgements made in applying the Council's policy on going concern and assumptions made about the future as set out in Notes 42 and 43, the Council is satisfied that the financial statements should be prepared on a going concern basis.

**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:

Coronavirus – Going Concern Impact Assessment

The Covid-19 pandemic is affecting all aspects of the Council's services to our residents. It is not known how long the current situation is going to last, however assessments of the potential implications for the remainder of 2020/21 are being kept under constant review. Our latest estimate indicates that the cost of Covid-19 to the Council in 2020/21 could be in the region of £70m, with a likelihood of further financial implications in future years. The estimate for 2020/21 assumes:

- Direct costs incurred by the Council, primarily but not exclusively within Adult Social Care, costs associated from being in lockdown, for example, the pressures on services including Children's Social Care as the number of vulnerable children increases and the cost of recovery in terms of how the Council will emerge from the current situation which will bring additional costs; these total £33.7m,
- Reduction in the income collected through fees and charges and commercial income; these total £9.3m,
- Impact on the Council's planned activities, for example, savings plans for 2020/21, as efforts have been refocused onto Covid-19 measures; these total £7.0m,
- Costs related to the local economy where there will be a reduction in the business rates the Council had expected to receive in 2020/21 as well as a loss of Council Tax income due to more residents applying for council tax relief; these total £20.0m.

As at the end of July 2020, the Authority has been allocated £41.4m of Government funding to support the additional costs arising from the emergency. In addition, the Government has announced that it will reimburse authorities for 75% of income losses occurring in 2020/21 as a result of Covid-19, with authorities being responsible for losses up to a 5% threshold. For the Council, this is estimated to be £1.2m, leaving a funding gap of £27.4m. This funding remains below the initial estimated impact across 2020/21. Therefore, there remains a significant risk that, any costs over and above the £42.6m funding provided to date will need to be met by the Council, from either making reductions to services and/or utilising our reserves. This will ensure we can remain financially resilient and can maintain a balanced budget, in line with our statutory duties.

The Council is also closely monitoring its cashflow position to ensure that there are sufficient funds available to meet its financial obligations. Any surplus cash is being held in instant access accounts or on very short-term deposits to ensure it is available should it be required. If it were to prove necessary, the Council's Treasury Management Strategy allows for up to £40m of borrowing, through short term loans, to cover unexpected cashflow shortages.

The latest budget gap is £34m for 2021/22, as reported at County Council on 17 July 2020. This is an increase of £20m since the Medium Term Financial Strategy was approved by Members in February 2020. Depending on the impact of service pressures and on Council Tax and Business Rates income because of the pandemic and the anticipated recession, this could increase to £73m. Work is underway with the Executive Leadership Team and Cabinet Members to develop plans to mitigate the pressures. Subject to the outcome of this, the Council may need to utilise reserves to ensure we remain financially resilient and can maintain a balanced budget, in line with our statutory duties. As at 31 March 2020, the Council held earmarked reserves of £126.2m, which excludes school reserves, the Covid-19 Emergency Fund and the Business Rates Pilot reserve, with a further £20.3m held in the General Fund. In the short term and with the need to replenish or re-profile costs to a later period, the Council could draw on some of these reserves to balance the budget.

## NOTES TO THE FINANCIAL STATEMENTS

The Council has produced a cashflow to 31 March 2022 and considered the impact on the cashflow for various scenarios, to balance the budget for both 2020/21 and 2021/22. These scenarios are based on the Council's latest forecasts of the impact of Covid-19 and range from the most optimistic scenario (in terms of using reserves to meet the funding shortfall in 2020/21 and then having a balanced budget for 2021/22) to the most pessimistic scenario (in terms of using £44m of reserves for 2020/21 and £73m of reserves for 2021/22).

Based on these scenarios, we are satisfied that there is no material uncertainty relating to the Council's cashflow position to 31 March 2022. We recognise, however, the inherently high degree of estimation uncertainty in the assumptions made. For example, it is not clear for how long physical restrictions on movement will continue and in what form, or what the final level of additional funding from Central Government will ultimately be made available to support the operations of the Council.

### Local Government Funding Arrangements

There is a high degree of uncertainty about future levels of funding for local government. MHCLG's Fair Funding Review into business rates retention and baseline funding allocations, previously set for consultation in 2020/21, has been delayed. Additionally, there is a high degree of uncertainty around the council tax and business rates base. The onset of the coronavirus pandemic has seen a number of households fall into council tax support, which may impact on the amount of council tax receivable. The requirement for business premises may also reduce, which could have an impact on the amount of business rates collectable. 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.

### Provisions and Contingent Liabilities

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.

### Schools' Non-Current Assets

CIPFA's Code of Practice requires non-current school assets to be recognised on the Authority's balance sheet only where the Authority has control over the asset and it is probable that future service potential will flow to the Authority.

The Authority has therefore exercised judgement in its control assessment for its voluntary controlled, voluntary aided and foundation schools. Legal ownership of assets at these schools typically resides with a separate entity of trustees. Control over these assets may therefore be assumed to reside with those trustees, and that is the position taken by the Authority with respect to its voluntary aided and foundation schools. Non-current assets at these schools are therefore not consolidated into the Authority's balance sheet, with the exception of land at voluntary aided schools, which the Authority retains statutory responsibility for.

However, the Authority exerts a greater degree of control over its voluntary controlled schools, as it directly employs the staff and sets the admissions criteria at these schools. The Authority has therefore judged that it exercises substantive control over the assets of its voluntary controlled schools, and so recognises these assets on its balance sheet.

## NOTES TO THE FINANCIAL STATEMENTS

### Local Enterprise Partnership

Until 30 September 2018, the Authority acted as Accountable Body to the Coast to Capital Local Enterprise Partnership (LEP). As Accountable Body, the Authority had responsibility for ensuring that the LEP complied with all relevant laws and funding conditions. However, the financial and operating policy decisions of the LEP were made or delegated by its Board, consisting of representatives of its member bodies. The Authority has therefore judged that it was acting as agent in this arrangement, and as such transactions incurred by the LEP have been excluded from the single entity financial statements, and the Authority accounts only for the grant awarded to it by the LEP and the associated expenditure. The basis of this judgement is that, whilst the Authority has a minority interest on the Board of the LEP, decisions are taken by a majority vote and so the Council is unable to exert control over the entity.

### Interests in Other Entities

The Authority has identified interests in two other entities in the reporting period. These are West Sussex Music Trust, a Company Limited by Guarantee established to advance the education of and access to music and the arts, and Aspire Sussex Ltd, a Company Limited by Guarantee established to deliver adult and community learning services to the residents of West Sussex. However, the Authority has concluded that it does not have significant influence over either entity and therefore consolidated group accounts have not been prepared.

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

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

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

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

Coronavirus (Covid-19)

The impact of the coronavirus pandemic is a significant source of estimation uncertainty. The outbreak continues to cause major disruption and unprecedented volatility in markets and economies globally. This has implications for a number of the estimates included in these financial statements.

