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13 July 2018

Regulation, Audit and Accounts Committee

A meeting of the committee will be held at **10.30 am** on **Monday, 23 July 2018** at **County Hall, Chichester**.

Tony Kershaw
Director of Law and Assurance

Agenda

1. **Declarations of Interest**

   Members and officers must declare any pecuniary or personal interest in any business on the agenda. They should also make declarations at any stage such an interest becomes apparent during the meeting. Consideration should be given to leaving the meeting if the nature of the interest warrants it. If in doubt please contact Democratic Services before the meeting.

2. **Minutes of the last meeting of the Committee** (Pages 5 - 14)

   The Committee is asked to agree the minutes of the meeting held on 26 March 2018 (cream paper).

3. **Urgent Matters**

   Items not on the agenda which the Chairman of the meeting is of the opinion should be considered as a matter of urgency by reason of special circumstances.

4. **Responses Received**

   The committee is asked to note the received letters in response to the queries raised at the previous meeting regarding Carillion.

   (a) **Letter from the Cabinet Member for Environment** (Pages 15 - 18)

   (b) **Letter from the Chairman of the Contract Management Scrutiny Task and Finish Group** (Pages 19 - 20)

5. **External Audit Report**

   The Committee is asked to review and note the audit result reports from EY for West Sussex County Council and the West Sussex Pension Fund.

(a) **Audit Results Report – West Sussex County Council** (Pages 21 - 78)

(b) **Audit Results Report – West Sussex Pension Fund** (Pages 79 - 114)

6. **Financial Statements 2017/18** (Pages 115 - 276)

Report by the Director of Finance, Performance and Procurement.

The Committee is asked to approve the Statement of Accounts for 2017/18 for West Sussex County Council and the West Sussex Pension Fund, for signing by the Chairman of the Committee.

7. **Annual Governance Statement 2017/18** (Pages 277 - 314)

Report by Director of Finance, Performance and Procurement and Director of Law and Assurance.

The Committee is asked to approve the draft Annual Governance Statement for signature by the Leader of the County Council and the Chief Executive, subject to any amendments that this Committee may wish to make.

The Committee is also asked to agree the draft action plan arising from the 2017/18 Statement.

8. **Review of Financial Regulations and Financial Procedures** (Pages 315 - 336)

Report by Director of Finance, Performance and Procurement and Director of Law and Assurance.

The Committee is asked to approve the revised Financial Regulations following their endorsement by the Governance Committee on 25 June 2018; that the proposal to hold the Treasury Management Policy Statement and the Financial Procedures outside of the Council's Constitution be endorsed for onward approval by the County Council on 20 July 2018, as part of the current review of the Constitution, subject to committee endorsement; and that the Financial Regulations and Financial Procedures are reviewed in 2021.

9. **Internal Audit - Annual Audit Report 2017/18** (Pages 337 - 354)

Report by the Report by Director of Finance, Performance and Procurement and Head of Southern Internal Audit Partnership.

The Committee is asked to approve the annual audit report for the year ended 31st March 2018.

10. **Internal Audit - Annual Fraud Report 2017/18** (Pages 355 - 368)

Report by Director of Finance, Performance and Procurement and Head of Southern Internal Audit Partnership.

The Committee is asked to note the annual fraud report for the year ended 31st March 2018.

11. **Quarterly Review of the Corporate Risk Register** (Pages 369 - 380)

Report by the Director of Finance, Performance and Procurement.

The Committee is asked to review the information detailed in the report, the current Corporate Risk Register and provide comment as necessary.

12. **Treasury Management Compliance Report - First Quarter 2018/19** (Pages 381 - 388)

Report by the Director of Finance, Performance and Procurement.

The Committee is asked to note the report.

13. **General Data Protection Regulations**

The Committee to receive a verbal update on the impact of General Data Protection Regulations (GDPR).

14. **Training Considerations**

Committee to consider any training needs for the forthcoming year.

15. **Date of Next Meeting**

The next meeting of the Committee will be held at 10.30 am on 5 November 2018 at County Hall, Chichester.

To all members of the Regulation, Audit and Accounts Committee

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Regulation, Audit and Accounts Committee

26 March 2018 – At a meeting of the Committee held at 10.30 a.m. at County Hall, Chichester.

Present: Dr Dennis (Chairman), Mr Waight (Vice Chairman), Mr Bradford, Mrs Dennis, Mr Lea and Mr Fitzjohn

Apologies for absence were received from Mr Patel.

In attendance by invitation: Mr Hunt (Cabinet Member for Finance and Resources).

Declarations of Interest

146. Mr Fitzjohn declared a personal interest as he held financial agencies with some of the banks listed within the Treasury Management Compliance Report

147. Mr Waight declared a personal interest as a Worthing Borough Council Member in relation to the General Data Protection Regulation (GDPR) Assurance report.

148. Mr Lea declared a personal interest as a Member of the Mid Sussex District Council Audit Committee. Mr Lea also declared a personal interest in relation to his professional role in IT.

149. Mrs Dennis declared a personal interest as a school governor in relation to the General Data Protection Regulation (GDPR) Assurance report.

150. Ms Eberhart (Director of Finance, Performance & Procurement) declared a personal interest as her daughter is employed at Ernst & Young (EY).

Minutes of the previous meeting

151. The Committee considered the minutes regarding the Motion discussion and felt that more detail could be added.

152. It was proposed to append the original motion wording to the minutes and to include 'using straight forward language and drawing attention to any significant matters' to the resolution.

153. Resolved – That the minutes of the meeting of the Committee held on 27 November, amended as above, be approved as a correct record and that they be signed by the Chairman.

External Audit

154. The Committee considered the Audit Planning reports by the External Auditor EY (copies appended to the signed minutes).

155. Mrs Thompson (EY) introduced the West Sussex County Council Audit Planning report and drew attention to the three areas that were subject to more audit focus; Pension Liability Valuation, Valuation of Land and Buildings, and Private Finance Initiative (PFI). The format of the Restatement of the Comprehensive Income and Expenditure Statement (CIES) would also require updating.

156. Mrs Thompson spoke on materiality calculations and how the range on this had risen from 1% to 2%, which would be kept under review. It was also acknowledged that members would want reassurance on Value for Money Risks.

157. Mrs Thompson spoke on audit timetables and explained that EY had set times to arrive and leave on site and so work had to be completed within this time.

158. The Committee made comments including those that follow.

- Queried the interim audit report. – *Mrs Thompson summarised the work that had been completed in the interim which included work on; income and expenditure; Property, Plant and Equipment capital programme testing; payroll; starters and leavers; investment property; CIES; journal testing; Minimum Revenue Provision calculations; and value for money work. Mrs Thompson commented that this work had proved satisfactory, but that testing work would need topping up to ensure a continued good report.*
- Sought clarity on the impact on the change in materiality range. – *Mrs Thompson explained that the change would impact on the sample sizes for substantive testing. The testing threshold of 75% remained the same within year. It was explained that underlying errors would still be investigated and that work could be done to measure the impact of the change.*
- Asked if the change in materiality would increase risk exposure. – *Mrs Thompson explained that EY had the ability to use a 0.5% to 2% threshold range. Whilst the range would change the amount in the gross revenue expenditure account that was untested, the sampling methodology would not change and so the large items would still be looked at. A good knowledge of the County Council also helped to identify issues. The range would be monitored and EY would be aware of the perceived risk.*
- Queried if multiple entries would be picked up under the new materiality threshold. – *Mrs Thompson explained that any difference over £1.3m had to be recorded and so differences would be logged for evaluation.*
- Asked if EY's fee would increase if the threshold went back to 1%. – *Mrs Thompson explained that there would be no change in fee unless errors were identified and identified risks changed.*
- Queried how transactions under the threshold were monitored. – *Mrs Thompson explained that these transactions were outside of key items. The methodology required sampling of the residual population to be considered and tested appropriately. Any errors, of any size, were investigated. Items in the sample were not ignored.*
- Sought clarity on what were considered future risks. – *Mrs Thompson reported that the value for money work seemed realistic, but felt that contracts for delivery of key services held a large exposure to risk. Any cause for concern would be investigated. EY's role would be to highlight any areas without a clear action plan and discuss with officers.*
- Asked if the Waste PFI was a high risk. – *Mrs Thompson confirmed that this part of the letter needed correction. The detailed section for PFI within the report confirmed what was happening. The Waste PFI was not a specific risk.*

- Queried if the fee assumption was expected to be correct. – *Mrs Thompson reported that there were currently no indications that the fee would not be on target.*
- Sought clarity on the consequences of not meeting the audit deadline. – *Ms Eberhart reported that the work was challenging but officers had every intention of meeting the target. Mrs Thompson confirmed that EY would only remain on site for the agreed timeframe. Whilst there was no financial or legal risk to missing the deadline, there would be reputational risk for the County Council.*

159. Mrs Thompson (EY) introduced the West Sussex Pension Fund Audit Planning report and reported that interim work on this had been satisfactory.

160. The Committee queried the £10.697m figure for materiality. – *Mrs Thompson confirmed this figure was incorrect and apologised.*

161. Resolved – That the Audit Planning reports be noted.

Internal Audit Progress Report – February 2018

162. The Committee considered a report by the Head of Southern Internal Audit Partnership (copy appended to the signed minutes).

163. Mr Pitman, Head of Southern Internal Audit Partnership, introduced the report and explained the work that was in progress for General Data Protection Regulation (GDPR) readiness.

164. The Committee made comments including those that follow.

- Queried the phrase 'generally conforms' in the assessment from Mazars. – *Mr Pitman explained this was the best rating you could get and is a term used for assessing conformance.*
- Requested detail on the medium priority recommendations; how long had they been recommendations and should the report contain more detail. – *Mr Pitman confirmed that actions were in place for these items. Assurance was given that recommendations were continually monitored.*
- Questioned the delay with the Ethical Governance priority. – *Mr Pitman explained that the delay was due to a change in staff within Human Resources, but reported that the policies were being looked at.*
- Queried the availability of the audit work reports. – *Ms Eberhart explained that the report set out the relevant information for the Committee. Members were advised to contact the audit team if they had concerns with any particular items.*

165. Resolved – That the Committee notes the Internal Audit Progress report.

Internal Audit Plan 2018/19

166. The Committee considered a report by the Head of Southern Internal Audit Partnership (copy appended to the signed minutes).

167. Mr Pitman introduced the report and explained that the plan highlighted risks and relevant corporate priorities. The plan was fluid and any changes would be brought to members' attention via the quarterly progress report.

168. The Committee made comments including those that follow.

- Queried where the risk descriptions had come from. – *Ms Eberhart explained that these anecdotal comments had come from the risk register and would be used to drive the plan.*
- Sought clarity on the process for tender arrangements. – *Ms Eberhart explained that the level of officer oversight was linked to the value of the tender. Agreement from a senior officer with budget approval was always required.*
- Queried the process for P-Card transaction approval. – *Ms Eberhart explained that P-Cards could only be used for small transactions, £600 per transaction and £4000 per month. They should not be used for long term transaction arrangements. Payments were reviewed regularly and any issues were raised with the Executive Leadership Team. Fraud was also considered as part of the process. A recent review had shown that improvements could be made to the process, but there were no other concerns.*
- Asked what level of materiality would be looked at. – *Mr Pitman explained that there was not a monetary level that would be looked at. Frequency and trends would be monitored.*
- Queried the difference between the dialogue in the plan and the risk register for risk CR55. – *Mr Pitman reported that audit was looking into this risk and the implications for the service.*
- Questioned when the external quality review was scheduled. – *Mr Pitman confirmed that the external review was scheduled every 5 years, the internal review was annual. Mrs Thompson added that EY had regular meetings with Internal Audit and their work was taken into consideration.*
- Asked if there were appropriate resources to deliver the plan. – *Mr Pitman said it was a comprehensive plan that he believed was achievable.*

169. Mr Hunt welcomed the quality of the work performed by Mr Pitman and his team.

170. Resolved – That the contents of the Internal Audit Plan and Fraud Plan for 2018/19 be approved.

Internal Audit Charter 2018-19

171. The Committee considered a report by the Head of Southern Internal Audit Partnership (copy appended to the signed minutes).

172. Mr Pitman introduced the report and explained that it had last come to the Committee in September and that there had been a change in terminology in the document. Mr Pitman explained that his role was appraised through the host authority which would engage with Ms Eberhart. A questionnaire would also go to committee members.

173. The Committee queried if a 5 year plan would be more appropriate. – *Mr Pitman proposed that an overview of the last few years could be provided. Mr Pitman added that the Audit Partnership was able to utilize intelligence of the wider authorities enabling the plan to be more dynamic and responsive to sector specific risk.*

174. Resolved – That the Internal Audit Charter 2018-19 be approved.

Draft Annual Governance Statement 2017/18

175. The Committee considered a report by the Director of Law and Assurance (copy appended to the signed minutes).

176. Mr Gauntlett, Senior Advisor, introduced the report which provided the public a summary of the Council's governance arrangements. The committee was asked to comment on the draft, and then consider the final version at the July meeting.

177. The Committee made comments including those that follow.

- Queried the quarterly reminder for members to consider their register of interest. – *Mr Gauntlett confirmed that this was included within an email sent with the Members' Information Service.*
- Commented that some Members were not receiving password change reminders. – *Mr Chisnall, Democratic Services Officer, proposed this was linked to the newly elected members' computer profiles and agreed to investigate this matter.*
- Felt that effective scrutiny should be highlighted. – *Mr Gauntlett explained that a large part of effective scrutiny at the Council was decision preview and Business Planning Group activity. Mr Gauntlett agreed to add this to the final version to confirm scrutiny arrangements.*

178. Resolved –That, subject to the change requested in minute 177, the draft Annual Governance Statement be supported.

Financial Statements 2017/18 – Plans and Progress

179. The Committee considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

180. Mrs Chuter, Financial Reporting Manager, introduced the report and explained that a change in regulations had brought plans forwards in that the draft statements had to be produced by 31 May. The timetable did not allow time for the Committee to see the draft statements; however the Committee were reminded of the Financial Statement training on the 13 June where the draft papers would be discussed.

181. The Committee made comments including those that follow.

- Queried if there was appropriate resource to meet the required deadlines. – *Mrs Chuter reported that there was a team of 4 for the West Sussex County Council and a similar team for the West Sussex Pension Fund. A contingency would be to bring in agency staff if necessary. The accounts would be the main focus for the team, as well as business as usual activity.*

- Sought clarity on the reported corruption of *SAP Business Warehouse (BW). – Mrs Chuter reported that IT was working on a patch to resolve the issue. Reassurance was given that there was no danger of corrupting financial records. Ms Eberhart reported that this was not considered a material risk to the closedown.*
- Asked if IT performance issues would impact delivery. *– Mrs Chuter reported that alternatives systems were available if BW was unavailable which would only impact 1 day of work.*
- Commented that the timing of the finance department restructure could impact the closedown. *– Mrs Chuter explained that the restructure happened in 2017 followed by staff member promotion. It was felt that the restructure had strengthened the team and a solution has now been found for the staff vacancy.*
- Asked how long £10,000 had been the level for capitalisation of expenditure on property, plant and equipment. *– Mrs Chuter confirmed that this had been the level for a number of years.*
- Queried the recording of non-saleable assets. *– Mrs Chuter explained that there were various categories used for assets and that the balance sheet showed investment assets.*
- Sought clarity on investment property hybrid assets. *– Mrs Thompson explained that the CIPFA code had changed on this and that if an asset was used in any way to deliver Council services it must be classed as an operational asset, not as an investment property.*
- Queried the risk to the pension fund timetable for Capita providing their information. *– Ms Eberhart reported that all deadlines had been met. Mrs Chuter added that there had been close work with Capita in preparation for the closedown work.*

182. Resolved – That the Committee:

(1) Notes the project plans for the County Council and Pension Fund accounts and the progress to date.

(2) Approves the draft accounting policies for both the County Council and Pension Fund accounts for 2017/18 for application in preparing this year's accounts.

Quarterly Review of the Corporate Risk Register

183. The Committee considered a report by the Director of Law and Assurance (copy appended to the signed minutes).

184. Mr Pake, Corporate Risk and Business Planning Manager, introduced the report and explained that Mrs Curry had recently been appointed as the Executive Director Children, Adults, Families, Health & Education who had taken ownership of Risk 55 and put measures in place to control the risk at an acceptable level. Mr Pake reported that this was being managed well.

185. The Chairman proposed inviting Mrs Curry to the next Committee meeting to discuss risk CR55. The Committee agreed to this proposal.

186. Mr Pake reported that work was underway to create e-learning modules which were expected to go live in the Summer.

187. The Committee made comments including those that follow.

- Asked who would be completing the e-learning modules. – *Mr Pake explained that the expectation would be for new starters to complete the modules. It was hoped that it would also be an annual requirement.*
- Queried the progress on embedding risk into County Council culture. – *Mr Pake reported that whilst progress had been slower than hoped, work was underway to look into specifications to understand the content for training.*
- Asked how contractor risks were considered. – *Mr Pake explained that both the Capital and Corporate Portfolio Management Office were aligned to the corporate risk management strategy and had their own risk logs. Risk reports were considered by the transformation board. Mr Pake had oversight of the highlight report to analyse trends. Ms Eberhart added that the capital programme had its own risk register which was monitored by the Cabinet Member for Finance and Resources and the Capital Asset Board. The relevant Director would remain responsible for the risk.*
- Sought clarity on the action that had been taken following the initial profit warning on Carillion and the subsequent warnings which had ultimately lead to an urgent action decision to appoint Arun Construction as Principal Contractor to complete the Westhampnett Solar Farm project. – *Ms Eberhart explained that the contract with Carillion was already in place at the time of collapse and that there was not a dismissal clause within the contract. At the time Carillion Energy Services were declared insolvent, the Westhampnett solar farm was 95% complete and a decision was required to complete the project. Mr Hunt commented that the Cabinet Member for Environment was not in attendance and so it was not possible to report on the actions that had taken place between the initial profit warning and the urgent action decision. As an example, Mr Hunt explained the action that had taken place following Capita's profit warning and the contingency plans that were in place. Ms Eberhart explained that exposure to risk from contractor collapse was something that had to be considered and that a scrutiny task and finish group had been set up to look into contracts. The Committee resolved to write to the Cabinet Member for Environment to ask when she had been advised of the Carillion profit warning and what action had been taken as a consequence. The Committee also resolved to write to the Chairman of the Contract Management Scrutiny Task and Finish Group to request that lessons were learned from the Carillion collapse and the Capita profit warning; and that they were taken into consideration to improve future contract processes.*
- Queried the high risk score for Cyber-security. – *Mr Mezulis, Chief Information Officer, explained the importance of remaining vigilant to threats and gave reassurance that mitigation measures were in place. Mr Mezulis reported that he met regularly with the Cabinet Member for Highways and Infrastructure, who was responsible for this risk, to monitor the risk carefully. The Committee discussed concerns with cloud based systems.*
- Commented on risk for third party suppliers and the need to consider accounts/supply managers.
- Queried the format of the risk register and if it was possible to reorder the dates to show current rating after initial rating and add the dates of initial ratings. – *Mr Pake agreed to look into these requests.*

188. Mr Pake informed the Committee that the Risk Management Strategy had undergone a review. Members were asked to consider the proposed changes and provide comment to Mr Pake. The revised strategy would come to the next Committee meeting.

189. Resolved – That the Committee:

(1) Notes the current Corporate Risk Register and Risk Management Strategy.

(2) Invites the Executive Director Children, Adults, Families, Health & Education to the next meeting to discuss Risk CR55.

(3) Resolves to the write to the Cabinet Member for Environment to ask for details on when she was advised of the Carillion profit warning and what action was taken as a consequence.

(4) Resolves to write to the Chairman of the Contract Management Scrutiny Task and Finish Group to request that lessons are learned from the Carillion collapse and the Capita profit warning; and that they are taken into consideration to improve future contract processes.

(5) Asks for the format of the risk register to be considered to reorder the dates to show current rating after initial rating and also add the dates of initial ratings.

General Data Protection Regulation (GDRR) Assurance

190. The Committee considered a report by the Director of Law and Assurance and Chief Information Officer (copy appended to the signed minutes).

191. Mr Mezulis introduced the report and explained that the County Council complied well with current data protection regulations. Full guidance for the new GDPR arrangements was not complete yet, however the general guidance was in place.

192. It was reported that the Mr Kershaw, Director of Law and Assurance, had been appointed as the Data Protection Officer and that there would be an appointment made to a Data Protection Manager role. It was anticipated that there may be a high demand for subject matter requests with the £10 fee being removed. Agency staff could be considered to help with this.

193. The Committee made comments including those that follow.

- Queried the appointment process for the Data Protection Roles. – *Mr Mezulis explained that Mr Kershaw would be the main officer responsible for data protection acting as the formal Data Protection Officer for the Council. In addition, appointments would be made to provide for a subject matter expert role and additional support roles to manage requests and reported breaches.*
- Asked for details on the cost of responding to GDPR changes. – *Mr Mezulis reported that the cost for the County Council was likely to be in the region of £145,000, this represented the total cost of additional resources that may need to be employed.*

- Sought clarity on the role of Members and if they would be classed as data processors or data controllers. – *Mr Chisnall resolved to contact Mr Kershaw for clarity on this query.*
- Queried the approach taken to managing data assets. – *Mr Mezulis explained that data process maps would be utilised to consider prime data first, that is those data sources that act as data sources for other data collections.*
- Commented that schools may experience difficulties with compliance. – *Mr Mezulis reported that most schools were using the SIMs package which included guidance for GDPR and that guidance was available via the West Sussex Services for Schools website.*
- Asked how the regulations would impact the sharing of data between parties such as police, social services, etc. – *Mr Mezulis explained that this was linked to the protection of individuals and that parties would have to demonstrate appropriate secure compliance. Consent models were required for giving and receiving data if there is no formal legislative or regulatory basis.*
- Queried the security aspect of the regulations and how this would impact sub-contractor relations. – *Mr Mezulis confirmed that there were significant challenges, however the Council had obligations to meet the security requirements of accreditation regimes such as the Public Services Network. These underpinned the information security elements of the relationship with contractors. The technical aspects of the security accreditations were regularly reviewed and subject to monitoring and testing to identify vulnerabilities. Compliance had to be routinely demonstrated in order to keep the accreditations. Sub-contractors would have requirements built into contracts.*

194. The Committee thanked Mr Mezulis for his update on GDPR.

195. Resolved – That the plans and actions underway to enable the County Council to meet its obligations arising from the GDPR be noted.

196. **Treasury Management Compliance Report – Third Quarter 2017/18**

197. The Committee considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

198. Mrs Chuter introduced the report and confirmed that the report had been streamlined following the motion discussion at the previous meeting. It was confirmed that there had been no breaches to the strategy and no new external borrowing.

199. Resolved – That the report be noted.

200. **Duplicate Payments**

201. The Committee considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

202. Mrs Chuter introduced the report and confirmed that the report set out the full recovery from the audit recovery work carried out by Meridian Cost Benefit Limited, including supplier statements and VAT corrections.

203. The Committee made comments including those that follow.

- Queried supplier statement work being outside the scope of Capita and the costs and benefit of the exercise. – *Mrs Chuter reported that this was worth doing as Meridian recovered over £100,000, albeit labour intensive.*
- Raised concerns with the publically available data on the County Council website that seemed to include duplicate/similar transactions. – *Ms Eberhart explained that legislation required authorities to publish un-altered transactions and so the data did not include the adjustments that would have taken place. Mr Mezulis added that the data also did not include certain formats which would be reflected in the adjustment work. Ms Eberhart requested a copy of the data which she agreed to pass to the Finance team for investigation. The Committee considered writing to Government highlighting the anomaly in that the regulations enforced published transactions not including amendments.*

204. Resolved – That the Committee notes the outcome of the audit recovery work and the position regarding the current duplicate payment process.

205. **Work Programme**

206. The Committee considered a programme by the Director of Law and Assurance (copy appended to the signed minutes).

207. Mr Chisnall, Democratic Services Officer, introduced the report and confirmed that discussions had taken place with the relevant departments to ensure that time critical items had been scheduled appropriately.

208. The Committee requested that Mr Mezulis attend the July meeting to give an update on GDPR following implementation.

209. Resolved – That the outline work programme for 2018/19, with the inclusion of a GDPR update at the July meeting, be agreed.

Date of Next Meeting

210. The Committee noted that its next scheduled meeting would take place on 23 July 2018 at 10.30 a.m. at County Hall, Chichester.

211. The meeting closed at 2.42pm.

Chairman

Deborah Urquhart
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10 April 2018

Mr Nigel Dennis
Chairman
Regulation, Audit & Accounts
Committee

Dear Nigel,

Actions taken on the Carillion profit warning announcement

Thank you for your letter following the RAAC meeting on 26 March 2018. I can advise that the following actions were undertaken:

The County Council worked successfully with Carillion Energy Services, a subsidiary of Carillion PLC, between 2014 and 2017 to deliver a number of energy efficiency and renewable energy projects including the construction of Tangmere solar farm, solar PV installations on buildings and low-energy lighting upgrades. The company was chosen as the delivery partner for the Your Energy Sussex programme following an OJEU-compliant procurement in 2013. Carillion Energy Services was also the lead contractor for the Westhampnett solar farm project, the contract for which was signed and approved in May 2017 after the scheme had been considered by Select Committee and was subject to a Key Decision taken by the Leader in March 2017.

July 2017

The first Carillion profit warning was issued in July 2017. At this point Carillion announced a company restructure and a review of all its contracts both in the UK and abroad, leading to a delay announcing their half yearly profits to September. Officers were aware of these changes and remained in dialogue with the company throughout. The Cabinet Member for Environment and Directors were made aware of these issues and advised that the County Council's Commercial Finance team were undertaking their own company checks on Carillion.
At this point in time, it was noted that the share price had fallen but company information available, including an audit report undertaken a few weeks before by KPMG, showed that Carillion were still solvent.

End of Sept 2017

At the end of September 2017, Carillion announced a further profit warning on the release of their delayed half-yearly figures. The County Council took a number of precautionary steps at this point:

1. **Liaison with Market Analysts at the Cabinet Office**

   Officers sought guidance on a number of occasions from Senior Commercial Analysts at the Cabinet Office. As a Strategic Supplier to Government, the relationship between Government and Carillion was managed at a senior level within the Cabinet Office. The Cabinet Office had proactively emailed Chief Executive Officers in all Local Authorities with the offer of providing information and support.

   The Cabinet Office advised officers that the Government was doing all it could to support Carillion's continued operation and facilitate meetings with banks, however there was some concern about the company's long-term future.

   The County Council was verbally advised by the Cabinet Office to continue with any 'live' contracts with Carillion, but not to take on any new ones. All new work with Carillion was put on hold as a result of this advice and officers updated the Executive Director of EIE, the Chief Executive and the Cabinet Member of Environment accordingly.

2. **Westhampnett solar farm - security of equipment on site and in-transit**

   In relation to its sole 'live' contract with Carillion, the County Council put in place a number of measures to safeguard its position following the mid-term announcement. As part of the commercial contract to build Westhampnett solar farm, officers had put in place a number of 'vesting agreements' and an executed 'Transfer of Ownership' document which confirmed all equipment on site and in-transit as the property of the County Council.

   In addition, officers ensured that all equipment on site and in-transit was clearly marked "property of the County Council". This was checked on site by our Contract Administrator, acting on behalf of the County Council, and photographs of all equipment were taken. Additional security measures were also put in place at the Westhampnett site by Arun Construction to safeguard all County Council-owned assets.

   The County Council's litigation lead was informed of the situation and officers also notified the County Council's insurance company, who were provided with an equipment log and schedule.

   Early October 2017

1. **Meetings with sub-contractors**

   In early October officers held initial, confidential meetings with the sub-contractors about the possibility of them completing the solar farm should Carillion cease trading. At this stage it was confirmed that Arun

Construction would be willing to step in as principal contractor to complete the scheme should the contract with Carillion be terminated.
At this point in time officers also re-examined the contract with Carillion to see if it could be directly novated to Arun Construction, however it was clear that this could only happen should Carillion Energy Services become insolvent or if 6 contract breaches had been incurred. The contract was eventually terminated on 18 January on the insolvency of Carillion Energy Services.

I hope that the above information answers your questions.

Yours sincerely

Deborah Urquhart
Cabinet Member for Environment

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Roger Elkins
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Democratic Services
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2 July 2018

Nigel Dennis
Chairman of the Regulation Audit & Accounts Committee

BY EMAIL

Dear Nigel,

Thank you for your letter dated 9 April 2018 with regard the Contract Management Task and Finish Group (TFG). Through the letter you requested the TFG look at whether lessons have been learned from the Carillion collapse and the Capita profit warning; and that these are taken into consideration to improve future contract processes.

The TFG has held 3 meetings and is scheduled to report its findings and recommendations to the Performance and Finance Select Committee (PFSC) on 9 July 2018. The full report being presented to the Committee can be found by following this link *http://www2.westsussex.gov.uk/ds/cttee/pf/pf090718age.pdf*

The Group has received a lot of evidence from officers in terms of the lessons learnt and the actions taken to improve contract management in future. These include:-

- Increasing the frequency of financial health-checks
  - At least once a year finance officers to complete a detailed assessment for the top 20 suppliers and other critical suppliers,
  - On-going review of about 85 suppliers being monitored through an active alert system
  - Financial assessment and health-checks undertaken if extending or amending a contract

- Expanding financial due diligence review to cover
  - Known key suppliers in the supply-chain
  - Known small but critical suppliers integral to the County's operations
  - Utilising cross-functional audit team to review suppliers and sub-contractors

- Enhancing contract management capability as part of the new future procurement and contract management function
  - Engaging contract managers in strategic supplier reviews to ensure best value and performance is being achieved
  - Implementing a corporate assurance and central view through standardising contract management activity

- Increased investment in the procurement function which will enhance procedures to monitor contract and supplier risks.