One such implication is for property valuations. The immediate impact of the pandemic, in many instances, was to cause the deferment of transactions, thereby limiting the amount of market data available against which to gauge any market movements. The Council's property valuers, Montagu Evans, have invoked a 'material valuation uncertainty' in relation to their valuation of the Authority's operational land and buildings, investment property, assets held for sale and surplus assets. This is on the basis that previous market evidence is now considered to be less reliable to inform opinions of future value, and therefore a reduced degree of certainty can be attached to the valuations provided. The valuers have, however, indicated that any negative value movements on market based valuations (e.g. non specialised assets) may be offset by valuation increases attributable to construction cost pressures for specialised assets (which are valued on a replacement cost basis). It is also worth highlighting that a large proportion of the property valuations undertaken at 31 March 2020 were performed on a depreciated replacement cost basis (71% by value); as the valuation uncertainty is considered to primarily apply to assets valued on an existing use or market value basis, the potential impact of this uncertainty on the Authority's balance sheet is diminished. However, at the balance sheet date the Council continued to hold £91.4m of investment property assets and £36.2m of surplus assets at fair value, and £154.0m of operational land and buildings valued at existing use value, that are potentially impacted by the 'material valuation uncertainty'.

There are further implications for financial assets held by the Authority on a fair value basis, such as multi-asset income and property pooled funds. These are valued based on quoted prices in active markets, as obtained from fund managers. Again, the distortive impact of the pandemic on such markets has caused fund managers to insert an equivalent material valuation uncertainty clause. Further detail is provided in Note 9 Financial Instruments.

As the majority of investments held by pension funds are measured at fair value, similar measurement issues to those identified above exist when estimating the value of pension fund assets and the consequential net liability on the Authority's balance sheet. Further commentary on the impact of the pandemic on the measurement of pension fund assets is provided in the pension fund financial statements appended to this document.

Property, Plant and Equipment – Revaluation

As detailed in Note 41 Accounting Policies, the Authority formally revalues its operational land and buildings at least once every five years. In order to ensure that the carrying value of these assets does not differ materially from current value in between formal valuations, assets not subject to revaluation in any given year are tested for indexation.

## NOTES TO THE FINANCIAL STATEMENTS

As part of its rolling revaluation programme, the Authority selects the assets to be revalued each year using a stratified sampling approach, such that the results of the valuations commissioned can be used to assess for general movements in the asset base. To facilitate this approach, two characteristics have been identified for every asset; asset category and geographical location. To estimate indexation for an asset not subject to formal revaluation, the Authority calculates the average movement in the relevant category and location amongst those assets which have been revalued, and applies those averages with equal weighting.

Indexation was applied to all land and building assets not subject to formal revaluation at 31 March 2020 using this methodology. Net indexation of £23.0m was applied to assets with a carrying value of £951.7m, an average uplift of 2.4%.

### Property, Plant and Equipment – Depreciation

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

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets fall. It is estimated that the annual depreciation charge for buildings would increase by £1.8m for every year that useful lives are reduced. As part of its rolling revaluation programme, an asset is subject to formal valuation at a minimum every five years. Therefore over a five-year period the cumulative impact of a one-year reduction in the useful lives of buildings would be an increase in depreciation charges (and reduction in carrying value) of no more than £9m. In reality, the Authority's sampling approach, including more frequent revaluations for high-value assets, means that the scope for this variation in carrying value is significantly reduced. In any event, a variation of this scale is not considered to be material in the context of the Authority's £2.2billion long-term asset base.

### Private Finance Initiatives

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

## NOTES TO THE FINANCIAL STATEMENTS

### 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 2020	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	10%	198,843
0.5% increase in the Salary Increase Rate	1%	15,632
0.5% increase in the Pension Increase Rate	9%	181,856

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 2020	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	9%	33,388
1 year increase in member life expectancy	3%	10,660
0.5% increase in the Salary Increase Rate	1%	3,551
0.5% increase in the Pension Increase Rate	7%	26,854

### 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 2020/21 Code of Practice, namely:

- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle

The amendments to IAS 19 Employee Benefits require that when a plan amendment, curtailment or settlement occurs during a reporting period entities use updated actuarial assumptions to determine current service cost and net interest for the remainder of the reporting period. This may be relevant where staff transfer to academies or other LGPS admitted bodies. Currently, the Code requires that current service cost and the net interest cost are measured using actuarial assumptions made at the start of the reporting period. The 2020/21 Code is expected to emphasise that assumptions should be revised during the reporting period only where the treatment is material for the readers of the accounts, in consideration of the proportion of active scheme members affected by the change, and the extent to which the revised actuarial assumptions would differ from those which would apply if the assumptions were not amended. The changes to IAS 19 are to be applied prospectively upon adoption by the Code.

The amendment to IAS 28 Investments in Associates and Joint Ventures clarifies that the provisions of IFRS 9 Financial Instruments apply to long-term interests in an associate or joint venture. For example, the impairment requirements of IFRS 9 may be applied to relevant long-term interests before an entity recognises, under the equity accounting methodology stipulated by IAS 28, its share of the profit or loss of the associate or joint venture. As West Sussex County Council does not currently recognise any associates or joint ventures, the amendment to IAS 28 will not have any impact on its accounts.

The Annual Improvements to IFRS Standards 2015-2017 Cycle makes various minor amendments to accounting standards, including to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, and IAS 12 Income Taxes, which are not considered to be material to local authority reporting requirements. Changes to IAS 23 Borrowing Costs clarify how borrowing costs eligible for capitalisation may be calculated, but as West Sussex County Council has a policy not to capitalise its borrowing costs, this amendment will not impact the Authority's financial statements.

IFRS 16 Leases has been issued by the IASB. When adopted by the Code, the standard will require lessees to recognise the majority of leases (including those currently classified as 'operating leases') on their balance sheets as 'right-of-use' assets, with corresponding lease liabilities. Exemptions for low-value and short-term leases are anticipated. CIPFA has confirmed that the Code's adoption of IFRS 16 has been deferred until 2021/22.

## NOTES TO THE FINANCIAL STATEMENTS

### 45. Firefighters' Pension Scheme

2018/19			2019/20	
£000	£000		£000	£000
		Contributions receivable		
	-1,724	Employees		-1,712
		Employers		
		Normal	-3,885	
-2,008		Early retirements	<u>0</u>	
<u>0</u>	-2,008			-3,885
		Transfer values from employers of contributors joining the fund		-141
	-4	Charges in respect of ill-health early retirements		-20
	-39			
	<u>-3,775</u>	<b>Total contributions receivable</b>		<u>-5,758</u>
		Benefits payable		
	7,860	Pensions		8,404
		Lump sum benefits		
1,643		Commutations	1,821	
<u>0</u>		Death benefits	<u>107</u>	
	1,643			1,928
		Transfer values to employers of contributors leaving the fund		0
	0	Refunds of contributions		0
	<u>0</u>			
	<u>9,503</u>	<b>Total benefits payable</b>		<u>10,332</u>
	<u>0</u>	Other miscellaneous expenditure		<u>44</u>
		Net amount payable for the year before top up grant from the Home Office		4,618
	5,728	Top up grant received from the Home Office		-2,614
	-4,142	Top up grant receivable from the Home Office		-2,004
	-1,586			
	<u>0</u>	<b>Net amount payable/receivable for the year</b>		<u>0</u>

### Net Assets Statement

At 31 March 2019 £000		At 31 March 2020 £000
	<b>Current Assets</b>	
	Pension top up grant receivable from the Home Office in respect of year to reporting date	2,004
1,586	Payments in advance	<u>0</u>
<u>0</u>		2,004
1,586		
	<b>less: Current Liabilities</b>	
	Creditors	-2,004
-1,586		
<u>0</u>	<b>Net Assets - balance of scheme</b>	<u>0</u>

## GLOSSARY OF FINANCIAL TERMS

<b>Accounting Policies</b>	The specific principles, bases, conventions, rules and practices applied by the Authority in preparing and presenting its financial statements.
<b>Accruals</b>	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.
<b>Actuarial Gains and Losses</b>	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.
<b>Actuarial Valuation</b>	The Actuary reviews the assets and liabilities of the pension fund every three years.
<b>Actuary</b>	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.
<b>Amortisation</b>	The reduction in value of an intangible asset to spread its cost over its useful life. The equivalent of depreciation for intangible assets.
<b>Asset</b>	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.
<b>Assets Held for Sale</b>	Assets that the Council intends to sell within the next year and are actively marketed as such.
<b>Balance Sheet</b>	A statement of recorded assets and liabilities as at the end of an accounting period.
<b>Billing Authority</b>	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.
<b>Capital Adjustment Account</b>	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).
<b>Capital Expenditure</b>	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.
<b>Capital Financing Requirement</b>	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.
<b>Capital Grants Unapplied Account</b>	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.
<b>Capital Programme</b>	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.
<b>Capital Receipts</b>	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.
<b>Capital Receipts Reserve</b>	Holds accumulated capital receipts which have yet to be applied to finance the capital programme.
<b>Cash Flow Statement</b>	Shows the movement in cash and cash equivalents of the Authority during the reporting period.

## GLOSSARY OF FINANCIAL TERMS

<b>Chartered Institute of Public Finance and Accountancy (CIPFA)</b>	The professional accountancy institute that sets the standards for the public sector. CIPFA publishes the accounting codes of practice for local government.
<b>Code of Practice on Local Authority Accounting ('the Code')</b>	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.
<b>Collection Fund</b>	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.
<b>Comprehensive Income and Expenditure Statement</b>	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.
<b>Contingent Asset</b>	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.
<b>Contingent Liability</b>	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.
<b>Council Tax</b>	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.
<b>Creditors</b>	Amounts owed by the Authority for goods and services received where payment has not been made as at the Balance Sheet date.
<b>Current Asset</b>	Assets which are either cash (or an equivalent), held for trading, or expected to be realised within the next financial year.
<b>Current Liability</b>	An amount which will become payable within 12 months of the reporting date.
<b>Debtors</b>	Amounts owed to the Authority for goods and services provided but are unpaid as at the Balance Sheet date.
<b>Dedicated Schools Grant (DSG)</b>	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.
<b>Depreciation</b>	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.
<b>Earmarked Reserves</b>	Usable reserves which have been set aside for a specific purpose.
<b>Events after the Balance Sheet Date</b>	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.
<b>Exceptional Items</b>	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.
<b>Existing Use Value</b>	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

<b>Expected Credit Loss</b>	An impairment allowance applied to certain categories of financial assets, calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations.
<b>Expenditure and Funding Analysis</b>	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.
<b>Fair Value</b>	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.
<b>Finance Lease</b>	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.
<b>Financial Assets Measured at Amortised Cost</b>	Financial assets whereby the Council's business model is to collect contractual cash flows with intention of holding to maturity; such cash flows being solely payments of principal and interest. Includes cash and cash equivalents, fixed-term deposits and trade debtors.
<b>Financial Assets Measured at Fair Value through Profit or Loss</b>	Financial assets whose contractual payments are not solely payments of principal and interest; such assets incurring fair value gains and/or losses over the lifetime of the investment). Includes pooled funds and equity investments.
<b>Financial Instrument</b>	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.
<b>General Fund</b>	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.
<b>Gross Expenditure</b>	Total expenditure before deducting income.
<b>Heritage Assets</b>	Assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge or culture.
<b>Impairment</b>	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.
<b>Income</b>	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.
<b>Intangible Assets</b>	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.
<b>International Accounting Standards (IAS)</b>	Standards for the preparation and presentation of financial statements as issued by the International Accounting Standards Committee (IASC) from 1973 to 2001.
<b>International Accounting Standards Board (IASB)</b>	Independent body with responsibility for developing and approving International Financial Reporting Standards (IFRSs). Successor to the International Accounting Standards Committee (IASC).
<b>IFRIC</b>	Interpretations developed by the IFRS Interpretations Committee (previously the International Financial Reporting Interpretations Committee), issued upon approval by the International Accounting Standards Board (IASB).
<b>International Financial Reporting Standards (IFRS)</b>	Standards for the preparation and presentation of financial statements as issued by the International Accounting Standards Board (IASB) since 2001.

## GLOSSARY OF FINANCIAL TERMS

<b>Investment Property</b>	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.
<b>Lease</b>	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.
<b>Liability</b>	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.
<b>Long Term Assets</b>	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.
<b>Materiality</b>	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.
<b>Minimum Revenue Provision (MRP)</b>	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.
<b>Movement in Reserves Statement</b>	Shows the movement in the year on the various reserves held by the Authority, analysed into usable and unusable reserves.
<b>National Non-Domestic Rates (NNDR)</b>	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.
<b>Operating Lease</b>	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.
<b>Outturn</b>	The actual level of income and expenditure for the financial year.
<b>Pooled Budgets</b>	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.
<b>Precept</b>	The County Council precepts on (makes demands upon) the billing authorities' collection funds for its net expenditure requirements to be met by council tax.
<b>Prior Period Adjustments</b>	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.
<b>Private Finance Initiative (PFI)</b>	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.
<b>Provisions</b>	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.
<b>Prudential Code</b>	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.
<b>Public Works Loan Board (PWLB)</b>	A central government agency which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the government itself can borrow.

## GLOSSARY OF FINANCIAL TERMS

<b>Related Party</b>	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.
<b>Remuneration</b>	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.
<b>Residual Value</b>	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.
<b>Revaluation Reserve</b>	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.
<b>Revenue Budget</b>	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.
<b>Revenue Contribution to Capital Outlay (RCCO)</b>	The amount of capital expenditure to be financed directly from the annual revenue budget.
<b>Revenue Expenditure</b>	The operating costs incurred by the Council in providing its day-to-day services, such as salaries, supplies and services.
<b>Revenue Expenditure Funded from Capital under Statute (REFCUS)</b>	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.
<b>Revenue Support Grant (RSG)</b>	A general government grant in support of local authority expenditure.
<b>Specific Grants</b>	Represents central government financial support towards particular local authority services, which the government wishes to target.
<b>Surplus Assets</b>	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.
<b>Unusable Reserves</b>	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.
<b>Usable Reserves</b>	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 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the: Movement in Reserves Statement, Balance Sheet, Comprehensive Income and Expenditure Statement, Cash Flow Statement and the related notes 1 to 44 and the Expenditure and Funding Analysis on page 25; and include the firefighters' pension fund financial statements comprising the Fund Account and the Net Assets Statement at note 45.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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 2020 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 2019/20.