The TFG is therefore satisfied that action has been taken to improve procedures following the issues around Carillion and Capita. They are also satisfied that the new operating model which is being proposed will improve systems and procedures. This will be dependent on the full implementation of the proposed model and recognising that staff skills and capabilities are key to the success of the new structure. To improve the governance and scrutiny arrangements around contracts the TFG has recommended that members are more involved with contracts through the select committee Business Planning Groups regularly reviewing contract data in relation to key contracts within their area of responsibility. This will be developed as the new operating model is implemented.

The TFG will also be reconvening in 12 months to review how the TFG recommendations and the new operating model have been acted upon and embedded into the contract management process. This is in order to monitor the progress being made to improve contract management across the Council.

I hope this provides you and the Committee with reassurance that contract management procedures are being improved across the Council. If you have any questions please do come back to me.

Yours sincerely,

Roger Elkins

Roger Elkins
Chairman - Contracts Management Task and Finish Group

West Sussex County Council
Audit results report
Year ended 31 March 2018

July 2018

EY
Building a better working world

12 July 2018

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Regulation, Audit and Accounts Committee. This report summarises our preliminary audit conclusion in relation to the audit of West Sussex County Council for 2017/18. We will issue our final report after the Regulation, Audit and Accounts Committee meeting scheduled for 23 July 2018.

We have substantially completed our audit of West Sussex County Council for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 4, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

This report is intended solely for the use of the Regulation, Audit and Accounts Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Regulation, Audit and Accounts Committee meeting on 23 July 2018.

Yours faithfully

Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences

05 Value for Money

06 Other reporting issues

07 Assessment of Control Environment

08 Data Analytics

9 Independence

10 Appendices

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Regulation, Audit and Accounts Committee and management of West Sussex County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Regulation, Audit and Accounts Committee, and management of West Sussex County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Regulation, Audit and Accounts Committee and management of West Sussex County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 26 March 2018 Regulation, Audit and Accounts Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following points to be noted:

- The Council restated its Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, and a number of its disclosure notes, as a result of a change in internal reporting structure in 2017/18. We were therefore required to review the restated prior year comparators shown in the 2017/18 financial statements. We are proposing to raise an additional fee for this change in audit scope. We detail our audit fees in Section 9 of this report.
- Changes in materiality - in our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £25.6 million. In the prior year we applied a threshold of 1%, meaning that materiality was set as £12.8 million. Although the Council is a public interest entity and a major local authority based on its size, we have considered the overall risk profile and public interest in comparison to other councils, and do not consider there to be any heightened risks that would mean we need to adopt a lower level of materiality. As such we have increased planning materiality to 2%. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £25.8 million. This results in updated performance materiality, at 75% of overall materiality, of £19.4 million, and an updated threshold for reporting misstatements of £1.3 million.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

Executive Summary

Status of the audit

We have substantially completed our audit of West Sussex County Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- full completion of our work on property, plant and equipment where we have one remaining issue outstanding
- any additional procedures required arising from final review of work undertaken on the file
- completion of our audit conclusion procedures
- receipt of management assurances
- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter
- full completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

The Council responded well to the challenges to the operational and delivery challenges caused by earlier deadlines for production and audit of the financial statements and we are grateful for the support received by officers.

Audit differences

Based on our work to 12 July 2018 there are two unadjusted differences arising from our audit which we wish to draw to your attention which are set out in more detail in Section 4 of this report.

A very small number of other disclosure errors were identified as a result of our work.

Executive Summary

Areas of audit focus

Our audit planning report identified key areas of focus for our audit of West Sussex County Council's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Regulation, Audit and Accounts Committee.

Control observations

We have adopted a fully substantive approach, so we have not tested the operation of controls.

We have not detected any other deficiencies in internal control through our work which we wish to draw to your attention.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our audit planning report we identified the following significant risks:

- Weaknesses in commissioning, procurement and contract management arrangements.
- Financial resilience and sustainable resource deployment.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources. Our detailed findings are set out in Section 5 of this report.

Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council and compliance with relevant guidance. We raised some queries on the final draft of the Annual Governance Statement and supporting where we believed it did not fully reflect the findings of Internal Audit work undertaken in the year. As a consequence, amendments have now been made to both the statement and supporting action plan.

As at 12 July 2018 we have not yet fully completed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

Independence

Please refer to Section 9 for our update on Independence. There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

02 Areas of Audit Focus

Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Significant Risk

What judgements are we focused on?

In addition to undertaking the procedures mandated by ISA240 (shown in the "What did we do?" section below), our work focussed on the following areas of potential management override:

Accounting policies – we reviewed accounting policies for compliance with the CIPFA Code of Practice, for appropriateness of tailoring, and for changes from the prior year. We were also mindful of possible non-compliance with accounting policies when undertaking our detailed testing of balances and transactions.

Accounting estimates – our work on estimates focussed on PPE valuation, IAS19 pension estimates and PFI valuation.

What did we do?

- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- We considered the appropriateness and application of the Council's stated accounting policies;
- We reviewed accounting estimates for evidence of management bias; and
- We evaluated the business rationale for any significant unusual transactions.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override based on our work undertaken to date. Specifically:

- We have not identified any inappropriate journals or adjustments.
- Accounting policies were in line with the requirements of the financial reporting framework. We identified no instances of the Council's accounting policies being inappropriately selected or applied by management to misreport the financial performance or position of the Council.
- We have not identified any instances of inappropriate judgements being applied in relation to accounting estimates, or other balances and transactions.
- We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Other areas of audit focus

What is the risk/area of focus?	What did we do?	What are our findings?
Valuation of Land and Buildings The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	The procedures we undertook were to: • Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample test key asset information used by the valuers in performing their valuation (for example floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuer; • Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Property; • Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated; and • Test to confirm that accounting entries have been correctly processed in the financial statements.	Our work in this area is largely complete and there are no issues arising from the work completed to date that we wish to bring to your attention. As part of work we have challenged the approach taken by the Council and its valuer to gain assurance that there is no material misstatement of the carrying value of assets in the balance sheet for assets not subject to actual revaluation in the period. To do this we have used the results of actual valuations undertaken to estimate whether any change in the carrying value of assets not subject to revaluation is necessary to prevent material misstatement of the total carrying value of PPE on the Council's balance sheet. As at 12 July we believe that the Council and valuer's judgement not to make any adjustment to the carrying value of assets not subject to revaluation is reasonable. We are, however, sharing the results of our work with an internal valuation specialist to gain expert opinion on the judgment we have formed. We are likely to raise a recommendation that the Council needs to continue to develop its internal procedures to gain assurance that the carrying value of assets not subject to actual annual revaluation as part of its 5 year rolling programme are not materially misstated.

Areas of Audit Focus

Other areas of audit focus

What is the risk/area of focus?	What did we do?	What are our findings?
PFI accounting The Council has three material PFI arrangements. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal expert in 2016/17. This resulted in amendments to entries in the financial statements and supporting accounting models for Council's Waste and Schools PFIs. Adjustments were not made for some residual differences across all three PFI schemes as they were not material at the end of 2016/17.	The procedures we undertook were to: • Review assurances brought forward from prior years regarding the appropriateness of the PFI accounting models; • Re-engaged our internal expert to consider whether any remaining adjustments were required to all three PFI models to prevent residual differences between the output of the models and the findings of our 2016/17 review becoming cumulatively material over time; • Review the PFI financial models for any significant changes; • Ensure the PFI accounting models have been updated for any service or other agreed variations and confirm the consistency of current year model with prior year brought forward assurances; and • Agree outputs of the models to the accounts, including balances and disclosures for Assets, Liabilities, and Expenditure, and review the completeness and accuracy of disclosures.	Our work in this area is complete, including review of adjustments made by the Council to its schools and street lighting models, and there are no issues arising from the review of adjustments that we wish to bring to your attention. The work of our internal specialist has, however, identified two areas where residual adjustments to the Council's accounting models and disclosures in the financial statements are required as follows. <u>Waste PFI</u> Our specialist has identified that residual adjustments are required to the accounting model so that an element of payments are allocated to contingent rent to fully comply with the requirements IAS 17. This has resulted in a year end overstatement of the related liability on the Council's balance sheet of £3.5 million with a corresponding adjustment required to the capital adjustment account in unusable reserves of approximately the same amount. <u>Schools PFI</u> The Council made £28.6 million of capital contributions to the project in its construction phase. These contributions were initially correctly accounted for as a prepayment in accordance with the requirements of UKGAAP. The change to local government financial statements being prepared in accordance with the requirements of IFRS in 2009/10 prompted the Council to allocate some £18.3 million of the capital contributions to reducing the long term liability while retaining the remaining £10.3 million as a prepayment of service costs. The CIPFA Local Authority Accounting Code of Practice is clear that, unless there is evidence to the contrary, the capital contributions should have been applied in full in 2009/10 to reducing the liability with no prepayment being retained. Review of the operator's accounting model by the specialist has shown there is no clear evidence that it was appropriate to retain any prepayment. The impact of this on the Council's balance sheet is to overstate prepayments (classified as part of debtors) by £6 million with a corresponding overstatement of the related liability by approximately the same amount.

Other areas of audit focus

What is the risk/area of focus?	What did we do?	What are our findings?
PFI accounting (contd)		The findings to identify these residual adjustments were only made available late in the audit process. It has therefore not been practicable for the Council to make the necessary adjustments to the accounting models and related disclosures in the financial statements prior to conclusion of the 2017/18 audit. The Council has agreed to make the required adjustments to the accounting models in 2018/19. The unadjusted differences are not material to the 2017/18 financial statements and have no impact on the overall reported financial performance or position of the Council.

Areas of Audit Focus

Other areas of audit focus

What is the risk/area of focus?	What did we do?	What are our findings?
Pension Asset/Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017, our assessment at the planning stage of the audit, this totalled £704.1 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	The procedures we undertook were to: • Liaise with the auditors of West Sussex Pension Fund, to obtain assurances over the information supplied to the actuary in relation to West Sussex County Council; • Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.	We did not identify any material issues with regard to the valuation of pension assets and liabilities.
Restatement of Comprehensive Income and Expenditure Statement (CIES) and Expenditure and Funding Analysis (EFA) Restructuring of services undertaken in the period will require the Council to re-analyse, re-present and re-state the portfolio analysis of its service level income and expenditure disclosed in the CIES and other related disclosures in its financial statements.	The procedures we undertook were to: • Agree the restated comparative figures back to the Council's prior year financial statements and supporting working papers; • Review the CIES, EFA and supporting notes to ensure disclosures are in line with the Code; and • Review the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.	We did not identify any material issues with regard to the restatement of the CIES, EFA and related disclosure notes.

Areas of Audit Focus

Other matters

Assessment of new Accounting Standards

IFRS 9 Financial Instruments: The 2018/19 Code introduces IFRS 9 on financial instruments. Your view is that the impact on the Council's financial statements will be immaterial. The Council will need to keep this standard under continued focus during 2018/19 because statutory overrides may be introduced by Central Government

IFRS 15 Revenue from Contracts with Customers: Similarly the 2018/19 Code of Practice on Local Authority Accounting for the United Kingdom determines how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies. In your view IFRS 15 will not have a material impact on this Council's single entity financial statements as the vast majority of the Council's income streams are taxation or grant based.

03 Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the financial statements and the firefighters' pension fund financial statements of West Sussex County Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement; Comprehensive Income and Expenditure Statement; Balance Sheet; Cash Flow Statement and the related Notes 1 to 44 and the Expenditure and Funding Analysis; and the firefighters' pension fund financial statements comprising the Fund Account and the Net Assets Statement in Note 45.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of West Sussex County Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

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

Conclusions relating to going concern

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

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

Audit Report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Narrative Report set out on pages 2 to 13, other than the financial statements and our auditor's report thereon. The Director of Finance, Performance and Procurement is responsible for the other information.

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

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

We have nothing to report in this regard.

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

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, West Sussex County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Matters on which we report by exception

We report to you if:
- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the 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.

Audit Report

Our opinion on the financial statements

Responsibility of the Director of Finance, Performance and Procurement

As explained more fully in the Statement of Responsibilities set out on page 14, the Director of Finance, Performance and Procurement is responsible for the preparation of the Statement of Accounts, which includes the Authority financial statements and the firefighters pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether West Sussex County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether West Sussex County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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

Audit Report

Our opinion on the financial statements

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

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

Certificate

We certify that we have completed the audit of the accounts of West Sussex County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

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.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of differences

We highlight misstatements greater than £19.4 million which have been corrected by management that were identified during the course of our audit. There no such adjusted differences we wish to draw to your attention.

Based on our work to 12 July 2018 there are two known unadjusted differences arising from our audit which we wish to draw to your attention:

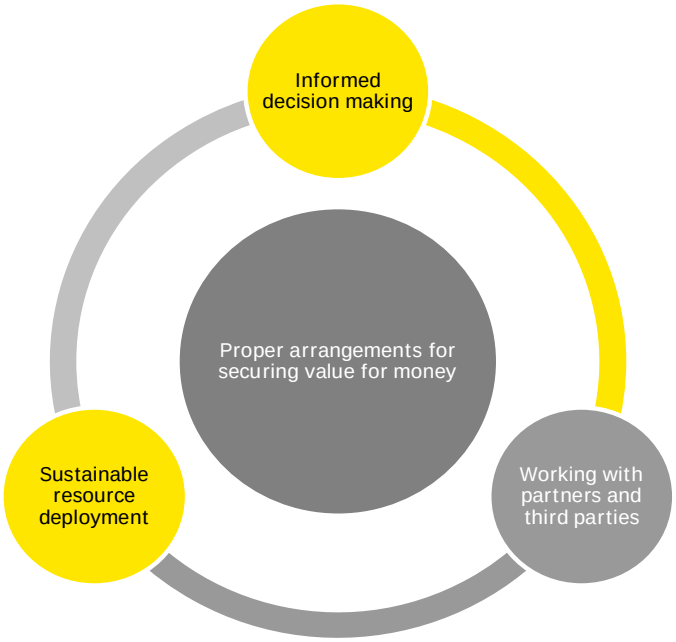
- The closing liability for the Waste PFI liability on the Council's balance sheet is overstated by £3.5 million with a corresponding adjustment required to the capital adjustment account in unusable reserves of approximately the same amount.
- Closing prepayments (classified as part of debtors) relating to the Schools PFI are overstated by £6 million with a corresponding overstatement of the related liability by approximately the same amount.

The unadjusted differences are not material to the 2017/18 financial statements and have no impact on the overall reported financial performance or position of the Council. We are requesting representations from management setting out the reasons for not making these adjustments.

A very small number of other disclosure errors were identified as a result of our work which have been amended.

05 Value for Money Risks

Value for Money



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

We identified two significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report. No further risks were identified during the course of our audit.

We expect to have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks area in our Audit Planning Report. No further risks were identified during the course of our audit.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Weaknesses in commissioning, procurement and contract management arrangements The Council itself recognises the need to develop arrangements in commissioning, procurement and contract management as part of its 2016/17 Annual Governance Statement and associated action plan. Although some progress has been made to address previously identified weaknesses in arrangements, gaps in effective commissioning continue to adversely impact on the Council's ability to assess future needs and the subsequent cost and quality of service provision, and the procurement function needs to adopt a more proactive approach. To address this there needs to be a more holistic approach to commissioning, procurement and contract management, better long term planning and development of a collective procurement strategy. It is important that the Council is able to both commission and procure supplies and services, and work with third parties effectively, to support delivery of its strategic priorities.	Working with partners and other third parties	Our approach focused on: • Reviewing the measures introduced to improve commissioning, particularly in the areas of Adults and Children's Services, with a view to improving the Council's ability to assess future needs and the subsequent cost and quality of service provision. • Reviewing the arrangements the Council has put in place to develop a more proactive procurement function. • Reviewing any enhancements to contract management arrangements, including actions taken to address resource and skill gaps. Our detailed findings are set out below. Measures introduced to improve commissioning in Adults and Children's Services, with a view to improving the Council's ability to assess future needs and the subsequent cost and quality of service provision. Arrangements in this area have been partially considered in our work to review the Council's medium term financial planning in response to the significant VFM risk raised on sustainable resource deployment. In reviewing the Council's arrangements for financial resilience we considered both work undertaken to model both the potential population growth requiring care and price inflation in the market in Adult Social Care, and the detailed historic analysis of case records undertaken in Children's services to understand at a more granular level the type, provision method, volume, duration and cost of cases.

Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

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The table below presents the findings of our work in response to the risks area in our Audit Planning Report. No further risks were identified during the course of our audit.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Weaknesses in commissioning, procurement and contract management arrangements	Working with partners and other third parties	Over recent years there has been a shift in commissioning strategy in Adults to invest in prevention to reduce demand generally, and particularly for higher cost care settings. The success of this is difficult to gauge, particularly in the short term, but there are some indications that this is starting to have an impact based on outcome based measures. Careful monitoring will continue to be required to ensure investment in prevention is resulting in lower demand and cost. A Local Government Association peer review of Adult Social has been undertaken early in 2018/19. Although not yet final or solely focused on commissioning initial indications are that this will highlight a continued need for some improvement within the service including commissioning practice. The Council will need to consider and address the findings of the final review in due course. In recent years the Council has focused on the development of arrangements supporting Adults commissioning to address the increasing cost pressures impacting on adult social care both at the Council and for other upper tier authorities more generally. However, the level of over-spending in 2016/17 on Children's Services prompted a clear realisation that the historic level of spend and commissioning practice in Children's was also not sustainable. In response to this changes in arrangements started to be introduced from calendar year 2017. In February 2017 a Quality and Development Board was established with the remit to look at the whole of Children's Services. This encompassed practice, systems and process, and strategic commissioning. A commissioning strategy was also introduced covering quality, safety and value for money. This has provided a clearer governance structure and a mechanism to hold commissioners to account on demand, quality and cost. A number of specific reviews have also been undertaken. A review of the top twenty Children's placement suppliers resulted in the commissioning arrangements for five suppliers being moved from a spot to block commissioning. The Head of Social Care has been tasked with improving commissioning practice in Children's. As a result Heads of Service now chair all placement decisions and risk is managed at case level to facilitate better management and control over decisions made on placements.

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The table below presents the findings of our work in response to the risks area in our Audit Planning Report. No further risks were identified during the course of our audit.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Weaknesses in commissioning, procurement and contract management arrangements	Working with partners and other third parties	Despite this, spending on children with complex needs remains a significant cost pressure for the Council and an area where there is a relatively large cohort of activity with a high unit cost. Cost modelling has recently been undertaken to better understand this, with the service about to recommission approximately £45 million of annual spend on children with special educational needs and social care requirements, recognising this as a particular pressure on the overall budget. A dedicated procurement lead is being used for this exercise with an imperative to reduce costs and improve value for money. Although there have been some changes to the commissioning process during 2017/18 there is a clear recognition that further change is necessary for the Council to continue discharge its duties and maintain service quality in the face of growing demographic and cost pressures. In response to this the likely direction of travel is towards a single integrated commissioning function working across service areas and together with key external partners, covering children, adults, families, health and education. *Arrangements to develop a more proactive procurement function and enhance contract management* The Council recognised the need for improvement in the procurement function and contract management and significant work has been undertaken during the period and into 2018/19 to address the known weaknesses set out in the 2016/17 Annual Governance Statement. This has resulted in the development of a draft corporate procurement strategy and detailed target operating model (TOM) which provide the overall framework for completely revised arrangements. Under the new arrangements there will be a greater level of centralisation in a corporate procurement function. The arrangements will be gated, with all significant procurements being considered by the Council's Procurement Board. New roles and responsibilities have been established with greater prominence given to the category manager role. This centralised model is intended to result in a reduced call on staff based in services who currently spend a proportion of their time work on procurement and contract management, and better value for money. Considerable time has been spent in re-establishing relationships between the central procurement team and the areas of the Council that procure significant services from third parties. Discipline and compliance

Value for Money Risks

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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Weaknesses in commissioning, procurement and contract management arrangements	Working with partners and other third parties	with the new processes will be important and financial value needs to be achieved. It is therefore essential that a collaborative whole council approach is taken where services work together with procurement. In recent years corporate procurement at the Council has had a narrow focus supporting services on specific major tenders. It has not always managed to fulfil this narrow compliance brief based on the findings of relevant work done by Internal Audit. The TOM envisages a broader role with the central procurement function needing to have far greater involvement in challenging service spending on an ongoing basis and contribution to managing within the increasingly challenging financial constraints within which the Council needs to operate. Work has also been done in the year to develop underpinning policy and guidance covering governance, strategy, process and reporting arrangements as a starting point for implementation of the TOM. This includes stage gate governance and process documentation, detailed role profiles, procurement guidance for teams, a process sourcing strategy, and revised intranet and sharepoint sites. Continued investment will be required to fully implement the revised arrangements, particularly through bolstering corporate staff and capacity. A transformation consultant has been commissioned to help provide this additional capacity. It is important the capacity and expertise of the team is addressed through effective recruitment to implement the new structure set out in the TOM. The TOM is also clear that the revised arrangements will not be fully established and embedded until 2019/20 recognising the cultural changes will take some time to embed into working practices. There was some slippage in the time table during the development of the TOM, and it is important there is a continuing focus on timely introduction of the new arrangements and monitoring against the timetable for implementation set out on the TOM. Although some progress has been made during the year in devising a new contract management system and framework the development of arrangements also needs to be accelerated. A high level contract management methodology has now been produced but progressed has been slowed by the delays in the development of the TOM model. A member's task and finish group was established to in the spring to review the contract management arrangements of the Council and the output of their work is reflected in the new TOM. Work has been undertaken to update and improve the accuracy of the corporate contract register. Following the collapse of Carillon and profit warning issued by Capita, work has been undertaken

Value for Money Risks

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The table below presents the findings of our work in response to the risks area in our Audit Planning Report. No further risks were identified during the course of our audit.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Weaknesses in commissioning, procurement and contract management arrangements	Working with partners and other third parties	to provide assurance the Council is taking reasonable steps to reduce the adverse impacts of significant contractor failure. Although the extent of what can be done is limited there has been consideration of business continuity plans, exit strategies and contractual terms around termination through a review of significant contracts. This found that reasonable arrangements were in place. Given the large number of contracts the Council is party to future arrangements for contract management under the TOM will inevitably be more reliant on teams in services, but it is envisaged that the approach will be centre-led through the centralised contract management system and framework. Overall we are satisfied that adequate arrangements were in place during the year. However, the current development of arrangements to address weaknesses is all areas considered remains a work in progress and is essential that momentum is maintained on the timely implementation of revised arrangements.

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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience and sustainable resource deployment The Council continues to have a challenging financial outlook. To balance the budget over the medium term it will need to deliver significant savings to not be dependent on its reserves. As at December 2017, the current iteration of the Council's Medium Term Financial Strategy shows a cumulative budget gap of approximately £96 million over the four years commencing 2018/19. The Council has sufficient available reserves to bridge the gap but needs to continue to identify and deliver efficiencies and related savings. Although the Council has a good track record of achieving savings and does not forecast significant overspending in 2017/18 we continue to consider the budget gap and related need to identify further savings to be a significant risk to sustainable resource deployment.	Deploy resources in a sustainable manner	We: • Considered the financial 2017/18 outturn for the Council, both revenue and capital, and any associated impacts on the Council's medium term financial planning. • Considered the reasonableness of key assumptions used in medium term financial planning. • Considered the adequacy of savings plans in place and the historic achievement of these. Our detailed findings are set out below. Financial outturn for 2017/18 and associated impacts on the Council's medium term financial planning The Council delivered an underspend of £6 million against its revenue budget for the year. This was made up of £0.4 million overspending against service level budgets, £4.5 million underspending against non-portfolio budgets and £1.9 million of unused contingency. Of the total underspend £2 million has been transferred to the General Fund and £4 million has been transferred to reserves, over-and -above transfers agreed earlier in the year. Budget carry forwards for the year of £2.6 million that were approved in February are also accounted for in this outturn position. The main areas of service over-spending were in Education and Skills, Adults and Health, and Environment. Managing spend within budget while making higher than planned contributions to reserves is a significant achievement in a challenging environment, and is also important given the high level of continuing financial uncertainty the Council needs to plan for over the medium term.

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The table below presents the findings of our work in response to the risks area in our Audit Planning Report. No further risks were identified during the course of our audit.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience and sustainable resource deployment	Deploy resources in a sustainable manner	The revised capital budget for the year was £114.6 million, with £101.0 million budgeted for core services and £13.6 million on income generating initiatives. The actual spend for 2017/18 was £98 million, representing a variance of £16.6 million, or 14 per cent, from the revised budget. The original capital budget for the year was £145.3 million, although it was clear from a relatively early stage that this would not be delivered. The Council's future financial planning factors in recurrent revenue benefits from capital investment, so continued slippage of the capital programme presents some risk over the medium term and needs to be addressed. The Council is aware of this and plans to appoint a multi-disciplinary consultant to improve project management by providing professional expertise to run difficult projects. It is also exploring the possibility of working in partnership with others to bring more capacity and experience to the management and delivery of construction projects. The reasonableness of key assumptions used in medium term financial planning The Council's MTFS was last formally updated in February although work to review, refine and update the strategy is continuous, and a further update of the Strategy was in train at the time of undertaking our year-end work. There are a number of macro-economic issues that create uncertainty and risk which are being considered: • Alongside the provisional 2018/19 local government finance settlement, the Government confirmed that it aims to implement a fair funding review of relative needs and resources in April 2020. The outcome of the Fair Funding Review will have a direct impact on how the Council is funded in the future and therefore has an impact on the current level of certainty in medium term financial planning. • Negative Revenue Support Grant. Under the provisional finance settlement for 2019/20 the Council is due to move into what is effectively a 'negative' Revenue Support Grant allocation of £2.6m, meaning that the Council could be required to make revenue payments to Government from that year. The Government is currently reviewing negative grant allocations, but the outcome of this review and any impact on the Council's financial plans are not yet known.

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The table below presents the findings of our work in response to the risks area in our Audit Planning Report. No further risks were identified during the course of our audit.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience and sustainable resource deployment	Deploy resources in a sustainable manner	• The future funding arrangements for Adult Social Care (ASC) and the future of the improved Better Care Fund grant which, following its introduction, has been an important funding source for the Council in balancing its ASC budget. • Changes to the business rate system which will allow councils to locally retain 75 per cent of business rates by 2020/21. • Demographic demand pressures. To date, this has primarily impacted on care for older people, but the Council is now also experiencing significant growth in the number of children with an Education Health and Care Plan, which is putting significant strain on the Dedicated Schools Grant High Needs block funding, with the risk of additional costs impacting the Council's general fund. • The future direction of education funding and the risks this poses to a number of schools. The impact of these factors in some cases will partly depend on decisions taken by the Council and is therefore partially within its control. However, there are issues outside the Council's control and these will need to be carefully and continuously monitored. There is also the potential for some of the factors to generate opportunities as well as risks. We have considered the general assumptions made on pay and price inflation underpinning the financial projections in the MTFS and are satisfied they are reasonable. We have also considered work done to gauge demand and other pressures for the major demand-led services areas that have caused recent budget pressure for the Council and other upper-tier authorities more generally, with a particular focus on adults and children's social care. For adults, work is undertaken to model both the potential population growth requiring care and price inflation in the market. This is not straight-forward as care needs have become more complex with service recipients often requiring support for two or more complex ailments such as dementia or physical frailty. For children's services, a detailed historic analysis of case records was undertaken to understand at a more granular level the type, provision method, volume, duration and cost of cases. This has been used forecast need and associated costs to feed into MTFS projections. The forecast also included modelling around staffing to gauge the volume and cost of agency staff required at peak times.

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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience and sustainable resource deployment	Deploy resources in a sustainable manner	The adequacy of current savings plans in place and the historic achievement in securing cost reductions The 2017/18 savings target across portfolio budgets was £16.8 million. Of this amount, £15.4 million (or 92 per cent) was delivered as originally envisaged or the saving has been achieved via a different mechanism. £1.4 million was judged as having no expectation of delivery by the end of the financial year, of which £0.5 million for waste charges has been addressed in the 2018/19 budget and the remaining £0.9 million relating to Lifelong Services and Disability Related Expenditure is planned to be delivered during future financial years. All of the savings delivered are considered to be recurrent. Looking further back the Council has a good track record of delivering its saving targets, although the ability to continue make the significant savings required to maintain a reasonable level of reserves and financial resilience over the medium term will become more difficult given the level of recurrent cost reduction already secured. This will require continued financial discipline and a preparedness to take difficult decisions. In terms of planned savings for 2018/19 the Council is currently preparing its first formal assessment of saving delivery, which identifies some risk in savings planned for highways and waste recycling. Where planned savings cannot be delivered, the Council's initial approach is to work with the relevant service to identify how this pressure can be absorbed within service budgets and, if this fails, recourse can be made to the corporate budget contingency of £3.6 million if needed. As part of work we have reviewed in more detail, one relatively high value scheme in Adults and Health planned to generate savings in 2018/19 and 2019/20 relating to the Service's revised operating model of investing in prevention to change care settings and reduce demand and cost. Recent trends in outcome based measures of service provision offer some support that investment is starting to result in outcomes that support the planned saving, and a prudent approach is being taken with the saving initially planned for 2019/20 being subsequently revised down. The planned saving is, however, fundamentally an estimate given the nature of the scheme and the difficulty in precisely estimating the impact investment in prevention will have on demand.