### **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.

### **Emphasis of matter – Property, Plant and Equipment and Investment Property valuation**

We draw attention to Note 4, Property Plant and Equipment, Note 7 Investment Property and Note 43, Assumptions made about the future and other sources of estimation uncertainty, of the financial statements, which describe the valuation uncertainty the Authority is facing as a result of COVID-19 in relation to property valuations. Our opinion is not modified in respect of this matter.

## **Conclusions relating to going concern**

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

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

## **Other information**

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

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

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

We have nothing to report in this regard.

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

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

#### **Basis for Qualified Conclusion**

Ofsted undertook an inspection of the Authority's Children's Services, with findings published in early May 2019. In all three areas assessed, inspectors found services to be inadequate and as a result the overall effectiveness was judged to be inadequate. Following the results of the inspection, the Secretary of State for Education issued a Direction in late June 2019 instructing the Authority to co-operate with an appointed Children's Commissioner. The Commissioner was requested to carry out an investigation that would lead to a report to the Department for Education, focusing specifically on an assessment of the capacity and capability of the Authority to improve Children's Services within an appropriate timeframe. The results of this review were published in December 2019 and were highly critical of the Authority, highlighting failures in governance and culture at both a service and organisational

level. The Authority has responded in 2019/20 by making a number of significant changes to its governance arrangements, including changes to management and political leadership, democratic systems and processes, corporate planning, performance management and staff engagement and culture. Revised arrangements were, however, not in place throughout 2019/20 and further action was needed at the end of the year to fully implement and embed the required improvements.

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

### **Qualified conclusion**

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in April 2020, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, West Sussex County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

### **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 Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

### **Responsibility of the Director of Finance and Support Services**

As explained more fully in the Statement of Responsibilities set out on page 22, the Director of Finance and Support Services is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director of Finance and Support Services is responsible for assessing the Authority's ability to continue as a going concern,

disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, 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 2020.

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

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

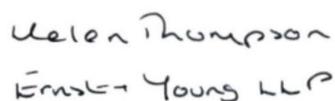
We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

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

### **Use of our report**

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



Helen Thompson  
Ernst & Young LLP

Helen Thompson (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Southampton  
26 November 2020

# West Sussex Pension Fund

## Statement of Accounts 2019/20

### 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 2020.

Katharine Eberhart  
The Director of Finance and Support Services

Notes: The West Sussex Pension Fund is a defined benefit scheme and the following accounts do not take account of liabilities to pay pensions and other benefits after 31 March 2020 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](http://www.westsussex.gov.uk/pensions)

The Local Government Pension Fund Scheme  
Pension Fund Account

2018/2019 £000	Notes	2019/2020 £000
<b>Dealings with members, employers and others directly involved in the scheme</b>		
130,312	7	138,083
4,317	8	17,562
<b>134,629</b>		<b>155,645</b>
(113,811)	9	(114,575)
(11,375)	10	(15,861)
<b>(125,186)</b>		<b>(130,436)</b>
<b>9,443</b>	<b>Net additions/(withdrawals) from dealings with members</b>	<b>25,209</b>
(17,835)	11	(17,075)
<b>(8,392)</b>	<b>Net additions/(withdrawals) including Fund management expenses</b>	<b>8,134</b>
<b>Returns on investments</b>		
61,375	12	72,914
(1,211)	13A	(638)
5		2
218,068	14A	(153,114)
<b>278,237</b>	<b>Net return on investments</b>	<b>(80,836)</b>
<b>269,845</b>	<b>Net increase in net assets available for benefits during the year</b>	<b>(72,702)</b>
<b>4,104,276</b>	<b>Add opening net assets of the scheme</b>	<b>4,374,121</b>
<b>4,374,121</b>	<b>Closing net assets of the scheme</b>	<b>4,301,419</b>



**Notes to the Accounts****NOTE 1: DESCRIPTION OF THE FUND**

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

a. General

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

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

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

b. Membership

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after 31 March 2020. The actuarial present value of promised retirement benefits is disclosed at Note 20.

- 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 Chief Constable (Sussex Police Authority) Sussex Police & Crime Commissioner, employees within Town and Parish Councils as well as non-teaching staff employed by Colleges and Academies).
- Admitted Bodies Other organisations participate in the Scheme under an admission agreement between the administering authority and the relevant employers. 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.

Membership details are set out below:

	31 March 2019	31 March 2020
Number of employers with active members	201	198
<b>Number of active members</b>		
County Council	14,578	14,202
Other employers	13,483	14,649
<b>Total</b>	<b>28,061</b>	<b>28,851</b>
<b>Number of pensioners</b>		
County Council	10,547	10,904
Other employers	9,348	10,699
<b>Total</b>	<b>19,895</b>	<b>21,603</b>
<b>Number of deferred pensioners</b>		
County Council	16,181	16,831
Other employers	11,054	12,263
<b>Total</b>	<b>27,235</b>	<b>29,094</b>
<b>Total number of members in scheme</b>	<b>75,191</b>	<b>79,548</b>

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 2020.
- 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 40.3% of pensionable pay for the financial year ending 31 March 2020.

d. Benefits

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

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

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

**NOTE 2: BASIS OF PREPARATION**

The accounts have been prepared in accordance with the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, 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 2020 reporting period. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) basis, is disclosed at Note 20.

The accounts have been prepared on a going concern basis. The West Sussex LGPS remains a statutory open scheme, with a strong covenant from the participating employers and is therefore able to take a long term outlook when considering the general investment and funding implications of external events. The Pension Fund remains a long term investor and has reduced its allocation to equities with a preference to more stable bond assets to reduce the volatility of its investment assets. The Fund will continue to monitor all risks on an ongoing basis and will consider appropriate actions where necessary. □

The Fund was 112% funded as at 31 March 2019 valuation. Although this had reduced at 31 March 2020 it is estimated that the scheme was still fully funded. The Pension Fund takes a prudent approach when setting employer contributions and its contribution strategy is considered against detailed scenario testing by the Fund Actuary. There is no expectation that the contribution rates will need to be reviewed or revised prior to the best valuation but the position will be kept under review, particularly for any shorter term employers.

During the year the Fund received £138.1m in contribution income - 80% of which is from lower risk employers i.e. local councils and police. A further 8% comes from academies who have a guarantee from the government. The fund remains cash-flow positive with the majority of investment income being reinvested rather than used to pay benefits.

The majority (74.3%, or £54.2m) of the Fund's investment income is currently re-invested within the two investment portfolios (Baillie Gifford and UBS). The Fund has undertaken modelling on the impact on cash-flows from any reduction of employer and investment income. This shows that even with a reduction in contribution and property income and an increase in pension payments the fund would remain cash-flow positive. As at 31 March 20 the Pension Fund was holding £119m in cash and holds 85% of its assets in liquid form which could be realised within 3 months in a managed way should the need arise.

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

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

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

b. Transfers to and from other Schemes

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

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

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

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement. No bulk transfers have taken place in 2019/20 or the prior year.

c. Investment income

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

**Fund Account - Expense items**d. Benefits payable

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

e. Taxation

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

f. Management expenses

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

- i. Administrative expenses are accounted for on an accruals basis representing the annual charge relating to the pensions and payroll administration and relevant staff costs. Associated management, accommodation and other overheads are also apportioned to this activity.
- ii. Oversight and governance expenses are accounted for on an accruals basis representing the Fund's external advisors, audit and actuary fees and relevant staff costs. Associated management, accommodation and other overheads are also apportioned to this activity.
- iii. Investment management expenses (including transaction costs) are accounted for on an accruals basis. Fees of the external managers and custodian are agreed in the respective mandates governing their appointment and are mainly based on the market value of the investments under management.
- iv. The Fund has negotiated that an element of Baillie Gifford's fee is performance related. Baillie Gifford's performance related fees were £4.2m in 2019/20 (£5.7m in 2018/19).
- v. The cost of the County Council's in-house treasury management team is charged to the Fund based on a proportion of time spent by officers on treasury management. Associated management, accommodation and other overheads are also apportioned to this activity.

**Net Asset Statement**

- g. Financial assets  
Financial assets are shown at market value at the reporting date and are recognised in the Net Asset Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised. The values of investments have been determined at fair value in accordance with the requirements of the Code and IFRS13. For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016). See Note 16.
- h. Freehold and leasehold properties  
Freehold and leasehold properties have been valued at the reporting date by independent external valuers, on the basis of fair value as required by the International Financial Reporting Standards (IFRS). See Note 16.
- i. Foreign currency transactions and balances  
Dividends, interest and purchases and sales of investments in foreign currency have been recorded at the spot exchange rate and translated into sterling at the rate ruling at the date of the transaction.
- End of year spot market exchange rates are used to value cash balances in foreign currency, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.
- j. Cash and cash equivalents  
Cash comprises cash in hand and demand deposits. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of change in value.
- k. Financial liabilities  
The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Asset Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in fair value of the liabilities are recognised by the Fund.
- l. Actuarial present value of promised retirement benefits  
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. The Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Asset Statement. See Note 20.
- m. Additional voluntary contributions  
Some members of the Scheme have made additional voluntary contributions (AVC) to increase the value of their pensions. These have been invested separately with Standard Life and Equitable Life and are therefore disclosed as a note and not included in the Fund accounts. See Note 23.

n. Contingent assets and contingent liabilities

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

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

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

**NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**Pension Fund liability

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

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

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

Directly held property

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

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

The spread of Coronavirus had a significant impact on markets in the run up to year-end and will continue to weigh heavily on global growth prospects for 2020 and beyond. A unique and challenging landscape has emerged for Governments and their economies to navigate which may impact on the assets and/or liabilities of the Pension Fund. The Administering Authority monitors risks on an ongoing basis and will consider appropriate actions where necessary.

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	<p>Estimation of the net liability to pay pensions depends on a number of assumptions relating to the discount rate used, salary and pension increases, retirement age, mortality rates and investment returns.</p> <p>The Fund actuary has been appointed to provide advice about the assumptions applied.</p>	<p>Actual experience relative to the assumptions over time. For example:</p> <p>A 0.5% decrease in discount rate at year ended 31 March 2020 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 2020 would result in an approximate increase in employer liability of between 3% and 5% (£134m and £224m).</p> <p>A 0.5% increase in the salary increase rate at year ended 31 March 2020 would result in an approximate increase in employer liability of 1% (£24m).</p> <p>A 0.5% increase in the pension increase rate at year ended 31 March 2020 would result in an approximate 10% increase in employer liability (£421m).</p>
Private equity	<p>Private equity investments are valued at fair value in accordance with industry guidelines, based on the fund manager valuations as at the end of the reporting period.</p> <p>These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. This takes into account observable and non-observable pricing inputs including public market developments (industry sector and peers), private market transactions, company specific considerations, public indices and cashflows</p>	<p>The total private equity investment in the financial statements is £91.1m. There is a risk that this investment may be under or overstated in the accounts.</p>

<p>Freehold and leasehold property</p>	<p>Independent valuation for freehold and leasehold investment property has been provided 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>However the outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Market activity is being impacted in many sectors. The valuation has therefore been reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution - should be attached to the valuation than would normally be the case.</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. The total property investment in the financial statements is £366.1m. 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

**NOTE 7: CONTRIBUTIONS RECEIVED**

By Category

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
102,858	Employers	108,941
27,454	Members	29,142
<u><b>130,312</b></u>		<u><b>138,083</b></u>

By Authority

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
57,497	Administering authority	59,943
65,473	Scheduled bodies	70,531
7,342	Admitted bodies	7,609
<u><b>130,312</b></u>		<u><b>138,083</b></u>

**NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS**

By Category

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
4,317	Individual transfers	17,562
-	Bulk transfers	-
<u><b>4,317</b></u>		<u><b>17,562</b></u>

**NOTE 9: BENEFITS PAID**

By Category	<b>2018/19</b>		<b>2019/20</b>
	<b>£000</b>		<b>£000</b>
	94,127	Pensions	98,099
	16,938	Commutation and lump sum retirement benefit	13,888
	2,746	Lump sum death benefit	2,588
	<u><b>113,811</b></u>		<u><b>114,575</b></u>

By Authority	<b>2018/19</b>		<b>2019/20</b>
	<b>£000</b>		<b>£000</b>
	51,697	Administering authority	51,901
	52,995	Scheduled bodies	53,319
	9,119	Admitted bodies	9,355
	<u><b>113,811</b></u>		<u><b>114,575</b></u>

**NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS**

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
2,769	Refunds of contributions	930
6,866	Individual transfers	14,931
1,740	Bulk transfers	-
<u><b>11,375</b></u>		<u><b>15,861</b></u>

Refund of contributions includes a £0.4m payment relating to exit credits due to two exiting employers made under regulations 74, 75 and 15(3) of the Local Government Pension Scheme (Administration) Regulations 2008, regulation 64 of the Local Government Pension Scheme (Amendment) Regulations 2018 and The Local Government Pension Scheme (Amendment) Regulations 2020. This is in addition to the £2.3m accounted for in 2018/19 but not yet settled.

**NOTE 11: MANAGEMENT EXPENSES**

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
1,224	Administrative	1,136
1,117	Oversight and governance	1,325
15,494	Investment management	14,613
<u><b>17,835</b></u>		<u><b>17,075</b></u>

**NOTE 11a: INVESTMENT MANAGEMENT EXPENSES**

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
8,346	External managers fees	9,101
5,723	Performance related fees	4,171
185	Custody fees	160
1,238	Transaction costs	1,178
2	Treasury management expenses	3
<u><b>15,494</b></u>		<u><b>14,613</b></u>

**NOTE 12: INVESTMENT INCOME**

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
40,321	Dividends from equities	51,409
3,652	Interest on bonds	2,771
2,088	Private equity income	762
14,019	Property income	16,538
686	Interest on cash deposits	1,095
609	Stock lending income	339
<u>61,375</u>		<u>72,914</u>

**NOTE 12a: PROPERTY INCOME**

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
16,479	Rental income	17,474
<u>(2,460)</u>	Direct operating expenses	<u>(936)</u>
<b>14,019</b>		<b>16,538</b>

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

**NOTE 13: OTHER FUND ACCOUNT DISCLOSURES**

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
24	Pension Advisory Board	26
<u>117</u>	ACCESS pool	<u>108</u>
<b>141</b>		<b>134</b>

ACCESS is a collaboration of eleven Central, Eastern and Southern Shires, who are working together to collectively invest assets to reduce investment costs whilst maintaining investment performance. The costs incurred for 2019/20 reflect the Fund's contribution towards the pool's activities. These costs are included within oversight and governance costs in Note 11.