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The table below presents the findings of our work in response to the risks area in our Audit Planning Report. No further risks were identified during the course of our audit.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Financial resilience and sustainable resource deployment	Deploy resources in a sustainable manner	The Council is therefore aware that outcome and cost based measures of performance will require close and careful review through budget and service monitoring processes to continue to assess and potentially refine the target set. Overall we are satisfied that adequate arrangements are in place. However, like many other councils West Sussex remains subject to significant financial pressures and uncertainties over the medium term. Continued robust financial planning and monitoring arrangements, financial discipline and a preparedness to take difficult decisions will be required to maintain its financial resilience.

06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council and compliance with relevant guidance. We raised some queries on the final draft of the Annual Governance Statement and supporting where we believed it did not fully reflect the findings of Internal Audit work undertaken in the year. As a consequence, amendments have now been made to both the statement and supporting action plan.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

As at 12 July 2018 we have not yet fully completed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and

We have no matters to report.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

As at 12 July 2018 have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

08 Data Analytics

Use of Data Analytics in the Audit

Data analytics – testing of General Ledger Journals, and Employee Costs

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee costs, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes securely. These processes are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis
We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

9 Independence

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated January 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Regulation, Audit and Accounts Committee on 23 July 2018.

We confirm we have not undertaken any non-audit work outside the PSAA Code requirements.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 01 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the below table has been provided on a contingent fee basis.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	118,591**	117,612	117,612	121,062*

All fees exclude VAT

* The 2016/17 final fee includes a scale fee variation of £3,450 for work done to consider the Council's revised MRP policy that has been approved by Public Sector Audit Appointments Limited (PSAA).

** the 2017/18 includes a proposed scale fee variation of £979 for work undertaken the restatement of the CIES, EFA and related noted which constitutes a change in audit scope. This remains subject to approval by PSAA.

10 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit. In 2017/18 we have taken a wholly substantive approach to gaining audit assurance and have not sought to test controls.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Receivables	We substantively tested all assertions to gain assurance and undertook no testing of controls.	We tested controls over relevant assertions to gain partial assurance and supplemented this work with substantive testing performed in accordance with auditing standards	We consider a fully substantive approach to be more efficient.

We also undertook testing of payroll controls in the prior year but have taken a fully substantive approach in the current year because we also consider that approach to be more efficient. This does not have a direct impact on the Council's balance sheet.

Appendix B

Summary of communications

Date	Nature	Summary
Throughout the year	Meetings, calls and e-mails	The Senior Manager has been in regular contact with the Director of Finance, Performance and Procurement and corporate finance team in respect of the Council's financial risks, accounts closedown and the audit approach.
• 12/6/2017 PrAM • 26/6/2017 RAAC • 27/7/2017 Informal Update • 14/8/2017 PrAM • 4/9/2017 RAAC • 9/10/2017 Informal Update • 9/11/2017 PrAM • 27/11/2017 RAAC • 17/1/2018 Informal Update • 8/3/2018 PrAM • 26/3/2018 RAAC • 24/5/2018 Informal Update • 5/7/2018 PrAM	Meetings and reports	The current or previous Associate Partner and/or Senior Manager have attended all meetings of the Regulation, Audit and Accounts Committee held during the year and through to the date of issue of this report. This includes all informal Chair briefing sessions and pre-agenda meetings. Specific reports issued and communications with the Regulation, Audit and Accounts Committee are detailed in Appendix C. Audit progress reports have been presented to each meeting apart from the 26 March meeting of the Committee when the Audit Plan was presented.
• 26/6/2017 • 5/7/2017 • 4/9/2017 • 14/2/2018 • 12/6/2018 • 2/7/2018	Meetings	The Senior Manager and current or previous Associate Partner have met regularly with the Director of Finance, Performance and Procurement and/or the Chief Executive on a regular throughout the year to discuss audit and Council matters up to the date of issue of this report.

Appendix C

Required communications with the Regulation, Audit and Accounts Committee (RAAC)

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report, RAAC 26 March 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report, RAAC 26 March 2018
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	Audit results report, RAAC 23 July 2018

Appendix C

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	No conditions or events were identified, either individually or together to raise any doubt about West Sussex County Council's ability to continue for the 12 months from the date of our report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit results report, RAAC 23 July 2018
Subsequent events	• Enquiry of the Regulation Audit and Accounts Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	We have enquired of management and those charged with governance. We have no matters to report
Fraud	• Enquiries of the Regulation Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Regulation Audit and Accounts Committee responsibility.	Audit results report, RAAC 23 July 2018

Appendix C

Required communications	What is reported?	Our Reporting to you When and where
Related parties	Significant matters arising during the audit in connection with the Council's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Council	Audit results report, RAAC 23 July 2018
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report, RAAC 26 March 2018 and Audit results report, RAAC 23 July 2018
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Regulation Audit and Accounts Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

Appendix C

Required communications	What is reported?	Our Reporting to you When and where
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit results report, RAAC 23 July 2018
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Audit results report, RAAC 23 July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report, RAAC 23 July 2018
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit results report, RAAC 23 July 2018
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report, RAAC 26 March 2018 and Audit results report, RAAC 23July 2018

Management representation letter

Management Representation Letter

Helen Thompson
Associate Partner
Ernst & Young LLP
Threefield House
19 Threefield Lane
Southampton
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of West Sussex County Council ("the Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of West Sussex County Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.

Management representation letter

Management Representation Letter

5. We believe that the effects of any unadjusted audit differences accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and committees held through 2017/18 to the most recent meeting of the Regulation, Audit and Accounts Committee on 23 July 2018.

Management representation letter

Management Representation Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at 31 March 2018. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. As described in Note 38 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report 2017/18.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment and pension fund assets and liability. We have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Management representation letter

Management Representation Letter

H. Estimates
Valuation of Property, Plant and Equipment
Valuation of Pension Fund assets and liabilities
Accounting entries relating to Private Finance Initiative schemes

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
3. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

I. Retirement benefits
1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

_____
Katharine Eberhart
Director of Finance, Performance and Procurement

_____
Dr Nigel Dennis
Chairman of the Regulation, Audit and Accounts Committee

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West Sussex Pension Fund
Audit results report
Year ended 31 March 2018

July 2017

EY
Building a better working world

12 July 2018

Dear Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Regulation, Audit and Accounts Committee.

We have substantially completed our audit of West Sussex Pension Fund for the year ended 31 March 2018. Subject to receiving the final documents listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3, before the statutory deadline of 31 July 2018.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report, or any other issues arising from our work with you, at the Regulation, Audit and Accounts Committee meeting on 23 July 2018.

Yours faithfully

Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences

05 Other reporting issues

06 Assessment of Control Environment

07 Independence

08 Appendices

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Regulation, Audit and Accounts Committee and management of West Sussex Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Regulation, Audit and Accounts Committee, and management of West Sussex Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Regulation, Audit and Accounts Committee and management of West Sussex Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 26th March 2018 Regulation, Audit and Accounts Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

- Changes in materiality: We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 2% net assets, we have updated our overall materiality assessment to £82.0 million (Audit Planning Report – £76.0 million). This results in updated performance materiality, at 75% of overall materiality, of £61.5 million, and an updated threshold for reporting misstatements of £4.1 million.

Status of the audit

We have substantially completed our audit of the Pension Fund's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following items we expect to issue an unqualified opinion on the West Sussex Pension Fund's financial statements in the form which appears at Section 3.

- Completion of subsequent events review
- Receipt of the signed management representation letter
- Receipt of the final version of the financial statements and annual report

Audit differences

There are no unadjusted or adjusted audit differences arising from our audit that we wish to bring to your attention. Each year the Fund completes its draft financial statements based on the Partners Group and Pantheon reports, the fund managers for private equity investments, dated 31 December 2017 together with an estimate of movements in the final quarter based cash flow adjustments because reports from the fund managers are not available at the time the draft financial statements are produced. Subsequent to the completion of the draft financial statements, Partners released the full report of results as at year-end. There was a difference of £2.1 million between the estimate included in the draft financial statements and the actual closing net asset values. The Fund has now itself updated the financial statements to reflect this new information.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of the Pension Fund's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Regulation, Audit and Accounts Committee.

Executive Summary

Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you. However, we wish to draw the following weaknesses in the control environment observed as part of our audit to your attention:

- Continued weaknesses in the accuracy of membership data held on the pensions administration system disclosed at Note 1 to the financial statements and reported to the actuary.
- Weaknesses in the information provided by the outsourced pensions administration service requested to support the audit.

Further details are included in Section 6 of the report.

Other reporting issues

We have no other matters to report.

Independence

Please refer to Section 7 for our update on Independence. There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

02 Areas of Audit Focus

Areas of Audit Focus

Significant risk

Misstatements due to fraud and error - management Override

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every engagement.

Significant Risk

What did we do?

We:

- Tested journals at year-end to ensure there are no unexpected or unusual postings;
- Undertook a review of reconciliations to the fund manager, custodian and valuer reports and investigating reconciling differences;
- Re-performed the detailed investment note using the reports we have acquired directly from the custodian, valuer or fund managers;
- Checked the reconciliation of holdings included in the Net Assets Statement back to the source reports;
- Reviewed accounting estimates for evidence of management bias, including estimates with a higher level of inherent risk relating to PPE;
- Ensured the value applied to each property agrees back to the listing of deeds owned; and we viewed the deeds of any new properties acquired in the year.

We did not test investment income as the year end balance was not material.

We utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias. Our journals testing also specifically considered the risk of inappropriate or incomplete journaling of investment income and changes in market value of investments at year-end. We also consider whether there are any significant or unusual transactions outside of the Pension Fund's usual course of business.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Pension Fund's normal course of business.

03 Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the Pension Fund financial statements for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The Pension Fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the Pension Fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and the amount and disposition of the fund's assets and liabilities as at 31 March 2018; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Draft audit report

Our opinion on the financial statements

Other information

The other information comprises the information included in the West Sussex County Council Statement of Accounts 2017/18, other than the financial statements and our auditor's report thereon. The Director of Finance, Performance and Procurement is responsible for the other information.

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

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

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

Draft audit report

Our opinion on the financial statements

Responsibility of the Director of Finance, Performance and Procurement

As explained more fully in the Statement of the Responsibilities set out on page 14, the Director of Finance, Performance and Procurement is responsible for the preparation of the Authority's Statement of Accounts, which includes the Pension Fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight any misstatements greater than £61.5 million which have been corrected by management during the course of our audit. There are no corrected misstatements to bring to your attention.

We report to you any uncorrected misstatements greater than our nominal value of £4.1 million. There are no uncorrected misstatements to bring to your attention.

There is one other matter whish we wish to bring to your attention relating to an adjustment made by management to the draft financial statements submitted for audit. Each year the Fund completes its draft financial statements based on the Partners Group and Pantheon reports, the fund managers for private equity investments, dated 31 December 2017 together with an estimate of movements in the final quarter based cash flow adjustments because reports from the fund managers are not available at the time the draft financial statements are produced. Subsequent to the completion of the draft financial statements, Partners released the full report of results as at year-end. There was a difference of £2.1 million between the estimate included in the draft financial statements and the actual closing net asset values. The Fund has now itself updated the financial statements to reflect this new information. In the future the Fund should require Partners Group and Pantheon to make year-end results available prior to the draft financial statements being produced.

We have discussed this finding with management who have undertaken to impress with its fund managers the need for early provision of the 31 March reports to allow figures to be included in the draft financial statements.

05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements.

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of West Sussex Pension Fund's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We have nothing to report in respect of these matters.

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. However, there are two points we wish to bring to your attention.

Assessment of Control Environment

Observation

Note 1 of the financial statements discloses the number of active scheme members, the number of pensioners and the number of deferred pensioners as at 31 March 2018. We agreed those disclosures to membership data held on the pension administration system. We were, however, unable to agree membership data to employer returns for the year for a sample of scheduled and admitted bodies. We have therefore concluded that membership data in the pension administration system, and disclosed at Note 1 to the financial statements, could be inaccurate. This finding is consistent with known weaknesses in the accuracy of membership data on the pensions administration system, and other findings from Internal Audit reviews and our own work in previous periods.

Although we are satisfied this does not have a material impact on the financial statements this is a control weakness that needs to be addressed.

Management comment

The Fund considers it appropriate to continue to use a single source for membership figures as this provides the best record of the aggregate membership. However the Fund is working proactively to reduce as far as possible differences associated with work in progress at all points during the year, but particularly mindful of the end of year.

Observation

As part of our work we requested a transaction level listing of benefits paid at the interim stage of the audit. The pensions administration team was not able to provide an accurate transaction listing at the interim stage. We requested an updated listing at the final stage of the audit supporting the value of benefits paid listing in the financial statements. This again could not easily be provided.

Although a transaction listing supporting the balance disclosed in the financial statements was ultimately produced we considered the inability to be able to routinely provide a listing to be a deficiency in internal control that needs to be addressed.

Management comment

It is unfortunate that an incorrectly scoped report was provided to the auditors. This illustrates a weakness in management oversight and clarity of instruction which the Fund will address in the future through self-servicing where possible and ownership of instructing request where reliant on a third party. However the Fund gains assurance on the accuracy of the payments being made via payroll through the controls in place when a new beneficiary is set up on the system. In future a single administration and payroll system will further provide a control of the two processes being in alignment.

07 Independence

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated March 2018.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this.

We confirm we have undertaken no non-audit work outside the PSAA Code requirements.

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Pension Fund, and its directors and senior management and its affiliates, including all services provided by us and our network to your Pension Fund, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	31,947*	26,447	26,447	31,947*

* The 2017/18 and 2016/17 final fees Include an additional fee of £5,500 for IAS 19 assurance work on behalf of admitted bodies that has now been approved by Public Sector Audit Appointments Limited.

07 Appendices

Appendix A

Audit approach update

We are required to communicate whether there have been any changes to the audit of the net assets statement from the prior year audit. In 2017/18 we have again taken a fully substantive approach to the audit and there have been no significant changes to our approach.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Appendix B

Summary of communications

Date	Nature	Summary
Throughout the year	Meetings, calls and e-mails	The Senior Manager has been in regular contact with the Director of Finance, Performance and Procurement and corporate finance team in respect of the Fund's risks, accounts closedown and the audit approach.
• 12/6/2017 PrAM • 26/6/2017 RAAC • 27/7/2017 Informal Update • 14/8/2017 PrAM • 4/9/2017 RAAC • 9/10/2017 Informal Update • 9/11/2017 PrAM • 27/11/2017 RAAC • 17/1/2018 Informal Update • 8/3/2018 PrAM • 26/3/2018 RAAC • 24/5/2018 Informal Update • 5/7/2018 PrAM	Meetings and reports	The current or previous Associate Partner and/or Senior Manager have attended all meetings of the Regulation, Audit and Accounts Committee held during the year and through to the date of issue of this report. This includes all informal Chair briefing sessions and pre-agenda meetings. Specific reports issued and communications with the Regulation, Audit and Accounts Committee are detailed in Appendix C. Audit progress reports have been presented to each meeting apart from the 26 March meeting of the Committee when the Audit Plan was presented.
• 26/6/2017 • 5/7/2017 • 4/9/2017 • 14/2/2018 • 12/6/2018 • 2/7/2018	Meetings	The Senior Manager and current or previous Associate Partner have met regularly with the Director of Finance, Performance and Procurement and/or the Chief Executive on a regular throughout the year to discuss audit and Fund matters up to the date of issue of this report.

Appendix C

Required communications with the Regulation, Audit and Accounts Committee

There are certain communications that we must provide to the audit committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Regulation, Audit and Accounts Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	26 March 2018 Regulation, Audit and Accounts Committee – Audit Plan
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	26 March 2018 Regulation, Audit and Accounts Committee – Audit Plan
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process	23 July 2018 Regulation, Audit and Accounts Committee – Audit Results Report

Appendix C

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	23 July 2018 Regulation, Audit and Accounts Committee – Audit Results Report
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	23 July 2018 Regulation, Audit and Accounts Committee – Audit Results Report
Subsequent events	• Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	23 July 2018 Regulation, Audit and Accounts Committee – Audit Results Report
Fraud	• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Pension Fund, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility.	23 July 2018 Regulation, Audit and Accounts Committee – Audit Results Report

Appendix C

Required communications	What is reported?	Our Reporting to you When and where
Related parties	Significant matters arising during the audit in connection with the Pension Fund's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Pension Fund	23 July 2018 Regulation, Audit and Accounts Committee – Audit Results Report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	26 March 2018 Regulation, Audit and Accounts Committee – Audit Plan and 23 July 2018 Regulation, Audit and Accounts Committee – Audit Results Report
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations

Appendix C

Required communications	What is reported?	Our Reporting to you When and where
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	23 July 2018 Regulation, Audit and Accounts Committee – Audit Results Report
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	23 July 2018 Regulation, Audit and Accounts Committee – Audit Results Report
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	23 July 2018 Regulation, Audit and Accounts Committee – Audit Results Report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	23 July 2018 Regulation, Audit and Accounts Committee – Audit Results Report
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	23 July 2018 Regulation, Audit and Accounts Committee – Audit Results Report
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	26 March 2018 Regulation, Audit and Accounts Committee – Audit Plan and 23 July 2018 Regulation, Audit and Accounts Committee – Audit Results Report

Appendix D

Management representation letter

West Sussex Pension Fund

Management Rep Letter

23 July 2018
Helen Thompson
Associate Partner
Ernst & Young LLP
Threefield House
19 Threefield Lane
Southampton
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of West Sussex Pension Fund ("the Fund") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2017 to 31 March 2018 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2018, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.
Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records
We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and are free of material misstatements, including omissions. We have approved the financial statements.

Management representation letter

West Sussex Pension Fund

Management Rep Letter

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/2018 that are free from material misstatement, whether due to fraud or error.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented

B. Non-compliance with laws and regulations including fraud
1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial improprieties
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions
1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters.
- Additional information that you have requested from us for the purpose of the audit.
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

Management representation letter

West Sussex Pension Fund

Management Rep Letter

4. We have made available to you all minutes of the meetings of the Fund and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through 2016/17 to the most recent meeting of the Pensions Panel on 30 April 2018 and Regulation, Audit and Accounts Committee held on 23 July 2018.
5. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at 31 March 2018. These transactions have been appropriately accounted for and disclosed in the financial statements.
6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.
7. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
9. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

D. Liabilities and Contingencies
1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 25 to the financial statements all guarantees that we have given to third parties.
4. No claims in connection with litigation have been or are expected to be received.

E. Subsequent Events
1. As described in Note 6 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information
1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the West Sussex Pension Fund Annual Report 2017/18.
2. We confirm that the content contained within the other information is consistent with the financial statements.

Appendix D

Management representation letter

West Sussex Pension Fund

Management Rep Letter

G. Independence
1. We confirm that, under section 27 of the Pensions Act 1995, no [members of the management of the Fund] of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

H. Derivative Financial Instruments
1.We confirm that the Fund has made no direct investment in derivative financial instruments.

I. Pooling investments, including the use of collective investment vehicles and shared services
1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

J. Actuarial valuation
1. The latest report of the actuary, Steven Law from Hymns Robertson as at 31 March 2016 and dated 2nd May 2017 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

L. Estimates
1. We believe that the measurement processes, including related assumptions and models, used to determine accounting estimates have been consistently applied and are appropriate in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Yours faithfully,

_____
Katharine Eberhart
Director of Finance, Performance and Procurement

_____
Dr Nigel Dennis
Chairman of the Regulation, Audit and Accounts Committee

EY | Assurance | Tax | Transactions | Advisory

About EY
EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.
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Regulation, Audit and Accounts Committee

23 July 2018

Financial Statements 2017/18

Report by Director of Finance, Performance and Procurement

The Statement of Accounts for 2017/18 for both West Sussex County Council and the West Sussex Pension Fund are in the process of being audited. At the time of writing, the audits of both the West Sussex County Council and the West Sussex Pension Fund statements have been substantially completed. The audit has progressed well and unqualified opinions are anticipated for both sets of Statement of Accounts. Some misstatements and narrative changes have been identified during the audit. The narrative changes have been reflected in the attached updated statements.

Recommendation

The Committee is asked to approve the Statement of Accounts for 2017/18 for West Sussex County Council and the West Sussex Pension Fund, for signing by the Chairman of the Committee, as attached at Appendices Ai and Aii.

1. **Introduction**

1.1 Members have already had the opportunity to review the draft financial statements for both West Sussex County Council and West Sussex Pension Fund at the member training session held on 13 June 2018, which aimed to help members gain a greater understanding of the accounts, including a walk through of the financial statements.

1.2 The new deadlines as set out in the Accounts and Audit Regulations 2015 take effect for the 2017/18 accounts, with draft accounts to be certified by 31 May (was 30 June) and audited accounts to be published by 31 July (was 30 September). In preparation for these changes, the Council adopted a phased approach over the last four years, with 2013/14 being the baseline, with the accounts in that year signed on 30 June. Last year the draft accounts were certified on 5 June 2017 and this year the accounts for both the County Council and the Pension Fund were certified by the Director of Finance, Performance and Procurement on 31 May 2018.

1.3 External audit (EY) came on site on 4 June 2018 and both sets of accounts were accepted by EY as auditable. The Whole of Government Accounts return for the County Council was submitted on 14 June, in line with the deadline. Electronically produced working papers were made available to the auditors during the first week of their audit work for both the County Council and the Pension Fund accounts. EY were on site for five weeks having rephased a significant amount of their audit work throughout the year at both the planning and interim visits in December and February,

including substantive testing of the period April to November along with work on the value for money conclusion.

1.4 At the time of writing, the audit of the West Sussex Pension Fund statements is complete and the audit of the West Sussex County Council statements is substantially complete, with a small number of items outstanding as set out in EY's Audit Results Report. It is anticipated both accounts will receive an unqualified audit opinion. Within the Audit Results Report for West Sussex County Council, there are two unadjusted misstatements, relating to the Crawley Schools and Recycling & Waste PFI schemes. These were raised with the council very late in the audit process and it has been agreed with EY that due to the immateriality of these issues the council will review and correct during 2018/19 if necessary. Further details are set out in paragraph 2.2 below. EY have given very positive feedback to both teams in relation to the quality of the working papers along with the speed and quality of the responses to any queries which they have raised. It is also worth noting that the audit has been concluded in line with the approved timetable, allowing sufficient time for changes to be made to the accounts in time for the despatch of the committee papers.

1.5 At the time of despatch, there remains some areas of work for EY to complete, namely the Whole of Government Accounts submission and an outstanding query regarding the council's approach to the valuation of land and buildings. This query was raised towards the end of the audit process and challenged the approach adopted by the council and our valuers regarding the carrying value of assets within the balance sheet. The council has adopted a rolling valuation programme over a five year period whereby a sample of assets in each category is revalued each year. The carrying value of assets that have not been revalued during the year has remained unchanged as the council does not believe there has been a material change in their value during the year. The council awaits confirmation from EY that this approach is reasonable. As part of the production of the 2018/19 accounts, we will review our current approach to give assurance that the carrying value of assets which are not revalued are not materially misstated. Further details are included with the Audit Results Report elsewhere on the agenda.

2. Financial Statements

2.1 West Sussex County Council - during the audit, EY have identified a small number of disclosure errors, none of which impact on the core financial statements. There has been no change to the General Fund balance. These have been amended in the latest version of the statements attached at Appendix Ai, as set out below:

- Property, Plant and Equipment (Note 4)
    - Capital Commitments - add '£000' to the header of the capital commitments disclosure
    - PFI assets (memo disclosure) - revaluation gain incorrectly disclosed with the full gain (£13.562m) shown against the

Revaluation Reserve, now amended to show the split between the Revaluation Reserve (£10.011m) and CIES (£3.551m)

- Crawley Schools PFI (Note 15) - additional narrative added to clarify that:
  (a) Thomas Bennett (subsequently extended and academised) was one of the three schools in the original PFI agreement
  (b) post academisation WSCC remains liable for the unitary charge payments at Thomas Bennett as included in note (iii)
- Pooled Budgets (Note 32) - additional narrative added at end of the Better Care Fund memo account to disclose additional iBCF funding received by the Authority
- Accounting Policies (Note 41) – amended the paragraph within the accounting policy for Property, Plant and Equipment to provide further detail on the treatment of the accumulated Revaluation Reserve and the Capital Adjustment Account balances upon componentisation.

2.2 Within the Audit Results Report, EY have made reference to two further unadjusted misstatements. These relate to the Crawley Schools and Recycling & Waste PFI schemes, and have been valued by EY at £6.0m and £3.5m respectively. Accounting for PFI requires the Authority to notionally split payments made to the contractor between capital, service and financing elements, and EYs findings are that in some instances the Authority has not applied the correct apportionment between these three areas. This affects how payments are categorised in the financial statements, but does not impact on the actual payments made to the contractor or the financing of the PFI schemes over the life of the contracts.

2.3 These findings were not shared with the Council until 11 July 2018, one day prior to the scheduled despatch of this report to committee. Officers have therefore not had opportunity to corroborate these findings or to consider making any changes to the Statement of Accounts. Given the immaterial nature of the differences, officers have agreed with EY that these are to be presented as unadjusted misstatements, which will be reviewed and corrected during 2018/19 if necessary.

2.4 West Sussex Pension Fund – during the audit, EY identified a small number of changes within the draft statements, including additional narrative and restating prior year figures in Note 20. These have been amended in the final version of the statements attached at Appendix Aii.

2.5 Due to the tight reporting deadlines, the Fund has adopted an approach whereby an estimate was used for the private equity valuation in agreement with EY. The actual valuation received from Partners Group was £2.2m higher than the estimate used in the draft statements, the Fund has updated the valuation in the final statements to reflect this increase. This has increased the net assets of the scheme to £4,104m.

2.6 EY made two observations relating to the control environment, relating to membership numbers and pensions payroll.

- EY were unable to agree the membership disclosure in Note 1 of the statements to the data within the administration system but were satisfied that this would not have a material impact on the financial statements. These differences are caused by a delay in information being received from employers or processed by admin, the Fund is working proactively to reduce as far as possible differences associated with work in progress at all points during the year, but particularly mindful of the end of year.

- A transaction level listing was requested by EY to reconcile benefits paid at a member level but the report provided by the Pensions Administration Team included benefits not relating to Pension Fund. Following further investigation, the Fund itself was able to produce the required report and EY reconciled this with the benefits paid figure disclosed in the financial statements. The Fund will address in the future through self-servicing where possible. It should also be noted that the Fund gains assurance on the accuracy of the payments being made via payroll through the controls in place when a new beneficiary is set up on the system.

3. **Equality - Customer Focus Appraisal**

3.1 A Customer Focus Appraisal is not required for this decision as it is a report dealing with internal and procedural matters only.

4. **Resource Implications and Value for Money**

4.1 The level of resources allocated to the preparation and supporting the production and audit of the Statement of Accounts is necessarily tight, making it important that a streamlined, disciplined approach is followed. No additional staffing resources were required throughout the processes and infact any additional resource applied would only be at the expense of other areas of financial control.

5. **Risk Management Implications**

5.1 Failure to complete the County Council's and Pension Fund accounts by the due date and to appropriate standards undermines the Council's reputation and ability to move ahead in its management of the current year and planning for future years. It also increases the risk of additional fees if more audit testing is required for EY to issue its opinion. Within the project plan, there is a detailed risk register which was monitored throughout both the preparation and audit of the statements.

6. **Crime and Disorder Act Implications**

6.1 None.

7. **Human Rights Act Implications**

7.1 None.

Katharine Eberhart
Director of Finance, Performance and Procurement

Contact: Vicky Chuter, Financial Reporting Manager, Tel: 0330 222 3414

Appendix Ai – West Sussex County Council - Statement of Accounts 2017/18
Appendix Aii – West Sussex Pension Fund – Statement of Accounts 2017/18

Background Papers
None

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West Sussex County Council
Statement of Accounts 2017/18
Contents

		Page
Narrative Report		2
Statement of Responsibilities		14
Movement in Reserves Statement		15
Balance Sheet		16
Expenditure and Funding Analysis		17
Comprehensive Income and Expenditure Statement		18
Cash Flow Statement		19
Notes to the Financial Statements	**Notes**	
Prior Period Adjustments	1	20
Notes to the Movement in Reserves Statement	2-3	22
Notes to the Balance Sheet	4-19	27
Notes to the Expenditure and Funding Analysis	20-21	67
Notes to the Comprehensive Income and Expenditure Statement	22-33	71
Notes to the Cash Flow Statement	34-37	88
Events after the Balance Sheet Date; Contingent Assets; Contingent Liabilities	38-40	89
Accounting Policies	41	90
Critical Judgements in applying Accounting Policies	42	109
Assumptions made about the future and other major sources of estimation uncertainty	43	110
Accounting Standards that have been issued but have not yet been adopted	44	111
Firefighters' Pension Scheme	45	112
Glossary of Financial Terms		113
Independent Auditor's Report to Members of West Sussex County Council		To be incorporated in published document
West Sussex Pension Fund		To be incorporated in published document
Independent Auditor's Report to Members of West Sussex Pension Fund		To be incorporated in published document

Narrative Report 2017/18

Introduction

The Future West Sussex Plan 2015-2019 sets out the three priority areas for the Council - to give children the best start in life, to champion the West Sussex economy and to support independence in later life. This plan was approved at the full County Council meeting in February 2017. Following the Council elections in May 2017, the plan was refreshed (now known as the West Sussex Plan) and was approved at the full County Council meeting in October 2017. The latest plan is the Council's blueprint, setting out what we will deliver over the period 2017 to 2022 and our pledge to the people of West Sussex about what we will achieve for them in the four years to 2022. The plan continues to reflect the focus and priorities of the Authority and provides an overarching view of the Council's ambitions and political priorities on behalf of our communities. The plan establishes the Council's five key outcome priorities, namely Best Start in Life, A Prosperous Place, Strong, Safe and Sustainable Place, Independent for Later Life and A Council that works for the Community.