**NOTE 13a: TAXES ON INCOME**

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
1,844	Tax paid on dividend payments	2,789
<u>(633)</u>	Tax recoverable	<u>(2,151)</u>
<b>1,211</b>		<b>638</b>

**NOTE 13b: EXTERNAL AUDIT COSTS**

<b>2018/19</b>		<b>2019/20</b>
<b>£000</b>		<b>£000</b>
<u>37</u>	Payable in respect of external audit	<u>23</u>
<b>37</b>		<b>23</b>

2019/20 costs include a charge of £5,500 for the prior year in respect of IAS19 assurance work. These costs are included within oversight and governance costs in Note 11.

**NOTE 14: INVESTMENTS**

<b>Market value 2018/19 £000</b>		<b>Market value 2019/20 £000</b>
	<b>Investment assets</b>	
2,164,653	Equities	1,984,456
118,002	Bonds	115,365
1,468,720	Pooled investments	1,584,546
110,727	Private equity	91,117
376,950	Property	366,125
69,405	Cash deposits	43,551
6,733	Investment income due	7,446
7,806	Amounts receivable for sales	3,378
<b><u>4,322,996</u></b>	<b>Total investment assets</b>	<b><u>4,195,984</u></b>
	<b>Investment liabilities</b>	
(9,296)	Amounts payable for purchases	(16,365)
(364)	Property income received in advance	(365)
<b><u>(9,660)</u></b>	<b>Total investment liabilities</b>	<b><u>(16,730)</u></b>
<b><u>4,313,336</u></b>	<b>Net investment assets</b>	<b><u>4,179,254</u></b>

**NOTE 14a: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES**

	<b>Current Year</b>				
	<b>Market Value at 1 April 2019</b>	<b>Purchases during the year</b>	<b>Sales during the year</b>	<b>Change in market value during the year</b>	<b>Market Value at 31 March 2020</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Bonds	118,002	11,129	(22,102)	8,336	115,365
Equities	2,164,653	662,791	(651,095)	(191,893)	1,984,456
Pooled investments	1,468,720	79,025	(25)	36,826	1,584,546
Private equity	110,727	1,379	(30,648)	9,659	91,117
Property	376,950	2,256		(13,081)	366,125
	<b>4,239,052</b>	<b>756,580</b>	<b>(703,870)</b>	<b>(150,153)</b>	<b>4,141,609</b>
Derivatives	-	-	-	-	-
<b>Sub total</b>	<b>4,239,052</b>	<b>756,580</b>	<b>(703,870)</b>	<b>(150,153)</b>	<b>4,141,609</b>
Other investment balances					
Cash deposits	69,405			(2,961)	43,551
Amount receivable for sales	7,806				3,378
Investment income due	6,733				7,446
Amount payable for purchases	(9,296)				(16,365)
Property income received in	(364)				(365)
<b>Total assets</b>	<b>4,313,336</b>			<b>(153,114)</b>	<b>4,179,254</b>

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

## NOTE 14b: ANALYSIS OF INVESTMENTS

31 March 2019 £000		31 March 2020 £000
	<b>Bonds (quoted)</b>	
	UK	
118,002	Government	115,365
<b>118,002</b>		<b>115,365</b>
	<b>Equities (quoted)</b>	
	UK	
441,531	Overseas	294,079
1,723,122		1,690,377
<b>2,164,653</b>		<b>1,984,456</b>
	<b>Pooled funds (quoted)</b>	
	UK	
401,956	Government bonds	515,866
375,092	Corporate bonds	723,341
	Overseas	
132,766	Government bonds	21,052
529,035	Corporate bonds	280,450
29,871	Cash	43,837
<b>1,468,720</b>		<b>1,584,546</b>
110,727	Private equity (unquoted)	91,117
376,950	Property (unquoted)	366,125
<b>487,677</b>		<b>457,242</b>
69,405	Cash deposits	43,551
6,733	Investment income due	7,446
7,806	Amounts receivable for sales	3,378
<b>83,944</b>		<b>54,375</b>
<b>4,322,997</b>	<b>Total investment assets</b>	<b>4,195,984</b>
	<b>Investment liabilities</b>	
(9,296)	Amounts payable for purchases	(16,365)
(364)	Property income received in advance	(365)
<b>(9,660)</b>	<b>Total investment liabilities</b>	<b>(16,730)</b>
<b>4,313,336</b>	<b>Net investment assets</b>	<b>4,179,254</b>

**NOTE 14c: INVESTMENTS ANALYSED BY FUND MANAGER**

<b>31 March 2019</b>			<b>31 March 2020</b>	
<b>%</b>	<b>£000</b>		<b>£000</b>	<b>%</b>
		<b>Share of market value held by fund managers</b>		
37.6	1,622,145	UBS Global Asset Management	1,487,321	35.6
51.1	2,202,350	Baillie Gifford & Co	2,233,290	53.4
1.4	60,924	Pantheon Ventures	48,385	1.2
1.2	49,803	Partners Group	42,732	1.0
8.7	376,950	Aberdeen Asset Management	366,125	8.8
0.0	1,164	Other investments	1,401	0.0
<b>100.0</b>	<b>4,313,336</b>		<b>4,179,254</b>	<b>100.0</b>

Northern Trust manage the stock lending programme and the income held on this account is included in the other investment balance shown above. Property income receipts in advance is also included in other investments.

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

<b>31 March 2019</b>			<b>31 March 2020</b>	
<b>%</b>	<b>£000</b>		<b>£000</b>	<b>%</b>
		<b>Baillie Gifford managed funds</b>		
21.1	922,631	Sterling Aggregate Bond Fund	1,016,520	23.6
		<b>UBS managed funds</b>		
0.7	32,468	Currency Allocation Return Fund	27,062	0.6
11.7	513,621	UK Corporate Bond UK Plus Fund	540,964	12.6
<b>33.5</b>	<b>1,468,720</b>		<b>1,584,546</b>	<b>36.8</b>

**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 2020, the value of quoted equities on loan was £203.4m (31 March 2019: £302.6m).

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 £263.6m (31 March 2019: £328.5m).

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.

**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.

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£000</b>		<b>£000</b>
344,585	Opening balance	376,950
	Additions	
25,541	Purchase of existing property	-
1,512	New construction	-
546	Subsequent expenditure	2,256
-	Disposals	-
4,766	Net increase/(decrease) in market value	(13,081)
<u><b>376,950</b></u>	Closing balance	<u><b>366,125</b></u>

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

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£000</b>		<b>£000</b>
16,434	Within one year	16,618
58,882	Between one and five years	58,147
104,501	Later than five years	93,654
<u><b>179,817</b></u>	Total future lease payments due under existing contracts	<u><b>168,419</b></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.

- a. Market quoted investments (Level 1)  
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- b. Quoted bonds (Level 1)  
Bonds are recorded at net market value based on their current yield.
- c. Pooled investment vehicles (Level 2)  
Pooled investment vehicles are valued at closing bid price at the closing date. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.
- d. Freehold and leasehold properties (Level 3)  
Freehold and leasehold properties are included on the basis of fair value. A full independent valuation of the Fund's direct property portfolio was carried out by Savills (UK) Ltd, Chartered Surveyors, in accordance with the RICS Valuation – Professional Standards (January 2020) 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 (see note 5).

e. Private equity (Level 3)

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

- The valuation of Partners Group portfolio is taken from the unaudited 31 March 2020 fund-of-fund reports.

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 estimated 31 March 2020 fund-of-fund reports.

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

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

Sensitivity of assets valued at Level 3

Having consulted with independent investment advisors and fund managers on historical data and current market trends, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

	<b>Assessed valuation range</b>	<b>Value at 31 March 2020</b>	<b>Value on increase</b>	<b>Value on decrease</b>
	<b>(+/-)</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Freehold and leasehold property (a)	10%	366,125	402,738	329,513
Private equity (b)	15%	91,117	104,784	77,449
		<b>457,242</b>	<b>507,522</b>	<b>406,962</b>

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

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

**NOTE 16a: FAIR VALUE HIERARCHY**

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

Level 1

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

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

Level 2

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

Level 3

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

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

The valuation of both private equity and property 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.

Values at 31 March 2020	Quoted market price	Using observable inputs	With significant unobservable inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	2,099,784	1,584,546	91,154	3,775,484
Non-financial assets at fair value through profit and loss			366,125	366,125
<b>Net investment assets</b>	<b>2,099,784</b>	<b>1,584,546</b>	<b>457,279</b>	<b>4,141,609</b>

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

**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 2019	Transfers into / (out of) Level 3	Net purchases / (sales) during the year	Unrealised gains / (losses)	Realised gains / (losses)	Market Value 31 March 2020
	£000	£000	£000	£000	£000	£000
Private equity	110,727	-	(29,269)	(11,161)	20,820	91,117
Property	376,950	-	2,256	(13,081)	-	366,125
Equity	-	37	-	-	-	37
	<b>487,677</b>	<b>37</b>	<b>(27,013)</b>	<b>(24,242)</b>	<b>20,820</b>	<b>457,279</b>

A delisted equity asset has been reclassified from level 1 to level 3 which is reflected in the above table.

**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.

Fair value through profit and loss £000	31 March 2019		Liabilities at amortised cost £000		31 March 2020		Liabilities at amortised cost £000
	Fair value through profit and loss £000	Assets at amortised cost £000			Fair value through profit and loss £000	Assets at amortised cost £000	
				<b>Financial assets</b>			
118,002	-	-	-	Bonds	115,365	-	-
2,164,653	-	-	-	Equities	1,984,456	-	-
1,468,720	-	-	-	Bond and currency funds	1,584,546	-	-
110,727	-	-	-	Private Equity	91,117	-	-
-	123,009	-	-	Cash	-	162,639	-
-	14,539	-	-	Investment balances	-	10,824	-
-	18,662	-	-	Debtors	-	12,240	-
<b>3,862,102</b>	<b>156,210</b>	-	-		<b>3,775,484</b>	<b>185,703</b>	-
				<b>Financial liabilities</b>			
-	-	(9,660)	-	Investment balances	-	-	(16,730)
-	-	(11,481)	-	Other current liabilities	-	-	(9,163)
<b>3,862,102</b>	<b>156,210</b>	<b>(21,141)</b>	-	<b>Total</b>	<b>3,775,484</b>	<b>185,703</b>	<b>(25,893)</b>

**NOTE 17b: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS**

31 March 2019 £000		31 March 2020 £000
210,740	<b>Financial assets</b>	
2,561	Fair value through profit and loss	(137,073)
	Amortised cost - unrealised gains	(2,961)
	<b>Financial liabilities</b>	
-	Fair value through profit and loss	-
<b>213,301</b>	<b>Total</b>	<b>(140,033)</b>

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

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

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

a. Market risk

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

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

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

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

Other price risks

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

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

The Fund's investment managers mitigate price risk through diversification and the selection of securities. Exposure is monitored to ensure it is within limits specified in the Fund's investment strategy.

Other price risks – sensitivity analysis

The Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period. This data has been provided by the Fund's actuary, Hymans Robertson, and is based on historical data.

Had the market price of the Fund investments increased/decreased as per the table below, the change in the net assets available to pay benefits in the market price would have been as follows. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. (The prior year comparator is also shown).

	Current year			
	Value at 31 March 2020	Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
<b>Asset type</b>				
UK equities	294,079	27.50%	374,951	213,208
Overseas equities	1,690,377	28.00%	2,163,682	1,217,071
Bonds	115,365	9.10%	125,863	104,867
Bond funds	1,557,485	9.41%	1,704,044	1,410,925
Cash	43,551	0.30%	43,682	43,420
Property	366,125	14.20%	418,115	314,135
Private equity	91,117	28.40%	116,994	65,240
Currency fund	27,062	10.00%	29,768	24,356
<b>Total</b>	<b>4,185,161</b>		<b>4,977,099</b>	<b>3,393,222</b>
	Previous year			
	Value at 31 March 2019	Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
<b>Asset type</b>				
UK equities	441,531	16.60%	514,825	368,217
Overseas equities	1,723,122	16.90%	2,014,330	1,431,915
Bonds	118,002	9.10%	128,740	107,264
Bond funds	1,436,253	10.53%	1,587,490	1,285,015
Cash	69,405	0.50%	69,752	69,058
Property	376,950	14.30%	430,854	323,046
Private equity	110,727	28.30%	142,063	79,391
Currency fund	32,468	10.00%	35,715	29,221
<b>Total</b>	<b>4,308,458</b>		<b>4,923,769</b>	<b>3,693,127</b>

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 2020 and 31 March 2019 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 2020	Change in year in net assets available to pay benefits	
	£000	+100 BPS £000	-100 BPS £000
<b>Asset type</b>			
Cash and cash equivalents	43,551	436	(436)
Cash balances	119,088	1,191	(1,191)
Bonds	115,365	1,154	(1,154)
<b>Total</b>	<b>278,004</b>	<b>2,781</b>	<b>(2,781)</b>
Assets exposed to interest rate risk	Previous year		
	Value at 31 March 2019	Change in year in net assets available to pay benefits	
	£000	+100 BPS £000	-100 BPS £000
<b>Asset type</b>			
Cash and cash equivalents	69,405	694	(694)
Cash balances	53,604	536	(536)
Bonds	118,002	1,180	(1,180)
<b>Total</b>	<b>241,011</b>	<b>2,410</b>	<b>(2,410)</b>

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 Increase	Value on
	31 March 2020	%	£000	Decrease
Asset type	£000		£000	£000
Overseas equities	1,690,377	10.00	1,859,414	1,521,339
Overseas bonds	301,502	10.00	331,652	271,352
Overseas private equity	91,117	10.00	100,228	82,005
<b>Total</b>	<b>2,082,996</b>		<b>2,291,295</b>	<b>1,874,696</b>

Assets exposed to currency risk	Previous year			
	Value at	Change	Value on Increase	Value on
	31 March 2019	%	£000	Decrease
Asset type	£000		£000	£000
Overseas equities	1,723,122	10.00	1,895,434	1,550,810
Overseas bonds	661,801	10.00	727,981	595,621
Overseas private equity	110,727	10.00	121,800	99,654
<b>Total</b>	<b>2,495,650</b>		<b>2,745,215</b>	<b>2,246,085</b>

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 £43.6m in cash (31 March 2019: £69.4m) and cash internally managed by WSCC at 31 March 2020 was £119.1m (31 March 2019: £53.6m). This was held by institutions with the following credit ratings :

	<b>Nominal amount 31 March 2019</b>	<b>Nominal amount 31 March 2020</b>
	<b>£000</b>	<b>£000</b>
AAA rated counterparties	42,200	
AA- rated counterparties	-	-
A rated counterparties	80,809	162,639
<b>TOTAL</b>	<b>123,009</b>	<b>162,639</b>

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 2020, 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, Northern Trust 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 Northern Trust'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 2019 and the next valuation will take place as at 31 March 2022.