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

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

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

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

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

Political Structure

At the end of March 2018, the County Council was made up of 70 councillors, controlled by the Conservatives. The political composition was:

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

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

Management Structure

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

Children, Adults, Families, Health and Education

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

Communities and Public Protection

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

Economy, Infrastructure and Environment

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

Chief Executive's Office

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

Council Employees

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

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

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

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

Council's Performance for 2017/18

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

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

<u>Giving Children the Best Start in Life</u>

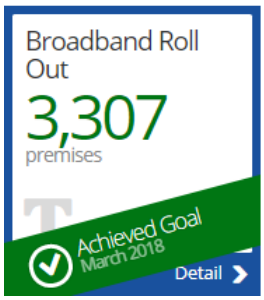
70.3% of Year 6 children in West Sussex are a healthy weight, which is a considerable success, against a national prevalence of increasing obesity. The results are better than the previous three years and higher than the averages for the South East (68.2%) and England (64.4%).

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

Championing the Local Economy

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

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



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

Independent for Longer in Later Life

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

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

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

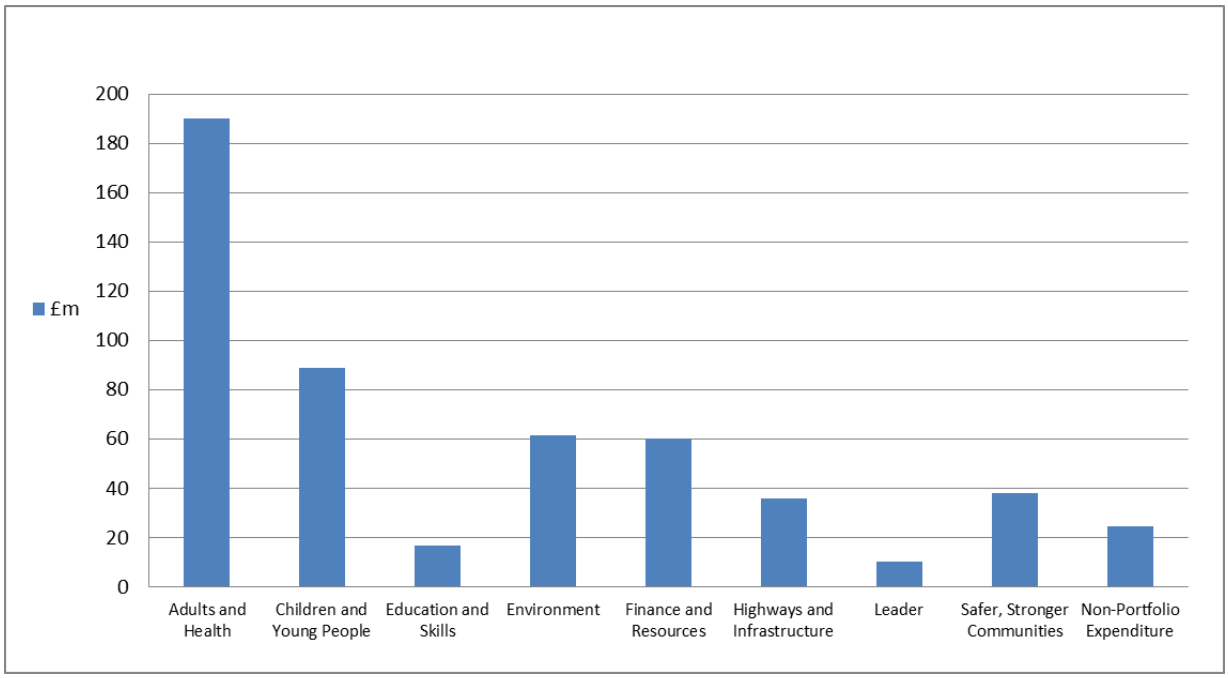
Financial Performance

The budget for 2017/18, agreed by County Council in February 2017, supported the objectives of the West Sussex Plan and was set against the background of continuing austerity in public finances. The budget aimed to support the delivery of members' vision and deliver the priorities of the plan.

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

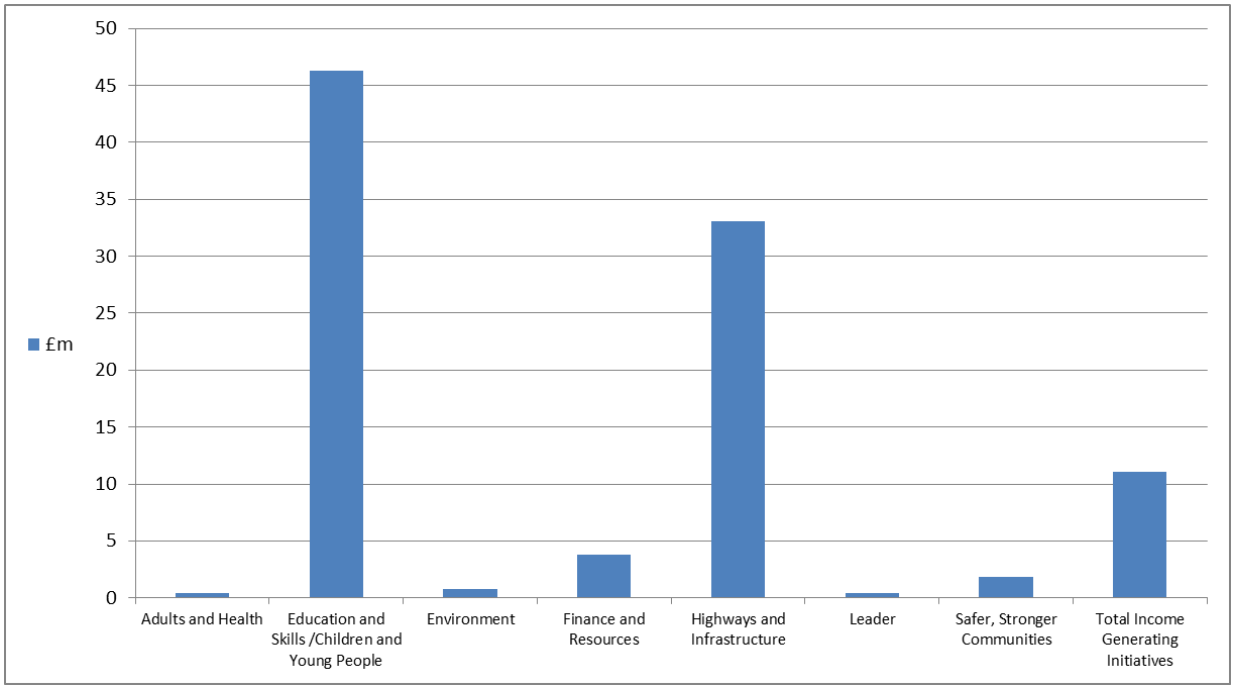
Within the portfolio budgets, there was an outturn overspending of £0.4m, after including £1.5m of carry forward requests and £1.1m of other transfers to reserves, both of which were approved through the February Total Performance Monitor. Within the non-portfolio budgets, there was an outturn underspending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

Graph 1: Revenue Outturn 2017/18



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

Graph 2: Capital Outturn 2017/18



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

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

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

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

Reserves and Balances

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

Table 1: Movement in Reserve Balances 2017/18

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

Unusable reserves are held to offset the impact of accounting adjustments required by International Accounting Standards; for example, charges to the Comprehensive Income and Expenditure Statement in relation to depreciation, asset revaluation and the accrued pension liability. These reserves are not cash-backed and therefore are not available to finance the provision of services. Furthermore, with the exception of the General Fund the usable reserves are earmarked for specific purposes and are not available to support general revenue spending. The General Fund balance at 31 March 2018 is £20.3m, which (at 3.8% of the net expenditure budget for 2018/19) is considered to be a prudent buffer against the significant financial pressures affecting the Council. This will provide additional means for the County Council to protect itself from future demand pressures that could adversely impact on our financial position and strengthen the Council's financial resilience. Earmarked reserves totalling £174.7m are held as at 31 March 2018, and a detailed analysis of this balance is provided in Note 3 to the accounts.

Under International Accounting Standard 19, the Council shows the total future costs of pension liabilities for both the Local Government Pension Scheme and Firefighters. This is a purely notional figure, as the County's budget is constructed on the basis of actual contributions payable. The IAS19 notional liability of £652.8m is offset by a matching notional reserve ensuring there is no impact on the local taxpayer.

Future Capital Programme and Borrowing

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

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

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

The Authority borrows prudentially for capital investment purposes. No new external borrowing was undertaken in 2017/18, and external debt repayments of £7.0m were made during the year. Outstanding Public Works Loans Board borrowing as at 31 March 2018 was £395.9m (excluding accrued interest), with an average interest rate of 4.6%. This borrowing should been seen in the context of the long term assets valued at £1.9 billion on the Balance Sheet.

Performance Monitoring

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

Financial Outlook

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

The continuing squeeze in local authority funding, coupled with major spending pressures such as the growing number of older people needing care, translates into a forecast shortfall of £51.8m between 2019/20 to 2021/22 (excluding any council tax rise). There is clearly a risk that the ambitious saving levels that will be needed for a balanced budget will not be achieved, or delivered late. That risk is magnified by a variety of factors, including the significant efficiency reductions already actioned. Risks will be managed in several ways. A general contingency of £3.6m provides a buffer against in-year pressures and covers any potential risks arising from the non-delivery of planned savings. Reserves are also more important than ever as a safeguard. The Budget Management Reserve stands at £26.7m at 31 March 2018, and this reserve is held to smooth fluctuations in funding levels or to offset delays in the delivery of savings. The Service Transformation Fund stands at £11.5m as at 31 March 2018, and ensures that savings proposals are not held back through lack of funds to invest in delivering change.

Reform of the funding system is still anticipated following the General Election of 2017. Government has given the aim of moving to a system of "at least" 75% funding from business rates proceeds for local authorities by 2020/21, an increase from the existing 50% received from this source. We await detailed proposals in consultation papers from Government. This change is intended to be financially neutral for local government financing, but should provide an opportunity to retain more local growth from business rate proceeds. With greater reliance on funding from business rates, should any economic downturn occur, lower proceeds from business rates would inevitably impact adversely on funding levels and the County Council must therefore plan and prepare for greater financial risks which go along with the greater opportunity.

The Government is undertaking a Fair Funding Review of local authority financing. The review will set new baseline funding allocations for local authorities by delivering an up-to-date assessment of their relative needs and resources, using the best available evidence. West Sussex County Council engages with other County Councils through the County Councils' Network, local MPs and Government as policy development work on the new funding formula progresses, in an effort to ensure that the County Council is not disadvantaged.

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

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

Development Opportunities

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

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

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

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

Provisions and contingencies

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

Changes to accounting policies

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

Corporate Risks

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

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

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

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

Statement of Accounts

The Statement of Accounts on the following pages sets out the Council's income and expenditure for the year, and its financial position at 31 March 2018. The format and content of the financial statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which in turn is underpinned by International Financial Reporting Standards. It comprises core and supplementary statements. The Core Statements are as follows:

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

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

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

Conclusion

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

Director of Finance, Performance and Procurement

Statement of Responsibilities

The Chief Financial Officer's responsibilities:

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

In preparing this Statement of Accounts, the Director of Finance, Performance and Procurement has:

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

The Director of Finance, Performance and Procurement has also:

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

I certify that the Statement of Accounts set out in the following pages presents a true and fair view of the financial position of the County Council as at 31 March 2018, and of its income and expenditure for the year ending on that date.

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

The County Council's responsibilities:

The County Council is required to:

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

I confirm that the Statement of Accounts were considered and approved by the Regulation, Audit and Accounts Committee at its meeting on 23 July 2018 on behalf of West Sussex County Council.

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

MOVEMENT IN RESERVES STATEMENT

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

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2016	**-18,335**	**-188,216**	**0**	**-1,146**	**-207,697**	**-550,543**	**-758,240**
Movement in Reserves during 2016/17:							
Total Comprehensive Income and Expenditure	46,178	-	-	-	46,178	43,305	89,483
Adjustments between Funding and Accounting Basis (Note 2)	-32,537	-	0	-4,595	-37,132	37,132	0
(Increase)/Decrease before Reserve Transfers	**13,641**	**-**	**0**	**-4,595**	**9,046**	**80,437**	**89,483**
Transfers to/from Earmarked General Fund Reserves (Note 3)	-13,641	13,641	-	-	0	-	0
(Increase)/Decrease in 2016/17	**0**	**13,641**	**0**	**-4,595**	**9,046**	**80,437**	**89,483**
Balance at 31 March 2017	**-18,335**	**-174,575**	**0**	**-5,741**	**-198,651**	**-470,106**	**-668,757**
Movement in Reserves during 2017/18:							
Total Comprehensive Income and Expenditure	27,567	-	-	-	27,567	-168,731	-141,164
Adjustments between Funding and Accounting Basis (Note 2)	-29,633	-	0	-7,886	-37,519	37,519	0
(Increase)/Decrease before Reserve Transfers	**-2,066**	**0**	**0**	**-7,886**	**-9,952**	**-131,212**	**-141,164**
Transfers to/from Earmarked General Fund Reserves (Note 3)	115	-115	-	-	0	-	0
(Increase)/Decrease in 2017/18	**-1,951**	**-115**	**0**	**-7,886**	**-9,952**	**-131,212**	**-141,164**
Balance at 31 March 2018	**-20,286**	**-174,690**	**0**	**-13,627**	**-208,603**	**-601,318**	**-809,921**

The total General Fund of the Council is equal to the sum of the *General Fund Balance* and the *Earmarked General Fund Reserves* disclosed above. The total General Fund of the Council, including Earmarked General Fund Reserves, is therefore £194,976,000 as at 31 March 2018.

BALANCE SHEET

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

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

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

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

EXPENDITURE AND FUNDING ANALYSIS

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

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

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

The total General Fund of the Council is equal to the sum of the *General Fund Balance* and the *Earmarked General Fund Reserves* as disclosed in note 3 to the accounts. The total General Fund of the Council, including Earmarked General Fund Reserves, is therefore £194,976,000 as at 31 March 2018.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

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

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

CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients of services provided by the Authority.

Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

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

NOTES TO THE FINANCIAL STATEMENTS

1. Prior Period Adjustment

The Authority has made a prior year adjustment in preparing its 2017/18 Statement of Accounts. This is detailed below.

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

In accordance with the requirements of the *CIPFA Code of Practice on Local Authority Accounting*, the Authority presents its Comprehensive Income and Expenditure Statement (and associated notes) on a cabinet member portfolio basis to reflect local reporting arrangements. Following the local elections in May 2017, the Authority adopted a revised cabinet member portfolio structure. The 2017/18 financial statements are therefore prepared using this new portfolio structure. In accordance with the requirements of *IAS1 Presentation of Financial Statements*, the 2016/17 comparators in the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis have also been restated on this new reporting basis. The impact of this restatement is disclosed below.

Comprehensive Income and Expenditure Statement

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

Expenditure and Funding Analysis

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

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

NOTES TO THE FINANCIAL STATEMENTS

The Balance Sheet is unaffected by this change, and therefore no 'third' balance sheet (providing comparators as at 1 April 2016) has been presented as part of this restatement. The Movement in Reserves Statement and Cash Flow Statement are also unaffected. There are no implications for the General Fund Balance or any other reserves arising from this change.

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

2. Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

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

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

2016/17	Usable Reserves		
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:			
• Pensions costs (transferred to or from the Pensions Reserve)	-23,115	-	-
• Council tax and NDR (transferred to or from the Collection Fund Adjustment Account)	-5	-	-
• Holiday pay (transferred to the Accumulated Absences Account)	-2,198	-	-
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	-45,821	-	-59,305
Total Adjustments to Revenue Resources	-71,139	-	-59,305
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	8,469	-8,469	-
Transfer of deferred sales proceeds from revenue to the Deferred Capital Receipts Reserve	0	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-36	36	-
Write down of finance lease debtor (transfer from Deferred Capital Receipts Reserve)	-211	-	-
Statutory provision for the repayment of debt (transfer to the Capital Adjustment Account)	14,043	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	16,337	-	-
Total Adjustments between Revenue and Capital Resources	38,602	-8,433	-
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	13,388	-
Application of capital grants to finance capital expenditure	-	-	54,710
Cash payments in relation to deferred capital receipts	-	-4,955	-
Total Adjustments to Capital Resources	-	8,433	54,710
Total Adjustments	**-32,537**	**0**	**-4,595**

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

3. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

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

- The **Adult Social Care and Health Demand Pressures** reserve is intended to support the Adults and Health portfolio in managing its demand pressures, particularly through a focus on prevention.
- The **Adult Social Care Grant** reserve holds the funding announced as part of the 2017/18 local government finance settlement. Spending decisions are taken through the Corporate Transformation Board, and funds are applied to pump-prime transformational investment in adult social care.
- The **Budget Management** reserve is held to meet pressures arising from the volatility of central government funding streams, as well as guarding against the non-delivery of savings.
- The **Business Infrastructure** reserve is intended to pump-prime local economic developments, through developing the broadband network, facilitating new business start-ups, and financing internal infrastructure improvements using local contractors where appropriate.
- The **Capital Expenditure** reserve is established to finance expenditure within the capital programme as part of the capital financing strategy.

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

- The **Capital Infrastructure** reserve is held to support capital plans over the longer term, such as the A27 scheme, thus avoiding the need to borrow and incurring the associated long term capital financing costs.
- The **Care Act** reserve was established as part of the 2015/16 budget to mitigate the Authority's most pessimistic assessment of risk following the changes introduced by the Care Act. The resource has subsequently been consolidated into the Service Transformation Reserve.
- The **Care, Wellbeing and Education Risk** reserve was established as part of the 2016/17 budget to mitigate the financial risks associated with demand pressures and uncertainty regarding Government funding. The resource has subsequently been consolidated into the Service Transformation Reserve.
- The **Counselling Services to Schools** reserve was established using a 2016/17 contingency allocation, and is intended to support schools in their on-going provision of discretionary counselling services.
- The **Crawley Schools PFI**, **Street Lighting PFI** and **Waste PFI** reserves hold the surplus of government credits and other sources of finance over unitary charge payments and other expenditure in the early years of the respective contracts, to meet future expenditure over the life of the PFI arrangements. This equalises the costs to the taxpayer of building and maintaining the facilities over the duration of the contracts.
- The **Dedicated Schools Grant (DSG)** reserve holds the balance of ringfenced grant funding to be spent by and on behalf of schools. The balance on the reserve is detailed in Note 29.
- The **Deprivation of Liberty Safeguarding** reserve is held to support the Council in undertaking its statutory assessments of whether arrangements made for the care and/or treatment of an individual lacking capacity to consent amounts to a deprivation of liberty.
- The **Early Intervention** reserve was held to fund a programme which aims to assist vulnerable families requiring County Council support. Base budget provision to ensure ongoing support for the Council's early intervention programme was made as part of the 2017/18 budget setting process, and the balance on the reserve was released on this basis.
- The **Highways Commuted Sums** reserve holds a balance of contributions received from developers in respect of future infrastructure maintenance costs.
- The **Insurance** reserve is held in respect of the Authority's self-funding insurance scheme, and provides for the risk of unknown future claims (i.e. charges in excess of the known claims as provided for in the insurance provision). The value of the reserve is subject to regular review by independent insurance advisers to assess its validity in consideration of historical and market trends.
- The **Interest Smoothing** reserve is held to meet temporary shortfalls arising from fluctuations in interest rates, such as a reduction in investment returns or increased costs of borrowing.
- The **School Balances** reserve holds net underspending on locally managed school budgets.
- The **Schools Sickness and Maternity** reserve holds the accumulated surplus on the sickness and maternity insurance scheme operated by the Authority for its maintained schools.
- The **Service Transformation** reserve is held to meet the costs of major organisational transformation. It is used to fund short-term costs in order to deliver ongoing savings, and as a source of investment to finance improvements to services so that they become more efficient and provide better outcomes.
- The **Statutory Duties** reserve holds funding to meet any obligations over and above that which the Authority has made provision for, such as those relating to payments made outside of payroll, and to meet any costs associated with the implementation of the General Data Protection Regulation (GDPR) and Health and Safety requirements.
- The **Strategic Economic Plan** reserve is held to support the progression of the economic priorities within the Coast to Capital Local Enterprise Partnership.
- The **Unapplied Revenue Grants** reserve represents the unspent balance on revenue grants which are received for specific purposes but where there are no outstanding conditions on the grant which could require its repayment. The grant has therefore been recognised in full in the Comprehensive Income and Expenditure Statement in accordance with accounting standards, but the unapplied balance is held in a reserve to fund future expenditure plans relevant to the purpose of the grant.
- The **Waste Materials Resource Management Contract (MRMC)** reserve is the County Council's investment fund to meet the 25-year contract with Biffa Waste Services Ltd for the treatment and disposal of waste, including the development of appropriate facilities.
- **Other Earmarked Reserves** represents the cumulative balances and transactions on a number of smaller reserves which are individually immaterial.

NOTES TO THE BALANCE SHEET

4. Property, Plant and Equipment

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

NOTES TO THE BALANCE SHEET

Comparative Movements in 2016/17	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Surplus Assets £000	Assets under Construction £000	**Total Property, Plant & Equipment £000**	PFI Assets included in Property, Plant & Equipment £000
Cost or Valuation							
At 1 April 2016	1,235,237	112,608	551,495	20,159	20,136	1,939,635	150,312
Additions	38,107	3,399	24,491	7	19,559	85,563	3,011
Donations	0	0	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	11,847	0	0	701	0	12,548	4,928
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	2,527	0	0	59	0	2,586	0
Disposals	-2,310	-1,014	0	0	0	-3,324	0
Derecognition - Academies	-20,918	0	0	0	-24,228	-45,146	0
Derecognition - Finance Leases	0	0	0	0	0	0	0
Derecognition - Other	-2,862	0	-2,882	-16	0	-5,760	0
Assets reclassified (to)/from Assets Held for Sale	0	0	0	-1,766	0	-1,766	0
Assets reclassified (to)/from Investment Property	-276	0	0	0	0	-276	0
Transfer in asset category	1,228	0	0	497	-1,725	0	0
At 31 March 2017	**1,262,580**	**114,993**	**573,104**	**19,641**	**13,742**	**1,984,060**	**158,251**
Accumulated Depreciation and Impairment							
At 1 April 2016	-31,882	-22,145	-196,425	-15	0	-250,467	-16,119
Depreciation charge	-21,359	-12,977	-30,343	-30	0	-64,709	-4,902
Depreciation written out to the Revaluation Reserve on revaluation	9,323	0	0	11	0	9,334	1,257
Depreciation written out to the Surplus/Deficit on the Provision of Services on revaluation	8,352	0	0	29	0	8,381	0
Impairment (losses)/reversals recognised in the Revaluation Reserve	0	0	0	0	0	0	0
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	-152	0	0	0	0	-152	0
Disposals	0	0	0	0	0	0	0
Derecognition - Academies	1,162	0	0	0	0	1,162	0
Derecognition - Finance Leases	0	0	0	0	0	0	0
Derecognition - Other	112	0	2,883	16	0	3,011	0
Depreciation written out on newly classified Assets Held for Sale	0	0	0	0	0	0	0
Depreciation written out on newly classified Investment Property	6	0	0	0	0	6	0
Transfer in asset category	11	0	0	-11	0	0	0
At 31 March 2017	**-34,427**	**-35,122**	**-223,885**	**0**	**0**	**-293,434**	**-19,764**
Net Book Value							
At 1 April 2016	**1,203,355**	**90,463**	**355,070**	**20,144**	**20,136**	**1,689,168**	**134,193**
At 31 March 2017	**1,228,153**	**79,871**	**349,219**	**19,641**	**13,742**	**1,690,626**	**138,487**

NOTES TO THE BALANCE SHEET

Depreciation

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

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

Capital Commitments

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

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

Revaluations

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

The Authority undertook a number of valuations at 31 March 2018. Valuations were instructed by the Director of Finance, Performance and Procurement, and carried out by external independent valuers: Montagu Evans Chartered Surveyors, 5 Bolton Street, London, W1J 8BA. Valuations were undertaken in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS) and the CIPFA Code of Practice.

NOTES TO THE BALANCE SHEET

Fair Value Hierarchy

The Council's Surplus Property, Plant and Equipment assets are valued at fair value in accordance with the requirements of IFRS 13 Fair Value Measurement. All surplus assets have been subject to revaluation in 2017/18. A de minimis of £250,000 has been applied in the tables below.

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly

Level 3 – unobservable inputs for the asset

Details of the Authority's Surplus Assets, and information about the fair value hierarchy as at 31 March 2018, are as follows:

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

Comparative figures as at 31 March 2017:

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

Transfers between Levels of the Fair Value Hierarchy

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

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

	Fair Value as at 31 March 2018 £000	Valuation technique used to measure Fair Value	Unobservable inputs	Range (weighted average used)	Sensitivity
Commercial	2,682	Market Approach	Specialist commercial land sale comparables	£1,000,000 to £1,500,000 per hectare	Analysed similar commercial land sales and applied professional opinion of value to the site.
	933	Comparable approach	Industrial rent and yield comparables	£50,000 to £90,000 per annum	Analysed industrial rents and yields and made appropriate discounts depending on the size, quality, and location of the building. Applied market norms for both void periods and rent free periods.
Office Units	603	Comparable approach	Office comparables in local areas	Office rents between £6.00 - £22.50 per sq ft	Land values with residential potential analysed in and around local area. Discounted for location, planning consent, potential residential development size, access, change of use.
	980	Market Approach	Office comparables in local areas	Office rents between £9.50 - £11.00 per sq ft	Land values with residential potential analysed in and around local area. Discounted for location, planning consent, potential residential development size, access, change of use.

NOTES TO THE BALANCE SHEET

	Fair Value as at 31 March 2018 £000	Valuation technique used to measure Fair Value	Unobservable inputs	Range (weighted average used)	Sensitivity
Residential	12,486	Market Approach	Residential land sale comparables	£1,150,000 - £2,000,000 per hectare	Analysed land values with residential potential in and around local area. Discounted for location, planning consent, potential residential development size, access, and build costs.
	3,490	Market Approach	Land sale comparables	£250,000 - £3,100,000 per hectare	Analysed land values with residential potential in and around local area. Discounted for location, planning consent, potential residential development size, access, and build costs.
	13,794	Market Approach	Residential Sales comparables	£200,000 - £750,000 per dwelling	Analysed land values with residential potential in and around local area. Discounted for location, planning consent, potential residential development size, access, and build costs.
	1,865	Market Approach	Residential sales values and land values	Land £15,000-£1,200,000 per hectare/ Dwellings £215,000 - £500,000	Valued as both a residential sales value and a land value. Discounted for type of property, size, layout of plot, location within the town, and condition. Discounts on the land for shape, size, type of land, future development opportunities.
	365	Market Approach	Residential comparables	£300 - £350 per sq ft	Carried out a development appraisal on the site, using comparable scheme evidence to provide a basis of value. Then applied discounts to take into account planning constraints, location of the site, change of use.
	279	Comparable Method of Valuation / Market Approach	Land sales, residential sales	£1,150,000 - £1,400,000 per hectare	Analysed land values with residential potential in and around local area. Discounted for location, unusual nature and layout of the sites, planning consent, access, build costs and proximity to a school. Analysed commercial land comparables taking into account existing buildings on site, size and layout of site.

5. Heritage Assets

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

The Authority recognises one Heritage Asset on its balance sheet. Halnaker Windmill is a tower mill which stands on Halnaker Hill, northwest of Chichester. Originally built as the feudal mill of the Goodwood Estate, the surviving mill is thought to date from the 1740s. The carrying value of the mill on the Authority's balance sheet at 31 March 2018 is £229,000, which is inclusive of additional capital expenditure of £150,000 in 2017/18.

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

However, the Authority does own a number of assets which do not serve any operational purpose, and are held principally for their contribution to knowledge and culture. Whilst these are therefore considered to be Heritage Assets, they have not been recognised on the balance sheet on the basis that it is not practicable to establish the fair value of the assets. The principal source of such assets is the Record Office in Chichester. The Office holds the written and recorded heritage of the county of West Sussex. This includes paper and parchment documents, books and files, maps and plans, photographs and cine films, and electronic records, the earliest documents dating back to the 8th century. The assets of the Office are not valued for insurance purposes, and whilst they are of significance to the local community, their value is not considered to be material in the context of the Authority's £1.9billion long term asset base.

NOTES TO THE BALANCE SHEET

6. Capital Expenditure and Capital Financing

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

CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

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

NOTES TO THE BALANCE SHEET

Reconciliation of the Capital Financing Requirement to the Balance Sheet

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

[1] Shareholding in the UK Municipal Bond Agency plc, initially categorised as an Unquoted Equity Investment in 2014/15 (held at cost). Subsequently re-classified as a Quoted Equity Investment and held at fair value, with resulting revaluation loss charged to the Available for Sale Financial Instruments Reserve.

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

NOTES TO THE BALANCE SHEET

7. Investment Property

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

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

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

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

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

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

Fair Value Hierarchy

The Council's Investment Property assets are valued at fair value in accordance with the requirements of IFRS 13 Fair Value Measurement. All Investment Property assets have been subject to revaluation in 2017/18. A de minimis of £250,000 has been applied in the tables below.