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

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £4,374 million, were sufficient to meet 112% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2019 valuation was £455 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2022 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 2019 valuation were as follows:

	31 March 2019 %
Discount rate	3.1
Salary increase assumption	2.8
Benefit increase assumption (CPI)	2.3

Demographic assumptions

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's

	Males	Females
Current Pensioners	22.2 years	24.2 years
Future Pensioners	23.3 years	25.9 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 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The FSS will also be reviewed at that time.

**NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS**

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund's liabilities on an IAS 19 basis, using the same base data as the funding valuation. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (Note 19). The actuary has also valued ill health and death benefits in line with IAS 19.

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£m</b>		<b>£m</b>
(2,442)	Active members	(1,617)
(1,012)	Deferred pensioners	(1,084)
(1,507)	Pensioners	(1,670)
<u>(4,961)</u>	Present value of promised retirement benefits	<u>(4,371)</u>
4,374	Fair value of scheme assets (bid value)	4,301
<u>(587)</u>	Net liability	<u>(70)</u>

As noted above, the liabilities above are calculated on an IAS 19 basis and will therefore differ from the results of the 2019 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 2020 and 31 March 2019.

The Fund actuary estimates that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £463m. The Fund actuary estimates the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £225m.

	31 March 2019 % p.a.	31 March 2020 % p.a.
Inflation / pensions increase rate	2.5	1.9
Salary increase rate	3.2	2.3
Discount rate	2.4	2.3

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.50% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.2 years	24.2 years
Future pensioners *	23.3 years	25.9 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.

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**

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£000</b>		<b>£000</b>
2,473	Debtors:	
8,730	Contributions due - members	2,835
1,290	Contributions due - employers	5,969
1,238	Prepayments	1,404
4,931	Other debtors	1,573
<u>18,662</u>	Taxation	<u>459</u>
53,604	Cash balances	12,240
<b><u>72,266</u></b>		<b><u>119,088</u></b>
		<b><u>131,328</u></b>

Analysis of debtors

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£000</b>		<b>£000</b>
6,443	Central government bodies	4,078
6,954	Other local authorities	3,844
2,512	Educational establishments	1,486
2,753	Other entities and individuals	2,832
<u>18,662</u>		<u>12,240</u>
		<b><u>12,240</u></b>

**NOTE 22: CURRENT LIABILITIES**

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£000</b>		<b>£000</b>
-	Contributions	-
1,215	Benefits payable	1,095
10,266	Other current liabilities	8,068
<u>11,481</u>		<u>9,163</u>
		<b><u>9,163</u></b>

Analysis of creditors

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£000</b>		<b>£000</b>
1,021	Central government bodies	1,032
184	Other local authorities	663
1,239	Educational establishments	-
9,037	Other entities and individuals	7,468
<u>11,481</u>		<u>9,163</u>
		<b><u>9,163</u></b>

The Pension Fund has made a provision of £0.4m relating to exit credits due to two exiting employers made under regulations 74, 75 and 15(3) of the Local Government Pension Scheme (Administration) Regulations 2008, regulation 64 of the Local Government Pension Scheme (Amendment) Regulations 2018 and The Local Government Pension Scheme (Amendment) Regulations 2020. This is in addition to the £2.3m accounted for in 2018/19 but not yet settled.

**NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS**

<b>Market Value £000</b>		<b>Market Value £000</b>
2,139	Standard Life	2,108
<u>403</u>	Utmost (previously Equitable Life)	<u>429</u>
<b><u>2,542</u></b>		<b><u>2,537</u></b>

AVC Contributions of £444,912 were paid directly to Standard Life during the year (2018/19: £349,873). The Equitable Life contributions ceased in 2001. AVCs are separately invested and are therefore not included in the Pension Fund accounts in accordance with regulations 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) regulations 2016.

A policy holder meeting on 1 November 2019 voted in favour of the proposed Part VII transfer of Equitable Life's business to Utmost Life. The High Court gave its approval on 4 December and the transfer took place on 1 January 2020.

**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 £0.6m (2018/19: £1.1m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £59.9m to the Fund in 2019/20 (2018/19: £57.5m). 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 2020, the Fund had a daily average investment balance of £107.7m held in Sterling (31 March 2019: £50.0m) earning interest of £0.68m (2018/19: £0.31m) in these funds at a rate of return of 0.63% (2018/19: 0.62%). Additionally, the Fund has earned interest of £0.02m on investments held in foreign currency (2018/19: £0.13m).

Governance

One member of the Pensions Panel is in receipt of pension benefits from the West Sussex Pension Fund.

Each member of the Pensions Panel is required to declare their interests at each meeting.

**NOTE 24a: KEY MANAGEMENT PERSONNEL**

The Director of Finance and Support Services (formerly Director of Finance, Performance and Procurement) and S151 officer has responsibility for the proper financial administration of the Fund under the Local Government Act 1972. This Officer is employed by the Administering Authority but spent a proportion of time on the financial management of the Fund. The total Pension Fund expense relating to Key Management Personnel is set out below:

<b>31 March 2019</b>		<b>31 March 2020</b>
<b>£000</b>		<b>£000</b>
16	Total apportioned remuneration	16

**NOTE 25: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS**

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

Estimates provided to members indicate that at year-end there are potential liabilities of £0.7m in respect of members who have enquired about transferring benefits out of the scheme and on whom the Fund is awaiting a final decision.

Outstanding commitments in private equity at 31 March 2020 totalled £24.9m (31 March 2019 £27.6m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the period of investment.

**NOTE 26: CONTINGENT ASSETS**

There were no contingent assets at the period end.

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

### **Opinion**

We have audited the pension fund financial statements for the year ended 31 March 2020 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 2019/20.

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 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

### **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.

### **Emphasis of matter – Directly held property valuation**

We draw attention to Note 5, Assumptions made about the future and other major sources of estimation uncertainty, of the financial statements, which describes the valuation uncertainty the Pension Fund is facing as a result of COVID-19 in relation to directly held property valuations. Our opinion is not modified in respect of this matter.

### **Conclusions relating to going concern**

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

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

## **Other information**

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

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

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

We have nothing to report in this regard.

## **Matters on which we report by exception**

We report to you if:

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

We have nothing to report in these respects.

## **Responsibility of the Director of Finance and Support Services**

As explained more fully in the Statement of Responsibilities, the Director of Finance and Support Services is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

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

## **Auditor's responsibilities for the audit of the financial statements**

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

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

## **Use of our report**

This report is made solely to the members of West Sussex 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  
26 November 2020