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

Level 1 – quoted prices (unadjusted) in active markets for identical assets that the Council can access at the measurement date

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly

Level 3 – unobservable inputs for the asset

Details of the Authority's Investment Property, and information about the fair value hierarchy as at 31 March 2018, are as follows:

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

Comparative figures as at 31 March 2017:

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

NOTES TO THE BALANCE SHEET

Transfers between Levels of the Fair Value Hierarchy

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

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

	Fair Value as at 31 March 2018 £000	Valuation technique used to measure Fair Value	Unobservable inputs	Range (weighted average used)	Sensitivity
Agricultural	2,917	Market Approach	Agricultural land sales	£16,000 - £65,000 per hectare	Analysed land values for other agricultural land sales across the county and placed a land value on the site area. Allowances for location, development potential, layout of the site, access issues, size of the site, and demand in the area. Deductions for any lease in place.
	459	Income Approach	Agricultural rents and yields	£45,000 to £55,000 per annum	Analysed comparable sites and applied an opinion of a capitalisation yield on the received income.
Commercial	250	Income Approach	Commercial rents and yields	£15,000 to £25,000 per annum	Analysed comparable sites and applied an opinion of a capitalisation yield on the received income.
	9,809	Income Approach	Commercial Income streams	Not applicable	Analysed other assets let to secure risk free organisations to arrive at an investment yield. This income by this yield has then been capitalised.
	342	Market Approach	Car parking space values	£5,000 per space	Analysed car parking space values in the local area, valued on the basis of 558 spaces. Discounted by 31 years to represent the current Management Agreement in place expiring in 31 years.
	630	Market Approach	Commercial land values	£30,000 - £40,000 per hectare	The asset has been valued as grazing land and with regard to other grazing land transactions in the immediate vicinity and further afield. Adjustments have been made where necessary for location, size, quality of grazing land.

NOTES TO THE BALANCE SHEET

	Fair Value as at 31 March 2018 £000	Valuation technique used to measure Fair Value	Unobservable inputs	Range (weighted average used)	Sensitivity
Residential	8,302	Market Approach	Residential land sale comparables/ Residential Land Values	£400,000 to £1,500,000 per hectare	Land values analysed with residential potential in and around the local area. Discounted for location, planning consent, potential residential development size, access, build cost, finance, contingency and agency fees.
	437	Income Approach	Residential rental and sales values	£30,000 - £35,000 per annum	Valued with consideration to income received. Analysed residential sales and discounted this value based on the fact the previously agreed price fell through.
	589	Market Approach	Residential sales	£550,000 to £800,000 per dwelling	Valued as a smallholding with a variety of outbuildings on site. Discounts for size of buildings, size of site, location within the county, demand, market conditions, and previous sales values.
	2,044	Market Approach	Residential sales and land values	£15,000 - £21,000 per hectare for land and £205,000 - £320,000 per dwelling	Discounted for type of property, size, layout of plot, location within the local area, and condition. Discounted on the land for shape, size, type of land, future development opportunities.
	336	Market Approach	Residential sales comparables	£350,000 to £475,000	Residential sales values analysed in and around local area. Discounts made to take into account location, site layout, condition, parking, number of bedrooms, style of property.

NOTES TO THE BALANCE SHEET

8. Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets relate to purchased licenses.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The current licenses have been assigned a useful life of 10 years.

The carrying amount of the intangible asset is amortised on a straight-line basis. The amortisation of £500,000 charged to revenue in 2017/18 was charged to the Finance and Resources portfolio in the Net Cost of Services. The movement on Intangible Asset balances during the year is as follows:

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

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

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

Financial Assets: A Financial Asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during 2017/18 are classified in accordance with the Code of Practice as follows:

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

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

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

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

Balances in bank call (instant access) accounts and money market funds at 31 March 2018 are shown under 'Cash and Cash Equivalents' in the Balance Sheet, as they represent highly liquid investments that are readily convertible to known amounts of cash, with an insignificant risk of changes in value. At 31 March 2018 the Council did not have any investments to be measured at fair value through profit and loss or any unquoted equity investments.

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

The Council's non-derivative financial liabilities held during the year comprised:

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

The Council's treasury management strategy approves temporary borrowing for cash flow purposes from UK local authorities and financial institutions authorised by the Prudential Regulation Authority (PRA) to operate in the UK; during 2017/18 such borrowing being taken on one occasion from the Council's main provider of banking services. Additionally the Council holds cash on behalf of the Chichester Harbour Conservancy as part of the Harbour's own investment strategy. This is presented as short term borrowing as the amount held is available for repayment back to the Chichester Harbour Conservancy on any given notice.

Under the 2017/18 Code of Practice these forms of borrowing are measured at amortised cost. This form of measurement does not change the amount of cash paid under the terms of the loan but can impact on the charge made to the Comprehensive Income and Expenditure Statement. At 31 March 2018, the Council did not hold any derivative financial liabilities, for example forward contracts on fixed rate investments where interest rates had moved in the other party's favour since the contract was agreed.

Transaction Costs:

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

NOTES TO THE BALANCE SHEET

a. Financial Instruments Balances

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

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

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

[2] Included within Trade Debtors total.

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under 'Current Liabilities' or 'Current Assets'. This would include accrued interest on long term liabilities and investments that are payable and/or receivable in 2018/19.

NOTES TO THE BALANCE SHEET

Soft Loans:

In accordance with the 2017/18 Code of Practice, where loans are advanced at below market (commercial) rates they are classified as 'soft loans'. The County Council made one such loan during March 2015; a twenty-year loan advanced to the Littlehampton Harbour Board (LHB) for the purchase of a multi-purpose vessel at a borrowing rate of 2.56%.

The Council estimates that, had interest been charged to the LHB at market rates (assumed as 4% above the prevailing Bank of England base interest rate, averaging 0.35% throughout 2017/18) interest receivable would be increased by £5,000. However, as per the Authority's accounting policy for soft loans as detailed at Note 41, this loan is considered to be below the de minimis level for full disclosure in the financial statements.

The position relating to soft loans at 31 March 2018 is therefore:

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

During 2017/18, with regard to financial instruments the County Council had no:
- Unusual movements
- Reclassification of instruments
- Derecognition of instruments
- Allowance for credit losses
- Default and Breaches

b. Financial Instruments - Fair Values

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

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

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

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

- For Public Works Loan Board (PWLB) loans, New Loan Rates effective at 31 March 2018 from the PWLB (discounted by the 0.2% "Certainty Rate" available to local authorities) have been applied to provide the fair value under PWLB debt redemption procedures; as set out in PWLB Interest Rate Notice No. 127/18.

- For long-term investments (long-term given the originally agreed start/maturity dates) prevailing benchmark market rates have been used to provide the fair value at 31 March 2018.

- The fair values of PFI schemes and finance lease liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA rated corporate bond yield.

- The fair value of other financial instruments with a maturity of less than 12 months, including trade payables and receivables, is assumed to approximate the carrying amount.

NOTES TO THE BALANCE SHEET

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

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

		2016/17		2017/18	
	Fair Value Level	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities					
PWLB Long-term Borrowing [1]	2	-402,882	-515,719	-395,866	-496,359
PFI, Finance Lease Liabilities	2	-114,542	-204,930	-110,140	-192,342
Total Debt		-517,424	-720,649	-506,006	-688,701
Liabilities for which fair value is not disclosed:[2]					
Short-term (Non-PWLB) Borrowing		-4,239		-4,623	
Accrued PWLB interest		-4,257		-4,125	
Trade Creditors [3]		-78,698		-81,393	
Bank Current Accounts		-261		-675	
Total Financial Liabilities		-604,879		-596,822	
Financial Assets					
Financial assets held at fair value:					
Money Market Funds	1	54,917	54,917	38,814	38,814
Government/Local Auth. Bonds	1	5	5	6	6
Property Funds	1	9,253	9,253	9,693	9,693
Ultra-Short Dated Bond Funds	1	15,065	15,065	15,011	15,011
Bank Covered Bonds (Long-Term)	1	7,921	7,921	7,909	7,909
Bank Covered Bonds (Short-Term)	1	0	0	10,470	10,470
Bank (Senior Unsecured) Bonds	1	0	0	8,502	8,502
Non-Bank (Corporate) Bonds	1	12,164	12,164	0	0
Certificate of Deposits	2	35,069	35,069	14,948	14,948
Shares in the UKMBA plc	3	53	53	21	21
Financial assets held at amortised cost:					
Long-term Investments [4]	2	16,113	16,419	16,192	16,244
Skills Funding Agency	2	15	15	0	0
		150,575	150,881	121,566	121,618
Assets for which fair value is not disclosed:[1]					
Short-term (less than1 year) investments		107,705		126,974	
Cash & Cash Equivalents		0		5,801	
Trade Debtors [5]		56,908		65,289	
Total Financial Assets		315,188		319,630	

NOTES:

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

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

NOTES TO THE BALANCE SHEET

[3] Excludes receipts in advance (£51.713m) and statutory creditors (£22.205m) including HM Revenue & Customs (Tax/National Insurance pay-over; Construction Industry Tax Deduction Scheme (CITDS); tax deducted from interest payments; SMP overpayments), Teachers Pensions, government department accruals and council tax prepayments.

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

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

c. Financial Instruments - Gains and Losses

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

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

d. Nature and Extent of Risk Arising From Financial Instruments

(i) Key Risks

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

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

(ii) Overall Procedures for Managing Risk

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

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

NOTES TO THE BALANCE SHEET

(iii) Credit Risk

Credit risk arises from investments with banks and other institutions, as well as credit exposures to the Council's customers. This risk is minimised through the annual investment strategy (as set out within the treasury management strategy) which requires that such investments are not made with organisations unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services. The annual investment strategy also considers maximum monetary amounts and time limits in respect of each organisation (dependent on the creditworthiness of the entity and the secured/unsecured nature of the investment); details as contained within the treasury management strategy report published on the Council's website.

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

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

Throughout 2017/18 the Council continued to make use of an HSBC custodian service provided by King & Shaxson Ltd, thereby diversifying its investment portfolio into financial instruments approved within the annual investment strategy; namely covered bonds, certificate of deposits (CDs) and corporate bonds. Additionally, investments in externally managed pooled funds (including ultra-short dated bond and property funds) were approved for Council investment.

The table below summarises the fair value/amortised cost of the Council's investment portfolio at 31 March 2018 and confirms that all investments were made in line with the Council's approved credit rating criteria:

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

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

NOTES TO THE BALANCE SHEET

The Council's exposure to credit risk in relation to its unsecured investments in banks, building societies and money market funds at 31 March 2018 (£157.9m) cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sums will be specific to each institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2018 that such risks were likely to materialise.

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

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

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

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

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

Included within the £24.8m trade debtor balance that is past its due payment date, the Council has identified that £1.733m is potentially at risk of being irrecoverable. This is based on debt which is more than one year old and reflects the likelihood of recovery reduces as the age of the debt increases, with anticipated recovery of 90% of debts aged between one and two years old and only 5% likely recovery of debts over six years old. At 31 March 2018, none of this liability has actually been impaired due to continued negotiations between the Council's Legal Services team and the relevant debtors.

Movement in the Provision for bad/doubtful debt

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

NOTES TO THE BALANCE SHEET

Collateral – The credit quality of £18.4m of the Council's investments is enhanced by collateral held in the form of covered bonds (bank secured) collateralised by UK residential mortgages; for these investments the collateral significantly reduces the likelihood of the Council suffering a credit loss on these investments. Additionally with regard to its trade debtors, the Council initiates a legal charge on property where, for instance, clients require the assistance of the Council's Adult Services but cannot afford to pay immediately; the total debt relating to such cases at 31 March 2018 was £5.2m.

(iv) Liquidity Risk

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

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

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

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

(v) Refinancing Risk

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

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

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

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

NOTES TO THE BALANCE SHEET

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

(vi) Market Risk

Interest Rate Risk

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

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

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

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

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

At 31 March 2018 the Council held no variable long term borrowings, but held 42% (£107.0m) of its investment portfolio in variable rate bank call/notice accounts, money market funds, bank floating rate notes, pooled funds (collective investment schemes) and equities.

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

Price Risk

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

NOTES TO THE BALANCE SHEET

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

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

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

Inflationary Risk

Inflationary risk relates to the diminution of the spending powers of the Council's cash holdings, or the potential escalation of financial liabilities if linked to inflation indices. Throughout 2017/18 the Council achieved a 0.68% return on its investment portfolio as compared against average UK CPI inflation of 2.83% during the same period. With historically low investment rates set to continue at a time when inflation is forecast to remain above 2% throughout 2018 (before falling to around 2% between 2019 to 2022) the Council will seek to partially mitigate the resulting inflationary risks through its prescribed cash flow procedures including the identification of reserves that may be set aside for longer-term (higher yielding) investments, for example externally managed equity, multi-asset income and property pooled funds. The Council does not currently hold any inflation linked borrowings.

Foreign Exchange Risk

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

NOTES TO THE BALANCE SHEET

10. Assets Held for Sale

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

11. Short-Term Debtors

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

12. Cash and Cash Equivalents

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

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

13. Short-Term Creditors

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

NOTES TO THE BALANCE SHEET

14. Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

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

Long Term Provisions - Descriptions

The **Insurance** provision is maintained to meet claims and liabilities related to the partial self-funding of the County Council's insurance, including Property, Vehicle and Liability risks. The balance represents unpaid claims estimated at 31 March 2018. This provision has been reconciled to remove amounts for part-settled claims. The claims provided for are expected to settle at various intervals over the next number of years (but not within one year).

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

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

NOTES TO THE BALANCE SHEET

Short Term Provisions - Descriptions

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

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

The **Insurance** provision is maintained to meet claims and liabilities related to the partial self-funding of the County Council's insurance, including Property, Vehicle and Liability risks. The balance represents unpaid claims estimated at 31 March 2018. This provision has been reconciled to remove amounts for part-settled claims. The short-term element of the provision represents the value of claims estimated to be settled within one year.

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

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

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

The **Loss of Office** provision provides for the cost of redundancies to which the Authority was committed at the balance sheet date. All obligations are to be settled in 2018/19.

NOTES TO THE BALANCE SHEET

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.

Throughout the contract the contractor is responsible for the replacement of equipment at the facilities. The lifecycle costs incurred to date have been included in the balance sheet on the basis of the actual provision. As at 31 March 2018 £12.2m of lifecycle costs remained to be delivered. The payments to the contractor for the lifecycle costs are on a consistent basis across the life of the contract.

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

Street Lighting PFI

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

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

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

NOTES TO THE BALANCE SHEET

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

	Opening Balance at 1 April 2017 £000	Additions £000	Depreciation £000	Revaluation £000	Closing Balance at 31 March 2018 £000
Crawley Schools PFI					
Ifield Community College	24,042	0	-598	0	**23,444**
Oriel High School	30,796	0	-748	0	**30,048**
Recycling & Waste PFI					
Infrastructure	6,948	0	-352	0	**6,596**
Land and Buildings	126	0	-4	13,577	**13,699**
Plant and Equipment	4,411	739	-815	0	**4,335**
Street Lighting PFI	72,164	0	-2,644	0	**69,520**
Total PFI Assets	**138,487**	**739**	**-5,161**	**13,577**	**147,642**

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

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

Note (iii) – Payments due under PFI Contracts

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

NOTES TO THE BALANCE SHEET

16. Leases

Authority as Lessee

Finance Leases

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

1 April 2017 £000		31 March 2018 £000
23,463	Other Land and Buildings	24,270
0	Vehicles, Plant, Furniture and Equipment	0
23,463		24,270

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

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

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

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

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

Operating Leases

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

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

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

NOTES TO THE BALANCE SHEET

Authority as Lessor

Finance Leases

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

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

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

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

	Gross Investment in the Lease		Minimum Lease Payments	
	1 April 2017 £000	31 March 2018 £000	1 April 2017 £000	31 March 2018 £000
No later than one year	499	496	219	226
Later than one year and not later than five years	1,997	1,984	957	985
Later than five years	9,546	8,999	6,653	6,359
	12,042	11,479	7,829	7,570

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

Operating Leases

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

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

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

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

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

NOTES TO THE BALANCE SHEET

17. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Authority participates in two post-employment schemes:

▪ Local Government Pension Scheme – West Sussex County Council participates in the Local Government Pension Scheme, and acts as an administering authority. This is a funded defined benefit career-average salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. The scheme is open to all employees of West Sussex County Council, with the exception of firefighters and teachers and Public Health staff who have transferred to the Authority on NHS terms and conditions.

▪ Uniformed Firefighters – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. The scheme is administered by the Home Office, which sets the contribution rate chargeable to the accounts.

Transactions Relating to Post-Employment Benefits

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

NOTES TO THE BALANCE SHEET

	Local Government Pension Scheme		Uniformed Firefighters	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	47,900	77,678	6,956	7,203
Past service cost (including curtailments)	1,956	1,278	2,400	34
(Gain)/loss from settlements	-178	-1,121	0	0
Financing and Investment Income and Expenditure:				
Interest cost on defined benefit obligation	59,466	53,513	11,111	9,752
Interest income on plan assets	-48,938	-44,619	0	0
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	60,206	86,729	20,467	16,989
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement:				
Remeasurement (gains) and losses	16,548	-88,644	47,955	-9,408
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	76,754	-1,915	68,422	7,581
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	-60,206	-86,729	-20,467	-16,989
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers' contributions payable to scheme	49,566	48,097		
Retirement benefits payable to pensioners			7,992	8,854

Assets and Liabilities in Relation to Post-Employment Benefits

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

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

NOTES TO THE BALANCE SHEET

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

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

Scheme History

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

The liabilities show the underlying commitments that the Authority has in the long run to pay post-employment (retirement) benefits. The total liability of £652.846m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

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

The total contribution expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2019 is £45.038m. Payments (net of employee contributions) in respect of the Uniformed Firefighters scheme for the year to 31 March 2019 are projected to be £8.133m.

NOTES TO THE BALANCE SHEET

Basis for Estimating Assets and Liabilities

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

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

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		Uniformed Firefighters	
	2016/17 £000	2017/18 £000	2016/17 £000	2017/18 £000
Mortality assumptions:				
Longevity at 65 for current pensioners:				
▪ Men	23.6	23.6		
▪ Women	25.0	25.0		
Longevity at 60 for current pensioners:				
▪ Men			30.2	29.5
▪ Women			31.7	31.5
Longevity at 65 for future pensioners:				
▪ Men	26.0	26.0		
▪ Women	27.8	27.8		
Longevity at 60 for future pensioners:				
▪ Men			31.6	30.8
▪ Women			33.2	32.8
Rate of increase in salaries	3.1%	3.1%	3.4%	3.4%
Rate of increase in pensions	2.4%	2.4%	2.4%	2.4%
Rate of inflation			3.4%	3.4%
Rate for discounting scheme liabilities	2.6%	2.7%	2.6%	2.7%

For the Local Government Pension Scheme, an allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

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

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

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

NOTES TO THE BALANCE SHEET

18. Pension Schemes Accounted for as Defined Contribution Schemes

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

The Scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Department for Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Authority is not able to identify its share of underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

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

NOTES TO THE BALANCE SHEET

19. Unusable Reserves

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

Accumulated Absences Account

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

2016/17 £000		2017/18 £000	£000
6,461	**Balance at 1 April**		**8,659**
-6,461	Settlement or cancellation of accrual made at end of the preceding year	-8,659	
8,659	Amounts accrued at the end of the current year	9,541	
2,198	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		882
8,659	**Balance at 31 March**		**9,541**

Available for Sale Financial Instruments Reserve

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

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

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

NOTES TO THE BALANCE SHEET

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 2 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

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

NOTES TO THE BALANCE SHEET

Collection Fund Adjustment Account

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

2016/17 £000		2017/18 £000	£000
-4,137	**Balance at 1 April**		**-4,132**
4,137	Settlement or cancellation of accrual made at end of the preceding year	4,132	
-4,132	Amounts accrued at the end of the current year	-4,605	
5	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements		-473
-4,132	**Balance at 31 March**		**-4,605**

Deferred Capital Receipts Reserve

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

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

NOTES TO THE BALANCE SHEET

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions.

The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible.

The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2016/17 £000		2017/18 £000
616,513	**Balance at 1 April**	**704,131**
64,503	(Gains)/losses on remeasurement of pension assets/liabilities	-98,052
80,673	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	103,718
-57,558	Employer's pensions contributions and direct payments to pensioners payable in the year	-56,951
704,131	**Balance at 31 March**	**652,846**

Revaluation Reserve

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

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

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

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

NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

20. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2017/18

Adjustments from General Fund to Comprehensive Income and Expenditure Statement	Adjustments for Capital Purposes [1] £000	Net Pensions Adjustments [2] £000	Other Differences [3] £000	Total Adjustments £000
Adults and Health	2,037	4,716	-3,279	3,474
Children and Young People	284	5,416	77	5,777
Education and Skills	4,556	12,701	-914	16,343
Environment	3,377	257	-1,484	2,150
Finance and Resources	-1,222	3,066	-404	1,440
Highways and Infrastructure	29,992	1,365	-6,128	25,229
Leader (including Economy)	5,169	300	1,445	6,914
Safer, Stronger Communities	4,065	300	10	4,375
Net Cost of Services	48,258	28,121	-10,677	65,702
Other Income and Expenditure	-65,801	18,646	11,086	-36,069
Difference between General Fund Surplus and Comprehensive Income and Expenditure Deficit	**-17,543**	**46,767**	**409**	**29,633**

NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

Adjustments between Funding and Accounting Basis 2016/17 (Restated)

Adjustments from General Fund to Comprehensive Income and Expenditure Statement	Adjustments for Capital Purposes [1] £000	Net Pensions Adjustments [2] £000	Other Differences [3] £000	Total Adjustments £000
Adults and Health	2,420	1,404	32	3,856
Children and Young People	-238	1,557	35	1,354
Education and Skills	13,157	4,526	-1,857	15,826
Environment	5,406	59	-1,508	3,957
Finance and Resources	1,451	5,100	-206	6,345
Highways and Infrastructure	30,086	423	-7,470	23,039
Leader (including Economy)	1,501	65	827	2,393
Safer, Stronger Communities	614	-413	13	214
Net Cost of Services	54,397	12,721	-10,134	56,984
Other Income and Expenditure	-47,178	10,394	12,337	-24,447
Difference between General Fund Deficit and Comprehensive Income and Expenditure Deficit	**7,219**	**23,115**	**2,203**	**32,537**

NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

[1] Adjustments for Capital Purposes

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

▪ **Other Operating Expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets, and for revaluation gains and losses on Assets Held for Sale.

▪ **Financing and Investment Income and Expenditure** – adjusts for revaluation gains and losses on Investment Property

▪ **Taxation and Non-Specific Grant Income** – credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year and for gains on donated assets.

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

[2] Net Pensions Adjustment

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

▪ For **services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

▪ For **Financing and Investment Income and Expenditure** the net interest on the defined benefit liability is charged to the CIES.

[3] Other Differences

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

▪ For **services** an adjustment for the accumulated absences provision recognised in accordance with proper accounting practices but which is not chargeable under statute.

▪ The charge under **Taxation and Non-Specific Grant Income** represents the difference between what is chargeable under statutory regulations for Council Tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices. This is a timing difference as any difference will be brought forward in future Collection Fund surpluses and deficits.

▪ All other reclassifications between the Net Cost of Services and Other Income and Expenditure required under proper accounting practices, including the allocation of PFI and Finance Lease interest and income and expenditure relating to Investment Property, are also included in this column.

NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

21. Segmental Income

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

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

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

22. Other Operating Expenditure

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

23. Financing and Investment Income and Expenditure

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

24. Taxation and Non Specific Grant Income

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

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

25. Grant Income

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

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

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

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

Key to Central Government Departments

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

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

26. External Audit Costs

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

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

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

The Authority incurred further costs of £4,250 in 2017/18 (2016/17 £5,070) in relation to grant certification services provided by another audit firm.

27. Members' Allowances

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

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

28. Environment Agency Services

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

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

29. Dedicated Schools Grant

The County Council's expenditure on schools is funded primarily by grant monies provided by the Education and Skills Funding Agency, the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School and Early Years Finance (England) Regulations 2017. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2017/18 are as follows:

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

Notes

(A) Final DSG figure before any amount has been recouped from the Authority.

(B) Figure recouped from the Authority for the conversion of maintained schools into academies and high needs (post-16) places within special schools.

(C) Budgeted distribution of DSG as agreed with Schools Forum, January 2017.

(D) The ISB is regarded for DSG purposes as being spent by the Authority when it is deployed to a school's budget share.

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

30. Expenditure and Income Analysed by Nature

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

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

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

Staff at voluntary aided and foundation schools are not employees of the Authority, as at these schools the governing body is considered to be the employer. Employee expenses of £67.010m in 2017/18 (£71.526m in 2016/17) in relation to staff employed at the Authority's voluntary aided and foundation schools are included within *Employee benefits expenses* above.

31. Officers' Remuneration

Bandings Disclosure

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

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

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

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Senior Officer Disclosure

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

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

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Notes to 2017/18 Senior Officer Remuneration Disclosure

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

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

Payments of £105,182.44 were made to Penna PLC for the services of the Interim Director of Human Resources & Organisational Change from 4 September 2017

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

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

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Notes to 2016/17 Senior Officer Remuneration Disclosure

[1] In accordance with the relevant legislation, senior officers are only identified by name where they have an annual salary of £150,000 or greater
[2] This column excludes employer's pension contributions from the definition of remuneration, and as such can be read in conjunction with the Officers' Remuneration banding disclosure
[3] Nathan Elvery appointed Chief Executive effective 27 June 2016
[4] Gill Steward in post as Chief Operating Officer until 24 March 2016 (final salary payment expensed during April 2016)
[5] Sean Ruth Acting Chief Operating Officer until 26 June 2016, Deputy Chief Executive from 27 June 2016, Interim Executive Director Residents' Services from 18 July 2016 to 30 November 2016, then Executive Director Communities & Public Protection & Chief Fire Officer from 1 December 2016 (Acting Executive Director Economy, Infrastructure and Environment 1 January 2017 - 27 February 2017 only)
[6] Peter Lewis Executive Director Corporate Resources & Services to 31 December 2016; payments are for period as direct employee of Council (from 1 May 2016); additional April 2016 payment to Integrex Solutions Ltd is detailed below
[7] Executive Director of Economy, Infrastructure & Environment with effect from 27 February 2017
[8] Acting Executive Director of Communities & Public Protection and Acting Chief Fire Officer to 27 February 2017
[9] Director of Operations and Acting Deputy Chief Fire Officer from 21 November 2016, previously Director of Communities & Acting Deputy Chief Fire Officer
[10] Director of Communities from 7 November 2016
[11] Director of Public Health to 24 December 2016
[12] Director of Education and Skills to 6 July 2016
[13] Director of Education and Skills from 6 September 2016
[14] Acting Director of Operations & Assistant Chief Fire Officer to 20 November 2016
[15] Director of Customer Service to 30 November 2016
[16] Director of Economy, Planning & Place from 18 July 2016 to 11 October 2016, previously Executive Director of Residents' Services to 17 July 2016.
[17] Director of Economy, Planning & Place from 19 September 2016
[18] Director of Highways & Transport, six month secondment from Surrey County Council expiring June 2016
[19] Director of Highways & Transport from 4 July 2016

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

A payment of £17,231 was made to Integrex Solutions Ltd for the services of Peter Lewis, Executive Director Corporate Resources and Services, for services provided in April 2016
Payments of £39,690 were made to Gatenby Sanderson Ltd for the services of the Director of Education and Skills to 6 July 2016
Payments of £105,772 were made to Penna PLC for the services of an interim who was covering the absence of the Executive Director of Residents' Services to 17 July 2016, then Director of Strategic Planning & Place from 18 July 2016 to 11 October 2016
Payments of £25,790 were made to Surrey County Council for the remainder of the six month secondment of the Director of Highways & Transport, expiring June 2016

Exit Packages

The Authority terminated, or made provision to terminate, the contracts of a number of employees in 2017/18. Total liabilities of £3.626m were incurred for the period (£0.605m in 2016/17).

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

(a)	(b)		(c)		(d)		(e)	
Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band (b + c)		Total cost of exit packages in each band	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
£0 - £20,000	7	40	20	68	27	108	£197,326	£903,943
£20,001 - £40,000	3	9	4	23	7	32	£194,865	£898,317
£40,001 - £60,000	1	3	0	15	1	18	£41,885	£888,914
£60,001 - £80,000	0	1	0	6	0	7	£0	£479,972
£80,001 - £100,000	0	0	0	0	0	0	£0	£0
£100,001 - £150,000	0	0	0	1	0	1	£0	£138,467
£150,001 - £200,000	1	0	0	2	1	2	£171,143	£316,652
£200,001 - £250,000	0	0	0	0	0	0	£0	£0
Total	12	53	24	115	36	168	£605,219	£3,626,265

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

32. Pooled Budgets

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

Learning Disabilities

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

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

Mental Health

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

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

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Better Care Fund

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

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

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

In addition to the pooled funds disclosed above, the Authority receives a further Improved Better Care Fund (iBCF) grant allocation directly from central government. Whilst the iBCF is intended to support the wider BCF programme, these monies are not subject to the joint control arrangements of the BCF, and so are not accounted for as part of the pooled budget. West Sussex County Council received an iBCF allocation of £11.4m in 2017/18, of which £7.4m has been recognised in the Comprehensive Income and Expenditure Statement for the period (see Note 25). The balance of £4.0m has been carried forward as a receipt in advance, as there are outstanding conditions on the grant which will only be met when the funds are applied.

33. Related Parties

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

Central Government

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

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in Note 27.

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

- Director and Trustee of Crawley Open House, and also a member of the Executive Committee of South-East Employers. In 2017/18 goods and services to the value of £394,150 and £8,403 respectively were commissioned from these organisations.

- Partner of Dean Wilson LLP, who act as solicitors for the Shoreham Port Authority. Goods and services to the value of £899 were commissioned from this entity in 2017/18.

- Director and Trustee of Coastal West Sussex MIND. In 2017/18, goods and services to the value of £214,019 were commissioned from this entity.

- Employee of EDF Energy. Goods and services to the value of £8,514 were commissioned from this entity in 2017/18.

Officers

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

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

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

Other Public Bodies

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

In 2017/18 the Council incurred costs of £1.1m (2016/17 £0.9m) in relation to the administration of the Fund, and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund, and contributed £54.9m to the Fund in 2017/18 (2016/17 £44.9m). All monies owing to and due from the Fund have been accounted for in the year.

Part of the Pension Fund cash holdings are invested in the money market by the treasury management operations at West Sussex County Council, in line with the Fund's Treasury Management Policy. During the year to 31 March 2018 the Fund had a daily average investment balance of £38.1m (31 March 2017 £35.9m), earning interest of £0.2m (2016/17 £0.1m) in these funds at a rate of return of 0.33% (2016/17 0.34%).

Entities Controlled or Significantly Influenced by the Authority

Under the West Sussex County Council Act 1972, West Sussex County Council and Arun District Council (ADC) each appoint four members to the Littlehampton Harbour Board. The Act provides that the Harbour Board should meet its expenses from receipts but that any deficiency is made good from its own internal reserve fund and a precept, shared equally, on the County Council and ADC. During 2017/18 the precept on the County Council was £0.102m (2016/17 precept £0.103m).

The Authority has identified interests in two other entities in the reporting period, West Sussex Music Trust and Aspire Sussex Ltd, as it was represented on the Board of both organisations during the reporting period. However, the Authority has judged that it does not have significant influence over either entity. Further details are provided in Note 42.

In accordance with the requirements of the Code of Practice, these "single entity" financial statements include all income, expenditure, assets and liabilities of the Authority's maintained schools. Whilst the Authority has responsibility for distributing funding to its maintained schools, under the local management of schools the responsibility for spending this budget is delegated to the governing body of the school concerned. The Authority is therefore restricted in the extent to which it controls the income, expenditure, assets and liabilities included in its financial statements which relate to its maintained schools. At the reporting date, the Authority operated 219 maintained schools (225 at 31 March 2017). Non-current assets with a net book value of £927m (£865m at 31 March 2017) were recognised in relation to these schools.

NOTES TO THE CASH FLOW STATEMENT

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

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

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

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

36. Cash Flow Statement – Investing Activities

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

37. Cash Flow Statement – Financing Activities

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

38. Events after the Balance Sheet date

There are no post balance sheet events.

39. Contingent Assets

West Sussex County Council currently has no material contingent assets.

40. Contingent Liabilities

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

West Sussex County Council recognises the following contingent liabilities:

(1) A potential liability exists in respect of the insolvency of Independent Insurance Company Ltd, and its failure to enter into a scheme of arrangement with its creditors. This liability is ongoing but cannot be quantified. Known claims are provided for in the Insurance provision (see Note 14), but there is a risk of new claims arising from the period when the Independent Insurance Company provided cover to the Council (September 1992 to September 2000). An Insurance reserve (see Note 3) is maintained to provide for the risk of unknown future claims.

(2) A potential liability exists in relation to any future costs of maintaining six closed landfill sites in the County. The Authority is responsible for monitoring these sites to ensure that they are being maintained correctly, and that there is no harm being caused to the surrounding environment. No provision has been recognised in the accounts as it is not currently possible to measure the size of any such obligation with sufficient reliability.

(3) A potential liability exists in relation to NHS Trusts who are seeking mandatory charitable relief on business rates. Should this appeal be successful NHS Trusts will be entitled to an 80% discount, backdated for a period of six years. This cost would be split between MHCLG and Local Government. Whilst a general provision for Non-Domestic Rates Appeals is recognised based on the provisions held by the Council's billing authorities (see Note 14), no specific provision has been made for NHS Trust charitable appeals at this stage as an obligation requiring settlement is not considered to be probable. However, the Authority has earmarked funding in a reserve (see Note 3) for the eventuality of any successful appeals.

(4) A technical and legal issue has resulted in a delay in the letting of the Authority's highways maintenance contract. There is the potential for a claim to arise as a consequence, but the likelihood and value of any possible obligation cannot be estimated with any certainty at this early stage.

(5) The Council is on notice of the potential for claims associated with the possible exposure of a small number of individuals to harm during some building work undertaken by the Council. This is currently under investigation and so the likelihood of and any necessary provision for claims cannot be assessed at this time.

41. Accounting Policies

(i) General Principles and Concepts

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

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

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

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

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

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

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

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

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

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

- Relevance
- Faithful Representation

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

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

- Comparability
- Verifiability
- Timeliness
- Understandability

(ii) Property, Plant and Equipment

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

Recognition

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

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

Recognition - Schools

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

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

Measurement

Assets are initially measured at cost, comprising:

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

The Authority does not capitalise borrowing costs.

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

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

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

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

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

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

Componentisation

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

Significant Cost

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

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

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

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

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

Useful Lives and Depreciation

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

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

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

Revaluations

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

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

De Minimis

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts, while amounts below this are credited to revenue. Statutory arrangements allow costs of disposals to be financed by capital receipts, capped to 4% of the capital receipt. Costs incurred prior to the sale are carried forward and offset in the year of disposal.

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

(iii) Investment Property

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

Investment Properties are measured initially at cost and subsequently at fair value. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains or losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

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

(iv) Charges to Revenue for Non-Current Assets

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

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

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

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

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

Supported Borrowing

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

Unsupported Borrowing

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

MRP – Finance Lease and PFI

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

(v) Intangible Assets

Intangible assets included in the balance sheet are capitalised at cost and represent the rights to use software licences over a period of more than 12 months. Intangible assets are amortised over their useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. Under statute, amortisation is not permitted to impact on the General Fund balance, and therefore this charge is reversed out through the Movement in Reserves Statement and posted to the Capital Adjustment Account.

(vi) Government Grants and Contributions

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

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

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

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

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve.

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

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

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

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

(viii) Leases

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

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

The Authority as Lessee

Finance Leases

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

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

Lease payments are apportioned between:

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

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased Property, Plant or Equipment.

The Authority as Lessor

Finance Leases

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

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

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

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

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

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet and rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

IFRS Transitional Rules

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

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

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

(ix) Private Finance Initiative (PFI) and Similar Contracts

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

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

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

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

(x) Accruals of Income and Expenditure

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

In particular:

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

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

Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. An examination of debtors outstanding at 31 March has been made and a provision has been included for doubtful debts. This includes a provision for general doubtful debts, which is reviewed annually.

Under local management, the accounts for schools have been closed down at a slightly earlier date. These accounts have been closed prior to the full reconciliation of individual school accounts with the result that creditors, debtors and schools reserves are shown on an estimated basis. The difference is not material.

(xi) Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the Authority's arrangements for accountability and financial performance. Support functions are primarily charged directly to the Finance and Resources portfolio.

(xii) Reserves

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

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

(xiii) Provisions

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

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

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

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

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

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

(xiv) Contingent Liabilities

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

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

Contingent liabilities are not recognised in the Balance Sheet but are disclosed in Note 40 to the accounts.

(xv) Financial Instruments

a) Financial Liabilities

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

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

b) Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables:

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

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

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

Available for Sale:

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value.

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

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

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

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

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

c) Soft Loans

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

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

(xvi) Cash and Cash Equivalents

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

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

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

(xvii) Internal Interest

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

(xviii) Council Tax and Non-Domestic Rates

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

Accounting for Council Tax and NDR

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

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

(xix) Value Added Tax

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

(xx) Employee Benefits

Benefits Payable During Employment

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

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

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

Termination Benefits

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

(xxi) Post-employment Benefits

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

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

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

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

The Local Government Pension Scheme and The Firefighters' Pension Scheme

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

- The liabilities of the respective schemes attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees).
- Liabilities are discounted to their value at current prices, using an appropriate discount rate.

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

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

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

Service cost, comprising:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

Remeasurements, comprising:

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows, rather than as benefits earned by employees.

(xxii) Early Retirement Costs

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

(xxiii) Senior Officer Remuneration

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

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

There are two related disclosures required by the regulations:

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

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

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

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

(xxiv) Prior Period Adjustments and Changes in Accounting Estimates

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

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

(xxv) Fair Value Measurement

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

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

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

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

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

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

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

(xxvi) Joint Operations and Other Pooled Budgets

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

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

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

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

(xxvii) Events After the Reporting Period

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

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

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

(xxviii) Local Enterprise Partnership

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

The financial and operating policy decisions of the LEP are taken by its Board of Members, as delegated through the LEP's Assurance Framework. Whilst the Authority receives income and incurs expenditure on behalf of the LEP, it is acting merely as an intermediary, and therefore accounts for the LEP as an agency arrangement. As such, transactions incurred by the LEP are excluded from the single entity financial statements, and the Authority accounts only for the grant awarded to it by the LEP and the associated expenditure.

42. Critical Judgements in Applying Accounting Policies

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

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The Authority is required to exercise judgement in assessing whether a potential liability should be accounted for as a provision, or whether it should be disclosed as a contingent liability. This judgement requires the Authority to assess the likelihood of the obligation arising. In calculating the level of any provisions, the Authority also exercises judgement; they are measured at the Authority's best estimate at the balance sheet date of the costs required to settle the obligation. The level of the Authority's provisions and details of its contingent liabilities are set out in Notes 14 and 40 respectively.

- CIPFA's Code of Practice requires school assets to be recognised on the Authority's balance sheet only where the future economic benefits or service potential associated with those assets will flow to the Authority. On this basis, the Authority has judged that community schools and voluntary controlled schools are on-balance sheet, as the Authority directly employs the staff at these schools, sets the admission criteria and is the freeholder of the premises. Foundation Trust schools are judged to be off-balance sheet, as the governing bodies of these schools set the admissions criteria and the Authority does not hold the freehold or have responsibility for the maintenance of the school. Buildings at voluntary aided schools are off-balance sheet for the same reasons, but land is held on-balance sheet as the Authority retains the statutory responsibility for maintenance of the land. Academies are managed completely independently of the local authority, and funding is provided directly by central government. Premises are leased to the academy on a finance lease basis. Therefore academy buildings are off-balance sheet and land is retained at a nominal value reflecting the Authority's restricted use.

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

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

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

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

Property, Plant and Equipment

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets fall. It is estimated that the annual depreciation charge for buildings would increase by £0.7m for every year that useful lives are reduced. As part of its rolling revaluation programme, an asset is subject to formal valuation at a minimum every five years. Therefore over a five-year period the cumulative impact of a one-year reduction in the useful lives of buildings would be an increase in depreciation charges of £3.5m, which is not considered to be material in the context of the Authority's £1.9billion long-term asset base.

Defined Benefit Pension Schemes

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

Local Government

Change in assumptions at 31 March 2018	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	10%	207,353
0.5% increase in the Salary Increase Rate	1%	28,322
0.5% increase in the Pension Increase Rate	8%	176,470

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

Firefighters

Change in assumptions at 31 March 2018	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	9%	33,730
1 year increase in member life expectancy	3%	11,242
0.5% increase in the Salary Increase Rate	1%	3,202
0.5% increase in the Pension Increase Rate	8%	28,593

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

45. Firefighters' Pension Scheme

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

Net Assets Statement

At 31 March 2017 £000		At 31 March 2018 £000
	Current Assets	
1,925	Pension top up grant receivable from the Home Office in respect of year to reporting date	2,754
581	Payments in advance	687
2,506		3,441
	less: Current Liabilities	
-2,506	Creditors	-3,441
0	**Net Assets - balance of scheme**	0

GLOSSARY OF FINANCIAL TERMS

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

GLOSSARY OF FINANCIAL TERMS

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

GLOSSARY OF FINANCIAL TERMS

Expenditure and Funding Analysis	An analysis of the income and expenditure of the Authority chargeable to the General Fund under statute, and a reconciliation of these sums to that presented in the Comprehensive Income and Expenditure Statement under proper accounting practices.
Fair Value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Finance Lease	A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Consequently the non-current asset is included within the Balance Sheet of the lessee, even though the lessor retains the legal title of the asset.
Financial Instrument	Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Examples include the borrowing or lending of money and the making of investments.
General Fund	A statutory fund which holds the accumulated surplus of income over expenditure in the revenue account. The balance on the General Fund forms part of the County Council's Usable Reserves.
Gross Expenditure	Total expenditure before deducting income.
Heritage Assets	Assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge or culture.
Impairment	Recognised when the carrying amount of an asset exceeds its recoverable amount. An impairment may be physical in nature (such as damage caused by fire), or may arise from a general or specific reduction in prices during the financial year.
Income	Inflow of economic benefits or service potential during the reporting period, when such inflows or enhancements of assets or decreases of liabilities result in an increase in reserves.
Intangible Assets	Intangible assets yield benefits to Council for more than one year, but are without physical form, such as software licences. Intangible assets are recorded at cost and are amortised over their estimated useful economic life.
International Accounting Standards (IAS)	Standards for the preparation and presentation of financial statements as issued by the International Accounting Standards Committee (IASC) from 1973 to 2001.
International Financial Reporting Standards (IFRS)	Standards for the preparation and presentation of financial statements as issued by the International Accounting Standards Board (IASB) since 2001.
Investment Property	Property held solely to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of operations.
Lease	A lease is an agreement whereby the lessor conveys to the lessee (in return for a payment or series of payments) the right to use an asset for an agreed period of time.
Liability	A present obligation of the Authority arising from past events, the settlement of which is expected to result in an outflow from the Authority of resources embodying economic benefits or service potential.
Long Term Assets	Non-current assets that do not meet the definition of a current asset and provide benefits to the Council which are realisable over a period greater than 12 months.
Materiality	Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materially depends on the nature or size of the omission or misstatement, judged in the context of the information being considered.

GLOSSARY OF FINANCIAL TERMS

Minimum Revenue Provision (MRP)	An amount chargeable to the General Fund annually to provide for the repayment of debt. The provision of MRP reduces the Council's Capital Financing Requirement, which may be met by internal or external borrowing.
Movement in Reserves Statement	Shows the movement in the year on the various reserves held by the Authority, analysed into usable and unusable reserves.
National Non-Domestic Rates (NNDR)	A charge on commercial and industrial premises based on the rateable value of the property multiplied by a national rate set by central government. The means by which local businesses contribute towards the provision of local authority services.
Operating Lease	A lease arrangement where the risks and rewards of ownership of the asset have not been transferred to the lessee. The annual rentals are therefore charged directly to the Income and Expenditure Account and the asset remains on the balance sheet of the lessor.
Outturn	The actual level of income and expenditure for the financial year.
Pooled Budgets	A partnership arrangement whereby NHS organisations and local authorities contribute an agreed level of resource into a pooled fund which is then used to commission or deliver health and social care services.
Precept	The County Council precepts on (makes demands upon) the billing authorities' collection funds for its net expenditure requirements to be met by council tax.
Prior Period Adjustments	Material adjustments which are applicable to prior years and which arise from changes in accounting policy or the correction of material errors. They do not include immaterial adjustments or changes to accounting estimates.
Private Finance Initiative (PFI)	A long-term contractual public private partnership, which typically involves a private sector entity (the operator) constructing or enhancing infrastructure used in the provision of a public service, and operating and maintaining that infrastructure for a specified period of time. The operator is paid for its services over the period of the arrangement.
Provisions	Provisions are raised to recognise liabilities which exist at the balance sheet date, where settlement is probable and can be reliably quantified but the exact amount and the date on which it will arise is uncertain.
Prudential Code	Issued by CIPFA, the Prudential Code supports local authorities in taking capital investment decisions. The Prudential Code requires local authorities to set their own borrowing limits based upon affordability, sustainability and prudence.
Public Works Loan Board (PWLB)	A central government agency which provides loans for one year and above to authorities at interest rates only slightly higher than those at which the government itself can borrow.
Related Party	An individual or organisation that has the potential to control or significantly influence the Council, or to be controlled or significantly influenced by the Council.
Remuneration	Remuneration includes all amounts paid to or receivable by a person, including sums due by way of expense allowances (so far as these are chargeable to tax) and the estimated monetary value of any other benefits received by an employee.
Residual Value	The estimated amount that the Authority would currently obtain from disposal of an asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
Revaluation Reserve	Records the unrealised revaluation gains arising from increases in the value of non-current assets. The reserve increases when assets are revalued upwards, and decreases when assets are revalued downwards or disposed of or as assets are depreciated.
Revenue Budget	The estimate of annual income and expenditure requirements, which sets out the financial implications of the County Council's policies and the basis of the annual precept to be levied on collection funds.

GLOSSARY OF FINANCIAL TERMS

Revenue Contribution to Capital Outlay (RCCO)	The amount of capital expenditure to be financed directly from the annual revenue budget.
Revenue Expenditure	The operating costs incurred by the Council in providing its day-to-day services, such as salaries, supplies and services.
Revenue Expenditure Funded from Capital under Statute (REFCUS)	Expenditure that is classified as capital under statutory provisions, but which does not result in the creation or enhancement of non-current assets owned by the Council. Such expenditure is treated as revenue expenditure under proper accounting practices and is charged to the relevant service in the Comprehensive Income and Expenditure Statement.
Revenue Support Grant (RSG)	A general government grant in support of local authority expenditure.
Specific Grants	Represents central government financial support towards particular local authority services, which the government wishes to target.
Surplus Assets	Non-current assets that are surplus to service needs but that do not meet the recognition criteria for Investment Property or Assets Held for Sale.
Unusable Reserves	Reserves that the Council is not able to use to provide services. This includes unrealised gains and losses in relation to asset revaluations and accounts that absorb the timing differences between transactions under proper accounting practices and statutory arrangements.
Usable Reserves	Reserves that can be used to meet future expenditure, subject to the requirement to maintain a prudent level of reserves and any statutory limitations on their use.

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West Sussex Pension Fund

Statement of Accounts 2017/18

Declaration

Under Regulation 9 of the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts set out in the following pages presents a true and fair view of the West Sussex Pension Fund as at 31 March 2018.

Katharine Eberhart
Director of Finance, Performance and Procurement

Notes: The West Sussex Pension Fund is a defined benefit scheme and the following accounts do not take account of liabilities to pay pensions and other benefits after 31 March 2018 year end. Further information relating to these liabilities and other benefits is contained in the Valuation Report. The full valuation report can be found on the West Sussex County Council website www.westsussex.gov.uk/pensions

The Local Government Pension Fund Scheme
Pension Fund Account

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

Net Asset Statement

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

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

Notes to the Accounts

NOTE 1: DESCRIPTION OF THE FUND

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

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

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

a. General

The Scheme is governed by the Public Service Pensions Act 2013 and is administered in accordance with the following secondary legislation:

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

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

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

b. Membership

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

• Scheduled Bodies, Resolution Bodies and Academies:	Regulations allow employees of certain specified bodies to join the Scheme (including the County Council, District and Borough Councils, non-uniformed personnel employed by the Police and Crime Commissioner for Sussex or the Office of the Chief Constable, employees within Town and Parish Councils as well as non-teaching staff employed by Colleges and Academies).

- Admitted Bodies: Other organisations that participate in the scheme under an admission agreement between the administering authority, related employer and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

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

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

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

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

c. Funding

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

- Active members in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018.

- Employers in accordance with the rate calculated by the Fund actuary at the triennial valuation exercise, or on admission between valuations. The employer contribution rates range from 0% to 42.7% of pensionable pay for the financial year ending 31 March 2018.

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

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

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

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

There are a number of ancillary benefits provided under the Scheme including early retirement, ill-health retirement and death benefits. More details can be found on the Fund's website.

NOTE 2: BASIS OF PREPARATION

The accounts have been prepared in accordance with the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which is based upon International Financial Reporting Standards (IFRS), as amended for UK public sector, and Guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

The accounts summarise the transactions and net assets of the Fund. They do not take account of future liabilities to pay pensions and other benefits after 31 March 2018 reporting period. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) basis, is disclosed at Note 20.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue recognition

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

Employer secondary contributions are accounted for on an accruals basis.

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

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

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

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

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

c. Investment income

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

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

ii. Dividend income
Dividend income is recorded on the date that the shares are quoted as ex-dividend. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as an investment asset.

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

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

v. Movement in the net market value of investments
Changes to the net market value of investments (including investment properties) are recognised as income or expense and comprise all realised and unrealised profit/loss during the year.

Fund Account - Expense items

d. Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due at the end of the reporting period. Any amounts due but unpaid are disclosed in the Net Asset Statement as current liabilities.

e. Taxation

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

f. Management expenses

The Code does not require any breakdown of Pension Fund administration expenses. However in the interests of greater transparency, the Fund discloses its Pension Fund management expenses in accordance with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses (2016) as set out below:*

Administrative expenses

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

Oversight and governance costs

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

Investment management expenses

All management expenses are accounted for on an accruals basis. Fees of the external managers and custodian are agreed in the respective mandates governing their appointment and are mainly based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

Transaction costs are accounted for on an accruals basis.

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

The cost of the County Council’s in-house treasury management team is charged to the Fund based on a proportion of time spent by officers on treasury management. This is included in investment management costs.

Net Asset Statement

g. Financial assets

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

h. Freehold and leasehold properties

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

i. Foreign currency transactions

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

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

j. Derivatives

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

k. Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of change in value.

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

l. Financial liabilities

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

m. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Asset Statement (Note 20).

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

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

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

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

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19.

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	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. The Fund actuary has been appointed to provide advice about the assumptions applied.	Actual experience relative to the assumptions over time. For example: A 0.5% decrease in discount rate at year ended 31 March 2018 would result in an approximate 10% increase to employer liability (£448m). A one year increase in member life expectancy at year ended 31 March 2018 would result in an approximate increase in employer liability of between 3 and 5%. A 0.5% increase in the salary increase rate at year ended 31 March 2018 would result in an approximate increase in employer liability of 1% (£65m). A 0.5% increase in the pension increase rate at year ended 31 March 2018 would result in an approximate 8% increase in employer liability (£357m).
Sensitivity analysis	The sensitivity analysis is based on historical data.	Actual experience relative to assumptions will result in a greater or lesser impact on the financial assets of the Fund.
Private equity	Private equity investments are valued at fair value in accordance with industry guidelines, based on the fund manager report as at the end of the reporting period or the latest fund manager report adjusted for net cash flows. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investment in the financial statements is £121.1m. There is a risk that this investment may be under or overstated in the accounts.

Freehold and leasehold property	Independent valuation for freehold and leasehold investment property has been provided at 31 March 2018 by Savills (UK) Ltd in accordance with Royal Institution of Chartered Surveyors Red Book. 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.	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". Changes in rental growth, void levels and general changes in property market prices could affect the valuation. There is a risk that this investment may be under or overstated in the accounts.

NOTE 6: EVENTS AFTER THE BALANCE SHEET DATE

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

NOTE 7: CONTRIBUTIONS RECEIVED

By Category

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

By Authority

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

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

By Category

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

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

NOTE 9: BENEFITS PAID

By Category

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

By Authority

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

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

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

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

NOTE 11: MANAGEMENT EXPENSES

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

NOTE 11a: INVESTMENT MANAGEMENT EXPENSES

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

NOTE 12: INVESTMENT INCOME

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

NOTE 12a: PROPERTY INCOME

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

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

NOTE 13: OTHER FUND ACCOUNT DISCLOSURES

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

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

NOTE 13a: TAXES ON INCOME

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

NOTE 13b: EXTERNAL AUDIT COSTS

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

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

NOTE 14: INVESTMENTS

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

NOTE 14a: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

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

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

NOTE 14b: ANALYSIS OF INVESTMENTS

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

NOTE 14c: INVESTMENTS ANALYSED BY FUND MANAGER

31 March 2017 %	31 March 2017 £000		31 March 2018 £000	31 March 2018 %
		Share of market value held by fund managers		
37.2	1,359,589	UBS Global Asset Management	1,486,250	37.3
50.7	1,848,763	Baillie Gifford & Co	2,037,419	51.1
2.5	91,301	Pantheon Ventures	67,469	1.7
1.8	66,568	Partners Group	53,582	1.3
7.8	285,820	Aberdeen Asset Management	344,585	8.6
100.0	**3,652,041**		**3,989,305**	**100.0**
		Analysis of investment assets - UBS		
22.0	298,854	UK equities	294,017	19.8
45.1	614,495	Overseas equities	536,121	36.0
8.4	113,765	Bonds	155,462	10.5
24.5	332,475	Bond and currency funds	500,650	33.7
100.0	**1,359,589**		**1,486,250**	**100.0**
		Analysis of investment assets - Baillie Gifford & Co		
3.1	56,473	UK equities	87,881	4.3
65.2	1,207,019	Overseas equities	1,058,615	52.0
31.7	585,271	Bond fund	890,923	43.7
100.0	**1,848,763**		**2,037,419**	**100.0**

Pantheon Ventures, Partners Group and Aberdeen Asset Management require no analysis of investments as each manager invests in only one asset class. Pantheon Ventures and Partners Group are invested solely in private equity. Aberdeen Asset Management invest solely in direct property on behalf of the Fund. No individual investment exceeded 5% of the total value of the Fund's net assets. The Fund does hold investments in bond and currency funds, each of these funds though is made up of multiple underlying assets. The values of each fund, shown as a percentage of the total Fund value, have been set out in the following table.

31 March 2017 %	31 March 2017 £000		31 March 2018 £000	31 March 2018 %
		Baillie Gifford managed funds		
15.4	585,271	Sterling Aggregate Bond Fund	890,923	21.7
		UBS managed funds		
0.9	33,174	Currency Allocation Return Fund	32,789	0.8
7.9	299,301	UK Corporate Bond UK Plus Fund	467,861	11.4
24.2	**917,746**		**1,391,573**	**33.9**

NOTE 14d: STOCK LENDING

The Fund's Investment Strategy Statement (ISS) sets out the parameters for the Fund's stock-lending programme. As at 31 March 2018, the value of quoted equities on loan was £144m.

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

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

There are no liabilities associated with the loaned assets.

NOTE 14e: DIRECT PROPERTY HOLDINGS

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

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

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

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

NOTE 15: ANALYSIS OF DERIVATIVES

The Fund does not invest directly in derivatives.

NOTE 16: FAIR VALUE - BASIS OF VALUATION

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

i. Market quoted investments (Level 1)
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii. Quoted bonds (Level 1)
Bonds are recorded at net market value based on their current yield.

iii. Pooled investment vehicles (Level 2)
Pooled investment vehicles are valued at closing bid price at the closing date. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

iv. Freehold and leasehold properties (Level 3)
Freehold and leasehold properties are included on the basis of fair value. A full independent valuation of the Fund's direct property portfolio was carried out by Savills (UK) Ltd, Chartered Surveyors, in accordance with the RICS Valuation – Professional Standards (January 2014) Global and UK Edition, issued by the Royal Institution of Chartered Surveyors. The properties have been valued at the reporting date on the basis of fair value as required by the International Financial Reporting Standards (IFRS). The definition of fair value is set out in IFRS 13 and is adopted by the International Accounting Standards Board as follows: "The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.". The RICS Red Book considers that fair value is consistent with the concept of market value, the definition of which is set out in Valuation Practice Statement (VPS) 4 1.2 of the Red Book as follows: "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

The observable inputs include the existing lease terms and rentals; the nature of the tenancies; assumed vacancy levels and estimated rental growth.
Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices.

v. Unquoted equity (Level 3)
Private equity investments are recorded as detailed below. Because of the uncertainty associated with the valuation of such investments and the absence of a liquid market, the fair values of these assets may differ from their authorised values.

- The valuation of Partners Group portfolio is taken from the unaudited 31 December 2017 fund-of-fund reports and adjusted for net cash flows.

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

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

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

- The valuation of Pantheon's portfolio is taken from the unaudited 31 December 2017 fund-of-fund reports and adjusted for net cash flows.

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

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

NOTE 16a: FAIR VALUE HIERARCHY

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

Level 1

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

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

Level 2

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

Level 3

Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is based on observable market data.

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

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

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

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

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

NOTE 16B: TRANSFER BETWEEN LEVELS 1 AND 2

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

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

	Market Value 1 April 2017	Transfers into / (out of) Level 3	Net purchases / (sales) during the year	Unrealised gains / (losses)	Realised gains / (losses)	Market Value 31 March 2018
	£000	£000	£000	£000	£000	£000
Private equity	157,870	-	(47,966)	(13,138)	24,285	121,051
Property	285,820	-	38,574	20,091	100	344,585
	443,690	**-**	**(9,392)**	**6,953**	**24,385**	**465,636**

NOTE 17: FINANCIAL INSTRUMENTS

NOTE 17a: CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

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

NOTE 17b: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

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

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

NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND OTHER 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 asset diversification by assets and fund managers, to reduce exposure to market risk (price risk, currency risk and interest rate risk). In addition, the Fund manages its liquidity risk to ensure there are sufficient resources to meet the forecast cash requirement. The Pensions Panel reviews the Fund's funding strategy, in consultation with the actuary and investment adviser, based on the Fund's funding position and performance objective and taking into consideration factors including interest rates, inflation, liquidity and collateral. Prudent assumptions are used both in the strategy modelling work and when setting employer contribution rates. Performance is monitored by the Pensions Panel.

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

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

a. Market risk

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

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

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

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

Other price risks

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

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

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

Other price risks – sensitivity analysis

The Fund has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period. This data has been provided by the Fund's actuary, Hymans Robertson, and is based on historical data.

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

	Current year			
	Value at 31 March 2018 £000	**Change %**	**Value on Increase £000**	**Value on Decrease £000**
Asset type				
UK equities	381,898	16.80%	446,056	317,739
Overseas equities	1,594,736	17.90%	1,880,194	1,309,278
Bonds	155,462	8.50%	168,676	142,248
Bond funds	1,358,784	8.73%	1,477,406	1,240,162
Cash	68,936	0.50%	69,281	68,591
Property	344,585	14.30%	393,861	295,309
Private equity	121,051	28.30%	155,308	86,793
Currency fund	32,789	10.00%	36,067	29,510
Total	**4,058,241**		**4,626,849**	**3,489,630**

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

Interest rate risk

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

Interest rate risk is monitored by the investment managers and the County Council's treasury management team.

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk - sensitivity analysis

The Fund recognises that interest rates vary and can affect both income and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

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

	Current year		
Assets exposed to interest rate risk	**Value at 31 March 2018**	**Change in year in net assets available to pay benefits**	
		+100 BPS	**-100 BPS**
	£000	**£000**	**£000**
Asset type			
Cash and cash equivalents	68,936	689	(689)
Cash balances	35,332	353	(353)
Bonds	155,462	1,555	(1,555)
Total	**259,730**	**2,597**	**(2,597)**

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

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling. The Fund holds monetary and non-monetary assets issued in currencies other than sterling.

Fund managers monitor the currency risk and this is considered by the Pensions Panel when making strategic asset allocation decisions.

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the Hymans Robertson, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10%.

The analysis assumes that all other variables, in particular interest rates, remain constant. If sterling strengthens/weakens against other currencies in which the Fund holds investments, it would increase/decrease the net assets available to pay benefits as follows:

	Current year			
Assets exposed to currency risk	**Value at 31 March 2018**	**Change**	**Value on Increase**	**Value on Decrease**
	£000	**%**	**£000**	**£000**
Currency				
Overseas equities	1,594,736	10.00	1,754,210	1,435,263
Overseas bonds	360,893	10.00	396,983	324,804
Overseas private equity	121,051	10.00	133,156	108,946
Total	**2,076,680**		**2,284,348**	**1,869,013**

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

b. Credit risk

Credit risk is the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. Credit risk is related to the potential return of any investment, the most obvious being that the yields on bonds are strongly correlated to the perceived credit risk. Therefore, the risk of loss is implicit in the carrying value of the Fund's financial assets and liabilities.

The Fund is exposed to credit risk. However, this risk is minimised by selecting high quality counterparties, brokers and financial institutions.

Deposits are made only with banks and financial institutions that are rated independently and meet the Fund's credit criteria. The Fund has also set out in its Treasury Management Policy the limits of exposure to any one financial institution.

The Fund has not had any experience of default or uncollectable deposits. The fund managers held £68.9m in cash (31 March 2017: £106.0m) and cash internally managed by WSCC at 31 March 2018 was £35.3m (31 March 2017: £23.3m). This was held by institutions with the following credit ratings :

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

The Fund's total exposure to credit risk cannot be assessed generally as the risks of default will be specific to each financial institution. At 31 March 2018, there was no evidence that such risks were likely to materialise.

c. Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due, without incurring unacceptable losses or risking damage to the Fund's reputation. Cash is required to pay benefits, fund acquisitions and settle various other commitments. The Fund maintains a working cash balance held in instant access money market and bank accounts. A cash flow forecast is maintained to ensure sufficient funds are available. The Fund manages liquidity risk by:

- giving careful consideration to the anticipated income and expenditure required for the administration of the Fund and the payment of benefits and by maintaining in-house managed cash balances sufficient to meet day-to-day cash flows.
- keeping a significant proportion of the Fund's assets in highly liquid investments such as actively traded equities, bonds and unit trusts.

The Fund is currently cash flow positive.

The Fund's strategic allocation to property and private equity, which are relatively illiquid, is limited to 15% of the total portfolio. As the Fund is not mature, i.e. it does not need to sell assets in order to pay benefits, it is considered appropriate to hold such investments to increase diversification, minimise risk and improve long-term investment performance.

Under the regulations, the Fund is authorised to borrow in its own right to fund cash flow deficits on a short term basis.

d. Refinancing risk
The key risk is that the Fund is bound to replenish its investments at a time of unfavourable interest rates. The Fund does not hold any financial instruments that have a refinancing risk as part of its treasury management or investment strategies.

e. Counterparty risk
The Fund's global custodian, BNP Paribas has responsibility for safeguarding the assets of the Fund. Its duties include maintaining a repository of underlying information on the Fund's assets and arranging settlement of transactions, income collection and cash management. The Fund monitors BNP Paribas's performance and is in regular contact with the custodian. Monthly reconciliations are performed between the custodian's and the investment managers' records.

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2016. Reports on manager performance are monitored by the Pensions Panel on a quarterly basis. The Fund makes use of a third party performance measurement service. In addition to presenting to the Pensions Panel, managers also meet with Fund officers and advisers regularly to review activity and results.

NOTE 19: FUNDING ARRANGEMENTS - ACTUARIAL STATEMENT

Description of funding policy

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purposes of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation will take place as at 31 March 2019.

The key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will help ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The Funding Strategy Statement (FSS) sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding position as at the last formal funding valuation

At the 2016 actuarial valuation, the Fund was assessed as 95% funded (86.4% at the March 2013 valuation). This corresponded to a deficit of £158m (2013 valuation: £371m) at that time.

Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal actuarial assumptions and method used to value the liabilities

Method:
The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions:
A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

	31 March 2016 %
Discount rate	3.8
Salary increase assumption	2.9
Benefit increase assumption (CPI)	2.1

Demographic assumptions

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's bespoke longevity analysis (VitaCurves) with improvements in line with the CMI 2013 model, assuming the current rate of improvements have not peaked and will converge to long term rate of 1.5% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	23.6 years	25.0 years
Future Pensioners	26.0 years	27.8 years

Copies of the 2016 valuation report and FSS are available on the Funds website or on request from West Sussex County Council.

Experience over the period since April 2017

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. However, this has been outweighed by higher than expected asset returns, particularly during 2016/17. The overall impact has been an estmated improvement in the funding level.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund's liabilities on an IAS 19 basis, using the same base data as the funding valuation. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (Note 19). The actuary has also used valued ill health and death benefits in line with IAS 19.

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

As noted above, the liabilities above are calculated on an IAS 19 basis and will therefore differ from the results of the 2016 triennial funding valuation (Note 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the aggregate liability appears to be a reasonable estimate of the actuarial present value of benefit promises.

No allowance has been made for unfunded benefits.

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

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

IAS 19 Assumptions used

The assumptions used are those adopted for the administering authority's IAS 19 report and are different as at 31 March 2018 and 31 March 2017.

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

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

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model assuming long term improvements of 1.5% p.a., with allowance for short term rates of improvement and declining mortality for the over 90s.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	23.6 years	25.0 years
Future pensioners *	26.0 years	27.8 years

* Future pensioners are assumed to be currently aged 45 at the latest formal valuation

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

NOTE 21: CURRENT ASSETS

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

Analysis of debtors

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

NOTE 22: CURRENT LIABILITIES

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

Analysis of creditors

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

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

Market Value 31 March 2017 £000		Market Value 31 March 2018 £000
2,041	Standard Life	2,102
479	Equitable Life	435
2,520		**2,537**

AVC Contributions of £305,339 were paid directly to Standard Life during the year (2016/17: £189,267). The Equitable Life contributions ceased in 2001. AVCs are separately invested and are therefore not included in the Pension Fund accounts in accordance with regulations 4(2)(b) of the LGPS Management and Investment of Funds regulations 2009 (as amended).

NOTE 24: RELATED PARTY TRANSACTIONS

West Sussex County Council

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

During the reporting period, the Council incurred costs of £1.1m (2016/17: £0.9m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £54.9m to the Fund in 2017/18 (2016/17: £56.1m - £44.9m contributions as a % of payroll, £11.2m as a lump sum). All monies owing to and due from the Fund have been accounted for in the year.

Part of the Pension Fund cash holdings are invested in the money market by the Treasury Management operations at West Sussex County Council, in line with the Fund's Treasury Management Policy. During the year to 31 March 2018, the Fund had a daily average investment balance of £38.1m (31 March 2017: £35.9m) earning interest of £0.163m (2016/17: £0.123m) in these funds at a rate of return of 0.33% (2016/17: 0.34%).

Governance

No members of the Pensions Panel are in receipt of pension benefits from the West Sussex Pension Fund.

Each member of the Pensions Panel is required to declare their interests at each meeting.

NOTE 24a: KEY MANAGEMENT PERSONNEL

The Director of Finance, Performance and Procurement and S151 officer has responsibility for the proper financial administration of the Fund under the Local Goverment Act 1972. This Officer is employed by the Administering Authority but spent a proportion of time on the financial management of the Fund. These costs comprise an element of the recharge from the Fund to the County Council in 2017/18 of £1.1m. The total Pension Fund contribution relating to Key Management Personnel is set out below:

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

NOTE 25: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

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

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the period of investment.

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

NOTE 26: CONTINGENT ASSETS

There were no contingent assets at the period end.

Regulation, Audit & Accounts Committee

23 July 2018 **Part I**

Annual Governance Statement 2017/18

Report by Director of Finance, Performance and Procurement and Director of Law and Assurance

Executive Summary

This report presents the draft Annual Governance Statement providing a review of the effectiveness of the County Council's internal control systems and gives assurances about how effectively they operate.

Recommendation

(1) The Committee is asked to approve the draft Annual Governance Statement for signature by the Leader of the County Council and the Chief Executive, subject to any amendments that this Committee may wish to make.

(2) The Committee is asked to agree the draft action plan arising from the 2017/18 Statement .

1. Introduction

1.1 Appendix A to this report contains the draft Annual Governance Statement which, pursuant to the Accounts and Audit (England) Regulations 2015, must be approved by the Regulation, Audit & Accounts Committee in order for it to accompany the signed and dated Statement of Accounts. The Annual Governance Statement must subsequently be signed by the Leader of the County Council and the Chief Executive.

2. Background

2.1 The County Council is required pursuant to the Accounts and Audit (England) Regulations 2015 to produce a broad based Annual Governance Statement. Once approved by this committee the Annual Governance Statement must be signed on behalf of the County Council by the Leader of the County Council and the Chief Executive.

2.2 The Annual Governance Statement is an important and integral part of the County Council's Corporate Governance regime, providing a review of the effectiveness of the County Council's internal control systems and gives assurances about how effectively they operate.

2.3 Departmental Assurance Statements have been issued seeking assurances about departmental governance arrangements. The comments received have been taken into account in preparing the draft Annual Governance Statement (Appendix A). Comments from the Committee made in March 2018 have also been taken into account in finalising the draft.

2.4 The content of the draft Annual Governance Statement follows the CIPFA Guidance and has been prepared in relation to the County Council's Code of Corporate Governance.

2.5 The previous year's action plan is attached as Appendix B, which provides an update on action taken to address significant governance issues. A draft new action plan is attached as Appendix C, which incorporates newly identified significant governance issues, for approval.

3. Resource Implications and Value for Money

3.1 None arising directly from this report

4. Equality Duty.

4.1 An Equality Impact Report is not required for this decision as report dealing with internal or procedural matters only.

5. Risk Management Implications

5.1 There are risks associated with services not addressing key recommendations arising from the Annual Governance Statement. A report detailing progress against identified actions will be presented to the December Committee for monitoring to ensure that key risks are addressed on a timely basis.

Katharine Eberhart
Director of Finance, Perfomance & Procurement

Tony Kershaw
Director of Law and Assurance

Contact: Charles Gauntlett, 033022 22524

Appendices
Appendix A – draft Annual Governance Statement 2017-18
Appendix B - Status of 2016-17 Annual Governance Statement - Action Plan
Appendix C – draft 2017-18 Action Plan

Background Papers
None

Annual Governance Statement 2017/18

Executive Summary

The Annual Governance Statement (AGS) provides an account of the processes and systems which give assurance for the effectiveness of the County Council's discharge of its responsibilities. It covers the period 1 April 2017 to 31 March 2018.

A summary of assurance is given for each of the seven principles on which the Statement is based. A table (appendix) sets out the sources of assurance.

Work underway or planned to address any governance issues is set out in an action plan attached (appendix) and marked * in the text of the Statement.

Responsibility for Assurance and Approach

1. The County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for, and used economically and efficiently. It must ensure it has arrangements for the proper governance of its affairs (including as pensions administrator), the effective exercise of its functions and the sound management of risk.

2. The Council has adopted a Code of Corporate Governance, consistent with the principles of the Chartered Institute of Public Financing & Accounting (CIPFA)/ Society of Local Authority Chief Executives (SOLACE) Framework: Delivering Good Governance in Local Government. This statement uses that Framework and meets the requirements of the Accounts and Audit Regulations 2015.

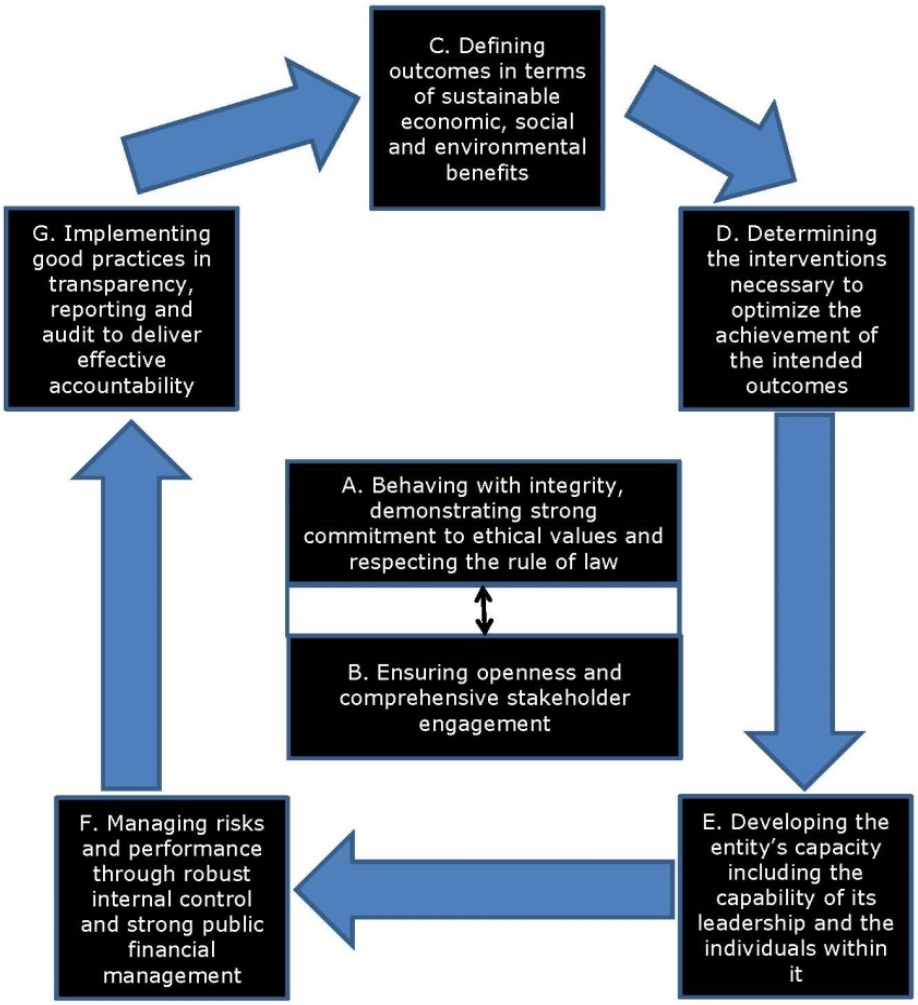
The Purpose of the Governance Framework

3. The governance framework comprises the rules, procedures, systems and processes by which the Council is controlled. The quality of governance arrangements underpins the levels of trust in public services and is fundamental to the Council's statutory and democratic obligations. A framework of good governance allows the Council to be clear about how it discharges its responsibilities and to show this for members, partners, stakeholders and residents. The AGS provides an opportunity for the County Council to assure itself as to the robustness of the governance arrangements in place.

The Governance Assurance Framework Principles

4. There are seven principles and sub-principles of Corporate Governance adopted by the Governance Committee from the CIPFA/SOLACE framework and set out below. Assurance as to how they are met is

provided in the text below. Further work to be done is also highlighted and set out in the tables in Appendix B.

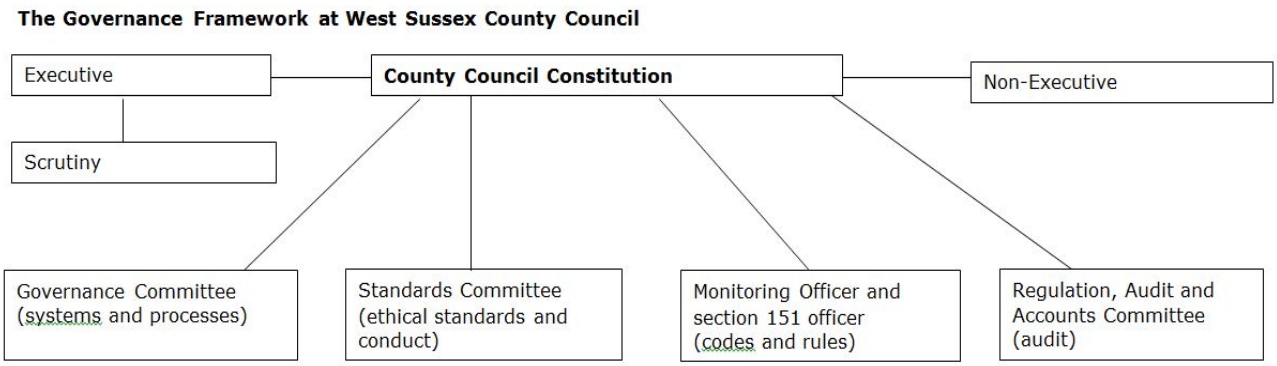


The County Council's Governance Framework

5. The County Council's Constitution sets out the governance framework, including:
   - Allocation/delegations of functions and responsibilities
   - Rules and procedures for discharging functions;
   - Codes and protocols for good governance; and
   - Arrangements for compliance and assurance.

6. Diagram 1 sets out a broad overview of the governance framework:

Diagram 1 – The Governance Framework for West Sussex County Council



A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Assured √

The County Council encourages sound governance and has adopted high standards as set by statute and regulation, government guidance and the courts. It promotes a culture of compliance. The Council's codes of conduct set out expectations and requirements for behaving with integrity for both members and officers.

7. The **Governance Committee** oversees the political arrangements of the County Council and reviews and advises the County Council on the Constitution. The Scheme of Delegation and Protocol on Decision-making, within the Constitution, require members and directors to ensure that all decisions are compliant with internal policies and procedures as well as with law and regulation.

8. Part 5 of the County Council's Constitution contain protocols to promote and maintain good ethical behaviour, including equality and sustainability duties. Decision-making processes are supported by guidance and templates that encourage compliance with these requirements.

9. The statutory roles of the Chief Financial Officer (s.151 officer) and the Monitoring Officer are set out in the Constitution and in the scheme of delegation. They ensure oversight of propriety and lawfulness. They directly report to the Chief Executive and are involved in all major decision-making preparation through membership of the Executive Leadership Team and the Corporate Leadership Team, as well as being signatories to all key and other significant decisions.

10. The **codes of conduct** define the standards of behaviour for members and officers and are published within the Constitution. All members completed training from the Monitoring Officer on the member code of conduct. Member conduct is monitored by the Standards Committee, which has a remit to deal with complaints of breaches of the member Code of Conduct. All members completed the register of interests following the elections in May 2017 and they receive quarterly reminders on the subject of personal interest declarations and it is a standing item on all meeting agendas.

11. The Council has an established whistleblowing policy ('Confidential Reporting Policy') to meet the legal requirements and ensure a route for challenges to processes or actions within the Council where complainants seek the protection of anonymity. The effectiveness of that policy is overseen by the Standards Committee. Action will be taken to refresh and draw attention to the policy*.

12. Officer interests, including gifts and hospitality, are published on the County Council's website periodically. Guidance is set out in the Constitution (Part 5). This guidance was reviewed in November 2015 and endorsed by the Standards Committee. A new system for recording gifts, hospitality and officer interests has been implemented through an internal sharepoint electronic site. Action will be taken to reinforce the importance of recording officer interests*.

13. The Council's Standing Orders on Contracts and Procurement and Financial Regulations and Procedures provide rules for lawful and sound processes for entering contracts and making financial commitments. These are enforced, managed and reviewed* by the Monitoring Officer and Chief Financial Officer in consultation with the Regulation Audit and Accounts Committee and supported by the Procurement Board (a group of senior officers).

14. In order to enable greater compliance, to make rules and procedures more accessible and simple to use so that business is discharged correctly and without undue effort a rationalization and simplification of the Council's constitution is underway for approval by the County Council in July 2018*.

B. Ensuring openness and comprehensive stakeholder engagement

Assured √

The County Council exists to serve its residents and is dependent on a wide range of stakeholders for working effectively in partnership. Consultation and engagement mechanisms are in place. The County Council has clear decision-making processes and rules and procedures to enforce them which emphasise openness and transparency.

Decision-making and Scrutiny

15. The **County Council** is the ultimate decision-making body and the principal forum for political debate. The County Council takes decisions on the strategic aims that form the Policy Framework. It also determines the Council's budget following a process of member scrutiny. All County Council meetings take place in public and are web cast.

16. The Executive takes decisions on most matters of Council policy and service delivery. The non-executive responsibilities of the council are discharged through its **non-executive committees** as described in the Scheme of Delegation. The County Council appoints members to the four **select committees**, by which the Executive is held to account through member scrutiny. The Council has a proactive approach to effective scrutiny by engaging with the Cabinet to identify significant decisions or proposals to be previewed rather than questioned after the decisions have been made. All Scrutiny meetings take place in public and those of high public importance are webcast.

17. The Forward Plan describes all significant (key) decisions planned to be taken in the following four months and is published and updated at least monthly. The Constitution also prescribes the rules and constraints around urgent decisions (not notified in the Forward Plan) and the form and content of decision reports. The Forward Plan has recently been revised to provide a clearer format and similar revisions will be made to decision reports and the urgent action rules*.

18. Decision-making operates within a process which presumes and promotes openness. Committees are held in public and executive decisions are published on a daily basis on the County Council's website. The Council uses an electronic notification system to automatically notify subscribers to meetings or actions by the Council in which they have expressed an interest. Agendas and reports for committee meetings are published at least five clear working days in advance. The use of powers to exempt information from publication or allow a committee to meet in private is minimised, being used when necessary and only after senior officer authorisation.

19. Decisions and agendas are held on the website for six years. Webcasts are available for up to six months of the County Council meetings and of major select committee and Planning Committee meetings.

20. **Communication to the public** is via the Council's website, in public meetings and through social media. A new website was launched in April 2015 and a drive for 'digital by design' (i.e. online services for residents) will be pursued as part of plans for service transformation and re-design to support our residents' needs.

Stakeholders and Partnership

21. The County Council works with a range of **stakeholders**. This includes a range of public bodies, local authorities, the NHS and Sussex Police. Other tiers of local government are important partners in many areas of service delivery, strategic planning and community development. This comprises of our district and borough council partnerships throughout the County and town and parish councils in our district areas. There are both formal and informal forums in place for regular liaison with elected members and senior officers in the district and borough councils, including regular meetings of all of the leaders of the councils (West Sussex Leaders' Board) to discuss issues of common interest and regular meetings of all chief executives (West Sussex Chief Executive Board) in support of the Leaders' Board.

22. Regular meetings with other **partners**, most notably the Clinical Commissioning Groups of the NHS, are held at various levels and between Members and officers either with single organisations or multi-agency on operational, commissioning and service planning. For a number of years the Council has operated a joint service commissioning and pooled budget agreement with the NHS to cover a range of social care and NHS services. The principal forum for health and social care liaison and partnership, the **Health and Wellbeing Board** will be the subject of review and partnership development*****.

23. The County Council has set out its commitment to working in partnership with residents, businesses, communities, the voluntary and community sector and local authority partners through a number of initiatives. It has recently developed a set of Partnership principles with the voluntary sector for the commitment to more effective ways of working together, building stronger alliances and empowering joint action.

24. **County Local Committees** are an important forum where a group of local members of the County Council discuss local matters with residents and stakeholders. The eleven CLCs have executive decision-making powers delegated to them – mostly around highways matters, allocation of grant funding and recommendations for the appointment of school governors. As locally based evening public meetings, meeting three times a year, they are an important forum for community engagement. Future developments of the CLC format and their engagement with local residents and community groups will also enable them to act increasingly as community forums rather than simply a decision making body of local members.

Consultation and engagement in West Sussex

25. The County Council wants to work with residents, businesses, communities, service users and partners to help prioritise what it does, to have a say over the approach and to get involved in delivery, implementation and change. This requires sound arrangements for engagement and consultation. A regular survey (What Matters to You) is completed to inform the County Council of our residents' priorities.

26. The Council uses a variety of ways to engage residents and other stakeholders - publications (printed and digital), press releases or social media to keep people informed of plans. A Council publication West Sussex 'Connections' magazine is published several times a year and mailed to every household in West Sussex. The Council uses various methods to seek people's views: questionnaires, public events, workshops, focus groups, satisfaction surveys, and feedback forms.

27. **Consultation and Engagement Quality Assurance** is a set of processes designed to ensure services are supported to plan and implement projects which are robust and produce reliable and valid data upon which decisions can be made. It includes methodological and ethical requirements and, before projects go live, services must seek advice and guidance to ensure they have Quality Assurance for consultation and engagement.

Formal consultation

28. Formal consultation will generally only be undertaken where there is a statutory duty or legitimate expectation, and where there is a service or policy need to do so. Consultations are carried out in accordance with current national Consultation Principles guidance, our Statement of Community Involvement, and the West Sussex Compact. Individual services are required to maintain open channels of communications with relevant stakeholder groups and representative bodies where relevant to service planning.

29. All formal public consultations are made accessible online using the 'Have Your say' consultation hub software which meets externally set ratings. They are also published on the County Council's webpages. Consultation materials are made available in different formats upon request to meet individual communication needs. The Council ensures compliance with the public sector equality duty.

30. The information gathered is analysed and considered as part of the decision-making process, the protocol for which can be found in the Constitution here. Analysis reports and decisions are made available on the Have Your Say Consultation webpage here as a means of closing the 'feedback loop' and increasing trust in decision-making processes.

31. Action is being taken to improve the effectiveness of assurance by*:
- Increasing awareness across the council of the Quality Assurance Process.
- Identifying areas of sensitivity which may require greater attention.
- Raising awareness of the benefits of pre-engagement before consultation.
- Increasing knowledge and skills of analysis.
- Introducing an online Quality Assurance application form.

32. The County Council has a **Petitions Scheme** describing how petitions from residents will be dealt with by the County Council. These enable a petitioner to speak with a cabinet member or a committee, or to the County Council if prescribed thresholds for signatures are reached. A

response is made to each petition, explaining what the County Council will or will not do in response.

C.	Defining outcomes in terms of sustainable economic, social and environmental benefits

Assured √

The County Council has clear arrangements to define outcomes and monitor performance. In setting policies and strategies, the County Council takes a long term view about outcomes, taking into account sustainable economic, social and environmental aims. A new West Sussex Plan has been prepared and adopted during the current year to the period 2021/22 and the Council is in the process of finalising the arrangements for performance monitoring and scrutiny.

33. The West Sussex Plan 2017-2022 outlines the priorities for the County Council and how they are to be assessed in terms of delivery measures. It was confirmed by the County Council in October 2017. The Plan has been developed by the Cabinet with the engagement of elected members and staff at all levels. Measures and targets have been developed in liaison with the Performance and Finance Select Committee.

34. The West Sussex Plan is embedded and implemented through the Directorate Business Planning process and arrangements for regular reports to the Cabinet and scrutiny committees and Executive Leadership Team. Performance monitoring is undertaken principally through the report called the Total Performance Monitor.

35. **Total Performance Monitor** - Detail of its use and the data monitoring and analysis undertaken by the Council's Intelligence and Insight Team are shown in section D. Active monitoring of performance is also undertaken through regular reviews of business plans and with all staff through the personal appraisal process.

36. The County Council's **Sustainability Strategy** was adopted in December 2015 as the Council's overarching strategy to help achieve sustainable outcomes. The Strategy recognises the value of the environment of West Sussex, and the social and economic benefits that enhancing the environment can bring. It also acknowledges that resources are limited, and that it needs to do all it can to deliver its services in an efficient and effective to ensure value for money.

37. The Strategy translates these commitments into actions across four areas:
- Embed sustainability within the Council's business;
- Lead the way in valuing the place of West Sussex;
- Realise efficiency savings in the short, medium and longer-term;
- Work with and influence others to maximise the benefits for West Sussex.

38. The priority of embedding sustainability within the County Council is critical for the achievement of the West Sussex Plan objectives. The Sustainability Team has recently identified a number of significant and long standing barriers within the Council's culture and processes that are limiting the value being realised in terms of sustainability. It is believed that these barriers can be overcome, and the Council is investigating and planning interventions to address them*.

39. The Council has a **Social Value Policy** which identifies and explains the benefits of ensuring that policies, business plans and critical service decisions and procurements consider and address their impact upon local communities, the local economy and the lives of residents and the places of the County. First adopted in 2015 a review and refresh of the policy is underway*.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Assured √

The County Council takes decisions on interventions based on its published West Sussex Plan setting outcomes for services and defining actions and targets for achieving them. Proposed interventions are recorded through Directorate Business Plans for ensuring the achievement of intended outcomes within set timescales. More significant interventions through service or organisational transformation are considered and overseen by the Transformation Board chaired by the Chief Executive and lead to formal decisions approved by the Cabinet Members.

40. All Directorates establish maintain and monitor Business Plans which set out the actions required to meet the outcomes set by the Council's Plan and the targets measures and milestones used to manage their delivery.

41. The public facing **Performance Dashboard** provides details on progress on the key indicators of the West Sussex Plan. This is underpinned by the business assurance framework which, together with the corporate performance dashboard provide assurance that the Council's priorities are implemented in practice.

42. The **Total Performance Monitor** provides a regular overview of performance against the agreed priorities and tracks financial performance, to ensure that intended outcomes are kept in focus and expenditure controlled. The TPM focuses on the delivery of the following key areas:
    - West Sussex Plan
    - Medium Financial Term Strategy and in-year budget
    - Culture and Workforce
    - Transformation programme

In light of a new West Sussex Plan and a need to better coordinate performance data the TPM will be the subject of a review in terms of format and presentation*.

43. Decision reports provide the record of all significant decisions to implement service plans and spend are required to show the intended outcomes, the rationale for the proposal, implications for Council resources, other options considered, engagement or consultation undertaken, and how the proposal will achieve intended outcomes within available resources. They also record, for publication, the legal and constitutional requirements for the Council's spending and service commitments. Work will be completed to ensure the format for Decision Reports is fully aligned with any revisions to those requirements*.

44. The Executive is supported by a number of officer boards chaired by senior officers to ensure oversight of strategic areas of Council business on behalf of the Executive Leadership Team. These boards co-ordinate projects and the resources or partnerships which support them as well as overseeing plans for the delivery of priorities at an officer level prior to member consideration. They comprise Boards to oversee capital programme planning, strategic procurement and partnerships. Additional governance for delivering the capital programme and the decisions to deliver schemes is also well established. The Transformation Board, chaired by the Chief Executive, approves and drives projects for service improvement through change or re-design.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

Assured √

Officers are expected to have a clear sense of their purpose, roles and responsibilities in line with the Council's vision and the suite of policies and processes which support it. A system is in place to ensure that all elected members have a similar understanding of their roles and responsibilities when appointed or elected to particular positions within the Council. Officers and members have access to information, guidance and training to enable them to discharge their roles.

The Chief Executive and the Executive Leadership Team manage the County Council's workforce, skills and resource planning. All officers are expected to have their performance monitored and their development needs identified and addressed. Specific attention is paid to programmes for leadership development.

Members are expected to be able to fulfil the expectations and demands of their roles as local member and of those to which they may be appointed. Members are also expected to meet the expectations for development, knowledge and awareness as set by the Council's Member Development Group.

45. Arrangements for the County Council's member appointments to specific roles are open and set out in the Constitution. The Council elects the Leader who decides the composition and responsibilities of the Cabinet. The Council makes appointments to all committees. All terms of reference are published.

46. **Member roles** – Executive and non-executive roles are defined and published within the constitution and as part of the Members' Information Network database (the Mine). The member induction and training programmes cover these. All member development sessions have content and attendance recorded and quality and benefits reviewed.

47. The knowledge and development needs of members are identified and addressed through a cross-party **Member Development Group**. This group reports to the Governance Committee and oversees the delivery of a planned programme of development sessions to meet identified member training needs, taking into account members' views on priorities through surveys and feedback.

48. A full induction programme was designed and implemented after the May 2017 elections. This covered members' strategic and local community roles, scrutiny skills, as well as specific training on the Code of Conduct, safeguarding and corporate parenting. More tailored induction was provided for members in specialist roles, including new members of the Executive and of Planning Committee, Pensions Panel and the Staff Appeals Panel. A review of the Induction Programme was undertaken by the Member Development Group four months after the elections, indicating that the programme had successfully provided members with the training required to carry out their role. Suggestions for improvement will be taken into account for future induction programmes.

49. Specialist training is given to members according to the roles they carry out. This includes training for Cabinet Members (the executive), scrutiny, members of the Regulation, Audit and Accounts Committee and the Pensions Panel and Staff Appeals Panel. Disclosure and Barring Checks have been carried out on all members since the May 2017 election. Enhanced DBS checks are carried out for members in adults and children's services related roles.

Officers

50. Statutory roles include the designation of the Chief Executive as Head of Paid Service, the Director of Law and Assurance as the Monitoring Officer, and the Director of Finance, Performance & Procurement as Chief Financial Officer. Other critical statutory and leadership roles and their responsibilities are described in the Council's scheme of delegation. All Directors and Executive Directors are required formally each year to give assurance as to their compliance with a range of requirements and expectations of them as senior leaders within the Council.

51. The leadership structure was last reviewed by the Governance Committee in November 2016, in light of the recommendations of the Chief Executive

and has remained stable since then. The Monitoring Officer and Chief Financial Officer have a place on the Executive Leadership Team, which also comprises the three executive directors in addition to the Chief Executive and the Director of HR and Organisational Change. The Director of Public Health regularly attends the ELT to ensure that public health is embedded across the services of the County Council and its partnerships.

52. All levels of management within the Council have a designated role profile and these profiles are accessible via the Council's intranet (the Point). Officers are given copies of their roles on appointment and are supported through induction training, their personal development review and supervision in understanding and developing their roles. Internally published HR procedures cover all aspects of performance and procedure to support managers.

53. Personal development priorities are agreed through an appraisal process and training is available through an online learning system. The 'Manager Expectations' and 'Employee Expectations' documents were widely cascaded in September 2016 to set out the Council's expectations of officers. The Value Centred Leadership Programme was delivered to all senior managers.

F. Managing risks and performance through robust internal control and strong public financial management

Assured √

The County Council has robust internal financial controls in place, displays strong public financial management and operates systems to manage risks and performance in the most effective manner.

54. The Constitution sets out the rules to ensure robust internal control over the Council's finances. The system and arrangements for performance management and budget monitoring demonstrate sound internal monitoring and control.

55. The system of internal financial control is based upon a framework of comprehensive financial regulations and procedures which comply with the CIPFA "Good Practice Guide for Financial Regulations in a modern English Council". Control is maintained through regular management information, management supervision, and a structure of delegation and accountability. External audit of the Council's accounts is robust and unqualified assurance has been given. The Council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer in Local Government 2010.' A continuous review is maintained and currently planned revisions to Financial Regulations and Procedures will be presented to the Regulation Audit and Accounts Committee*.

56. Each Director is required to conduct a full review of internal governance systems for their area of responsibility, through an assurance mapping process. The statements made, based on the assurance mapping, are checked to identify Council-wide governance issues. Evidence of assurance given is supplemented in the Annual Assurance Statement for each directorate. These include actions for improvement. From both sources, significant governance implications are included in the Statement's action plan (this document).

57. The officer scheme of delegation is critical for the effectiveness of controls over spending and performance. It is kept under review by the Director of Law and Assurance. Directors are required to ensure and confirm the effectiveness of the scheme of officer onward delegation and have worked with the Director of Law and Assurance to ensure that there is shared understanding of the operation of delegations and the need to continually review them.

58. The County Council annually reviews the effectiveness of its governance framework including the system of internal control. The review is informed by the Head of Internal Audit's annual report, by the external auditor and other agencies and inspectorates. These findings are brought together within this document and are reported annually to the Regulation, Audit and Accounts Committee. The Director of Law and Assurance is responsible for ensuring the effectiveness of the internal assurance arrangements and the implementation of actions identified by those arrangements. The Regulation, Audit and Accounts Committee undertakes the functions of an audit committee. This includes review of the work and findings of Internal Audit. The audit arrangements which support and reinforce financial controls and assurance are fully addressed in section G below.

59. The **Risk Management Strategy** is set out in the Constitution (Part 4 section 4) and describes the allocation of responsibilities between senior officers and elected members. It also summarises the system the Council has adopted for identifying and categorising corporate risk. The operation of the scheme and issues arising are reported quarterly to the Regulation, Audit and Accounts Committee as part of the regular reporting on the effectiveness of risk management arrangements. That Committee is responsible for reviewing the effectiveness of the Council's risk management arrangements.

60. There is a separate requirement for material risks connected with proposals, policies and spending decisions to be formally identified with actions taken to manage such risks in all recorded and published decision reports.

61. Risk management has been reviewed and changes made to procedures to ensure that risk management is undertaken through robust directorate systems including the business planning process*****. A Risk Manager was appointed during 2017/18 to lead on risk and improve the recording, management and monitoring of risk across the County Council. This post reports to the s.151 Officer who carries the operational officer

responsibility for risk management. The Chief Executive is accountable to the Council for the effectiveness of risk management.

G. Implementing good practices in transparency, reporting and audit, to deliver effective accountability

Assured √

The County Council has transparent processes in place through publication of the Forward Plan of key decisions, of agendas and reports of its meetings and those of its committees and of its key decision reports on the website and the prominence given to reporting and enforcing of audit recommendations through the Regulation, Audit and Accounts Committee which meets in public.

62. All meetings of the Council and of the committees which discharge executive, non-executive or scrutiny functions take place in public and have their reports and minutes published on the Council's website. Cabinet Member and Committee decisions, agendas and reports are published on the website and are available to the press and public. This is driven by the publication of the Forward Plan of key decisions. A limited number of reports are considered in private session only when the subject meets the criteria. A summary of these is published.

Review and Audit

63. The Regulation, Audit and Accounts Committee undertakes the functions of an audit committee. This includes review of the work and findings of Internal Audit. The Committee holds officers to account for the timely implementation of audit recommendations.

64. Internal Audit provides an annual appraisal of key financial systems through routine compliance testing and undertakes a number of audit reviews within service departments in accordance with the audit plan. This includes adherence to established policies, procedures, laws and regulations. These are reported to the Regulation, Audit and Accounts Committee. Internal Audit provides an annual appraisal of key financial systems through routine compliance testing and undertakes a number of audit reviews within service departments. This includes adherence to established policies, procedures, laws and regulations.

65. The Head of Internal Audit reports to the Director of Finance, Performance & Procurement. He also has direct access to the Chief Executive and other directors and has well-established reporting lines to members through the Regulation, Audit and Accounts Committee. Internal Audit is provided through an arrangement with Hampshire County Council, giving greater resilience and capacity for this function.

66. Specific issues of performance or effectiveness in particular areas of critical service delivery or council governance have been raised during the year's internal audit work and have been summarised in the annual audit being completed alongside this Governance Statement. This includes areas where limited or no assurance has been given. To the extent that the findings and recommendations are relevant to matters not otherwise covered in this Statement they are set out here and captured as part of the action plan to ensure alignment with the actions addressing issues of governance and internal process. They include:

Adults Services – a range of key service obligations and qualitative measures identified in a recent peer review of the service. A separate audit focused on the policies, procedures and delivery of the service which considers a particular vulnerable service user group in relation to Deprivation of Liberty Safeguards (DOLS).

Procurement - an issue regarding assurance as to regulatory compliance.

Business Resilience – issues relating to business continuity systems, consideration of key contracts and suppliers and the arrangements for testing and ensuring compliance with policies and procedures especially for business critical systems.

Main Governance Issues for action or to note

67. In formulating this year's AGS a number of forms of evidence have been reviewed. Several of these are reported and monitored through the Regulation, Audit and Accounts Committee. To avoid duplication such findings are not noted in this statement except where their implications could affect the overall effectiveness of the authority's governance procedures. The paragraphs below identify the most significant governance issues that are to be addressed through 2018/19. The main governance issues identified are as follows

Principle A – Integrity and compliance

- Aligning officer Codes of Conduct with HR policies and procedures
- A refresh of the Whistleblowing policy
- Completion of a revised set of policies processes and systems to manage data protection and security
- Review of effectiveness of system for recording officer interests
- To review and revise Standing Orders on Contracts and procurement
- Revision to form, clarity and accessibility of Constitution

Principle B – Openness and Stakeholders

- Revision of the Forward Plan format
- Review to structure and effectiveness of Health & Wellbeing Board
- Consultation Q&A system effectiveness review

Principle C – Sustainability

- The actions to embed the priorities of the Sustainability Strategy
- To update the Council's Social Value Policy

Principle D – Optimising Interventions

- Review of the form and presentation of the Total Performance Monitor
- Refresh of formal decision report format

Principle E – Capacity and Capability

- No identified issues in 2017-18

Principle F – Risk and Performance Management

- A review of the Risk Management system and recording process
- Review and update of Financial Regulations and Procedures
- Adults Services – audit and Peer review actions
- DOLS – internal audit recommendations
- Business Resilience – internal audit recommendations
- Procurement – regulatory compliance check

Principle G - Transparency and Accountability

- No identified issues in 2017-18

An action plan is attached at part of the Appendix (final column), which sets out how the Council will address governance issues in the year ahead. We are satisfied that these actions will deliver the improvements necessary and we will continue to monitor, evaluate and report on progress as part of our next annual review.

Louise Goldsmith
Leader of the Council
July 2018

Nathan Elvery
Chief Executive
July 2018

Appendix A Sources of Assurance and Actions

Key:
CAFH&E = Children, Adults, Families, Health & Education
CIPFA = The Chartered Institute of Public Financing & Accounting
FPP = Finance, Performance and Procurement
HR&OC = Human Resources & Organisational Change
L&A = Law and Assurance
MDG = Member Development Group
RAAC = Regulation, Audit and Accounts Committee
SOLACE = Society of Local Authority Chief Executives

Table of assurance for Principle A:Integrity and Compliance

Source of assurance	Where found	Who is responsible	Role	last review/ action planned*
Constitution	Web and Intranet	County Council and Director L&A	To provide single source of rules and procedure for lawful sound business and meeting management.	April 2014. Standing Orders reviewed in March 2015. Minor updates at most meetings of the County Council. Major technical review underway, due to be considered at County Council in July 2018.The aim is to simplify content and make the Constitution easier to navigate and use *
Codes of Conduct	Constitution	Standards Committee & Director L&A	Define standards of behaviour and systems to enforce	Members - July 2012. The Standards Committee reviewed the Code in 2017, agreeing that it remained fit for purpose for the new Council. Officers code reviewed by County Council December 2015 Work to align with updated HR procedures 2018*
Whistleblowing (Confidential Reporting) Policy	Constitution	Standards Committee & Director L&A	Defines arrangements for any officer to report breaches of rules or standards confidentially	Fully reviewed by the Standards Committee in June 2015 and minor updates were agreed by Council in July 2015. Refresh and awareness raising action for 2018*
Anti-fraud and corruption strategy	Constitution	RAAC & Head of Internal Audit	Statutory obligations recorded and enforced	November 2015. Reviewed every 3 to 5 years. No action for 2018
Anti-bribery policy	Constitution	Director L&A	Statutory obligations recorded and enforced	November 2015. Reviewed every 3 to 5 years. No action for 2018
Register of Member Interests	Website	Director L&A	Statutory list of interests.	Scheme entries are updated on an on-going basis. Full review of individual members' entries in May 2017. Quarterly reminders are issued to members asking them to review their entries. This was last done in January 2018.
Register of Officer Interests	Website	Director L&A	Record of financial and possible conflicting business interests	October 2016. New system for record on sharepoint from March 2017. Will draw from that for publication Review system 2018*

Table of assurance for Principle A:Integrity and Compliance				
Source of assurance	**Where found**	**Who is responsible**	**Role**	**last review/ action planned***
Corporate Complaints Policy	Website	Chief Executive Standards Committee	Describes mechanism for handling all complaints.	End 2013. Part of customer experience review 2015. Complete system review completed 2017/18 Standard Committee review June 2018*
Staff Discipline policy	Intranet	Director HR&OC	Defines rules and procedures	January 2013 Review planned for 2018*
Data Protection Policy	Intranet	Director FPP	Defines rules and procedures	Underway to May 2018. Revised in readiness for the new Data Protection regime.*
Freedom of Information policy	Intranet	Director L&A Director of Communities	Defines rules and procedures	October 2012 No action planned
Data Security & Accepted Use Policy	Intranet	Director FPP	Defines rules and procedures	September 2014 No action planned
Standing Orders on Procurement and Contracts	Constitution	Director L&A	To prescribe the rules for all contracts and procurement activity	Full review undertaken 2015 to ensure compliance with new EU Directive. RAAC approved the new Orders in November 2015, (implemented January 2016. Review and refresh May 2018*
Procurement Board	Intranet	Director FPP	To manage and plan strategic procurement	Procurement Pipeline in place. Contract management plans in review* Move to programme management approach in preparation*

Table of Assurance for Principle B: Openness and Stakeholders				
Source of assurance	**Where found**	**Who is responsible**	**Role**	**last reviewed/ action planned***
Scheme of Delegation	Constitution	County Council & Director L&A	To fully define who takes what decisions and how and how recorded.	October 2017. The Chief Executive has authority to move delegations between officers and amend the officer structure. A resulting revised officer scheme of delegation was issued. Revised guidance and system for onward delegation implemented April 2018.
Forward Plan	Web site	Director L&A	Describes all planned key decisions for next 4 months	July 2014. Minor change in 2017 to make the plan reflect the West Sussex Plan priorities. Revision due in 2018 to improve consultation section and make easier to navigate.*
Protocol on decision making	Constitution	Director L&A	Describes arrangements for sound decisions.	June 2014. Minor revisions at County Council meetings since then. Revised as part of the technical review of the Constitution in 2018.*

Table of Assurance for Principle B: Openness and Stakeholders				
Source of assurance	**Where found**	**Who is responsible**	**Role**	**last reviewed/ action planned***
Select Committee business planning	Select Committee reports	Performance and Finance Select Committee, Scrutiny Manager	Records planned scrutiny work.	Continuous with annual work programme published.
Connections, public consultation, website, community liaison forums	'Have your Say' consultation hub, Website & Press releases	Head of Comms and Engagement	Communication to public	New website launched in April 2015. New Consultation Hub launched October 2015. No action planned
Consultation Q&A system	Intranet	Chief Executive	Provide system and guidance for service consultation	Overhaul 2015. Current review to ensure good use and ease of access*
Partnership meetings, briefings and liaison	Some within Constitution. Records are held by relevant directorate	Relevant Director	Communication to partners	Continuous review and proposal to track external engagement plans better.
Health and Wellbeing Board arrangements	Constitution	Director of Public Health	Process and system for strategic joint business and service planning	2015. Current work to review and agree new arrangements*
West Sussex Compact and Partnership Principles	Website	Director of Communities	Communication to partners	Partnership principles recently settled with the VCS, district and borough councils and the NHS. Adopted May 2018*

Table of Assurance for Principle C: Sustainability				
Source of assurance	**Where found**	**Who is responsible**	**Role**	**last reviewed/ action planned***
West Sussex Plan	Council website here	Cabinet & Director FPP	Describes the measure and targets for key corporate service aims	The County Council agreed the new Plan in October 2017. Annual Report for future years.
Social Value Policy	Website	Director FPP	Sets expectations for social economic and community benefits of council business	2013 Current refresh underway*
Sustainability Strategy	Council website here	Director of Energy Waste and Environment	Sets what we need to do become a sustainable organisation, and the Council's commitment to Sustainability	The Strategy approved 2015. The Action Plan for the Strategy is reviewed annually. Plan to achieve more effective compliance 2018*

Sources of Assurance for Principle D: Optimising Interventions				
Source of assurance	**Where found**	**Who is responsible**	**Role**	**last reviewed/ action planned***
Total Performance Monitor	P&FSC agenda website	Director FPP	Reviews financial and operational performance	Reviewed by member group in September 2014. Task and Finish Group planned for 2018 to review format.
Executive Decision Database Decision Reports	Website	Director of L&A	Each decision report evidences options considered, consultation undertaken and other evidence that led to the decision taken.	2014. Being reviewed as part of the implementation of a new document management system Modern.Gov in September 2018.* Review of decision report format as part of Constitution review for July 2018*
Business Plans	Space	All Directors	Record of actions and objectives for delivery of West Sussex Plan	Annual.
Executive Officer Boards	Intranet	Executive Leadership Team	Manage strategic business delegated to officers	In place 2017
Capital Programme Governance	Constitution	County Council	Provide sound systems for managing and delivering capital programme	Approved by County Council 2017

Sources of Assurance for Principle E: Leadership Capability				
Source of assurance	**Where found**	**Who is responsible**	**Role**	**last reviewed**
Scheme of delegation	Constitution	Governance Committee Chief Executive Director L&A	Formal allocation of key roles and functions, including Statutory Officer and senior officer roles	October 2017 and onward delegations April 2018. Most decision-making at officer level is now taken at director level. More Forward Plan entries for Directors
Budget, including medium term financial strategy	Council agenda	County Council Director FPP	To agree a sound budget and financial strategy.	February 2018
Member Development Programme	Held by Director L&A Member Information Database	Governance Committee & Director L&A & MDG	Plan and record all member training.	Continually by MDG (sub-group of Governance). The operation of the MDG last reviewed by the Governance Committee in March 2015 to improve its strategic focus.
Human Resources policies	Intranet	Director HR&OC	Describe all officer duties, rules and requirements.	Continually through HR arrangements and work plans. new induction programme
Staff role profiles	Intranet	Heads of Service	Describe all officer roles	Updated as roles change.

Sources of Assurance for Principle E: Leadership Capability				
Source of assurance	**Where found**	**Who is responsible**	**Role**	**last reviewed**
Member Induction Programme	Intranet	Member Development Group Director L&A	To determine the content of the programme	Major induction programme planned and implemented for May 2017 election. No action 2018
Specialist Member training	Committee business programme	Director L&A	Planning Committee, Rights of Way Committee, Treasury and Pensions management, Regulation, Audit and Accounts Committee, Appeals Panel	Completed after 2017 election and to any members newly appointed to relevant roles. Additional ad hoc training carried out as required. Annual training is carried out for the Appeals Panel.
Officer Appraisal System	Intranet	Director HR&OC & all Directors for delivery	To keep records of performance and development	Full review undertaken with a user group in 2015. Implemented in June 2016. Training for all managers place during 2016/17.
Performance Management Policy	Intranet	Director HR&OC	To provide a clear system for addressing poor performance	September 2012. Reviewed when necessary due to changes in legislation, case law or organisational requirements

Sources of Assurance for Principle F: Risk and Performance				
Source of assurance	**Where found**	**Who is responsible**	**Role**	**last reviewed**
Governance Statement	RAAC agenda	RAAC Director L&A	Captures all sources of governance assurance	Annual
Assurance mapping	N/A	Director L&A Director FPP	Internal checklist for service governance	New checklist was implemented in 2016/17. Refresh for 2017/18
Local Code of Corporate Governance	Governance agenda	Governance Committee Director L&A	To confirm the corporate governance principles in place	September 2016, revised to take account of the new CIPFA/SOLACE good governance framework.
Risk Management Strategy	Constitution	Chief Executive	Strategic aims and objectives for corporate risk management	Approved by RAAC 2016
Risk Management systems	RAAC agenda	Director FPP	Operational systems for meeting RM strategy aims	Last review 2016 Review of form and content and system fo action monitoring underway*
Audit Function	Constitution	RAAC Head of Internal Audit	To manage and ensure the effectiveness of Audit.	Annual internal quality review. External review is required every five years. Internal Audit service re-designed

				and let to Hampshire CC February 2018
Total Performance Monitor	P&FSC papers on website	Director FPP	Reviews financial and operational performance	Last Reviewed by member group 2014. Task and Finish Group 2018 to review format*.
Treasury Management Strategy	Council agenda	Director FPP	To agree a sound strategy and thereby minimise financial risks relating to borrowings and investments.	December 2017
Financial Regulations and Procedures	Constitution	Director of FPP Governance Committee	To prescribe the rules for all financial transactions	March 2015 Review and revisions due June 2018*
Resilience and Emergency arrangements	Intranet	Director of Public Protection	To provide safe systems and procedures to manage local and civil emergencies	Audit reviews 2017 and 2018. Action plan being implemented*

Sources of Assurance for Principle G: Audit and Transparency				
Source of assurance	**Where found**	**Who is responsible**	**Role**	**last reviewed**
Audit Function	Constitution	RAAC Director FPP	To manage and ensure the effectiveness of Audit.	Annual internal quality review (due June 2018) External review is required every five years (due March 2020)
External Audit of Accounts	Audit Report	RAAC and Director of FPP	To give external assurance to the quality of the Council's accounts and accounting practice	Full assurance given to 16/17 accounts

Annual Governance Statement 2016-17 – Action Tracker

Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)
2016-17 Annual Governance Statement			
<u>Procurement</u> a) The procurement function needs to adopt a more proactive approach to ensuring best value and outcomes. Currently there is no collective procurement strategy. The level of resources to deliver innovative procurement requires consideration. *(*Issue 9)*	35	Katharine Eberhart, Director of Finance, Performance & Procurement	The design of the revised procurement function has been agreed and is being implemented. New roles will strengthen the strategic leadership of the procurement team leading to improved value for money across the team. Category Management Plans are in place and the procurement team is engaging the business directly, with embedded resource that will drive a strategic and proactive approach over the medium term. Our Forward Pipeline Plan forms a key part of discussions with the business and as a roadmap within Category Plans. The Procurement Strategy has been refreshed, guidance for officers updated and a project management approach to procurement agreed and being implemented.
<u>Commissioning</u> b) The gaps in effective commissioning (particularly in areas of Children's and Adults services) adversely impacts on the organisation's ability to assess future needs and the subsequent cost and quality of service provision. *(*Issues 4; 6; 7; 9)*	34, 35	Katharine Eberhart, Director of Finance, Performance & Procurement	The implementation of Category Management - particularly within Children, Adult & Families Social Care - will be a key driver for a significant step change in the way Procurement and Commissioning are undertaken. Commissioning Strategies for both Adults Services and Children Services have recently been developed which are enabling a very clear approach to development and alignment of related Procurement Category Plans to

Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)
		Kim Curry, Executive Director, Children's, Adults, Families, Health & Education	support strategy realisation. Procurement and CAFHE teams are engaged proactively to develop future demand/project activities (within Category Wave plans – identified projects and their necessary time horizon) and the redesigned activity will enable the step change to establish the longer term solution addressing concerns identified here around ability to assess future needs and the subsequent cost and quality of service provision. There is a compelling case for transforming the Commissioning Function within CAFHE, through redesigning both its practice and process to ensure that the function and form improve capability and capacity to deliver high quality commissioning aligned to strategy. Current ways of working mean that services are commissioned and delivered reactively, rather than proactively, placing the system under further strain. The revised model and design will ensure that commissioning decisions are driven by evidence and focus on prevention, through a more consultative co-production approach.
<u>Compliance</u> C) There is a requirement to further embed a culture of compliance in conforming to organisational processes and procedures. Outcomes are reliant on efficient, effective and intuitive systems to compliment the Council's self-serve management approach. *(*Issue 2)*	7, 13	Tony Kershaw Director of Law and Assurance	Continuation of monthly monitoring and reporting to directorate management teams across a range of systems and on compliance with accounts payable processes. The compliance reports will be supplemented with reports on compliance with HR activities as well as financial and procurement activities. Information held on the council's internal staff SharePoint site relating to Accounts Payable activities has been streamlined, including a new landing page to

Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)
			help staff readily access the various processes. Specific focus on areas of procedures which may be service or budget critical – ensuring compliance with exercise of delegated powers and procedures for sound decisions, financial commitments and their audit trail. Further work is underway in HR to review HR Policies to ensure they are easily understood. Compliance statistics are being developed to ensure adherence to these policies.
Workforce d) The Council faces skills shortages in several disciplines and areas, with a reliance on interim and agency staff, difficulties in recruitment to significant posts and to cover critical skill areas in addition to other staffing pressures. This is not assisted by an immature workforce strategy and the absence of adequate provision for succession planning, operating in a competitive market in an expensive area. *(*Issues 4; 7; 8)*	11	Heather Daley Director of Human Resources & Organisational Change	Workforce strategy is under development and key workforce information and reporting is now taking place, including via Cabinet Board and TPM reports on a quarterly basis. A KPI dashboard has been developed and will continue to be reviewed and refined over the next 6-12 months. The HR&OC directorate will engage with Directors to ensure a proactive approach to manage skills shortage in key areas and results used to aid succession planning. A significant level of staff engagement is already in place as well as a number of key mechanisms to address the skills challenges faced by our organisation such as Children's Social Care and Adult Services.
Data Protection e) The Council holds and shares with partners and providers significant levels of personal and confidential data requiring robust data protection, information governance and	39a & 39b	Tony Kershaw Director of Law and Assurance	Comprehensive training and guidance as well as systems testing are used in addition to external accreditation for data security assurance. Plans are in place to resolve identified shortfalls. PSN accreditation has been renewed.

Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)
security systems and processes to effectively protect and manage it. The pending General Data Protection Regulations (GDPR) imposes additional obligations on the organisation in its discharge of effective information governance that need to be considered			Improved ways to log and monitor activity across the network and at points of interconnection have been established. The risk register now separately identifies Cyber security and information security risk reflecting the need for separate treatments. GDPR Readiness reviews were undertaken, focused on information governance (IG) and a set of work streams were led by an officer IG Board. Awareness sessions were given for all senior managers to ensure that the new and continuing data laws are understood and being enacted. Member training and awareness-raising was also delivered prior to May 2018. GDPR preparation was delivered including: completion of an outline asset register; documenting of data processes in services; comprehensive reviews of policy and privacy statements and introduction of privacy impact assessments and revision of contracts with external suppliers and partners. This has included close liaison and work planning with Capita. The Director of Law and Assurance was appointed to carry corporate responsibility for data management and he has established and appointed a new data

Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)
			management team to undertake current and expected new work related to data management. Security or data breaches and near misses have continued to be used to inform practice and approaches, including incident reporting.
<u>Risk Management</u> f) The Risk Management Strategy and Corporate Risk Register were reviewed and endorsed by the Regulation, Audit & Accounts Committee in March 2017. Based on this the first iterations of directorate and strategic risk registers, including action plans, have been produced. There is now a requirement to effectively embed risk management as a process across all levels of the organisation. *(*Issue 1)*	10	Katharine Eberhart, Director of Finance, Performance & Procurement	The process of risk management in the organisation continues to improve as it embeds in the organisation. Criteria to support risk escalation and de-escalation has been produced. The Corporate Risk Manager meets individually with CLT members monthly to review and discuss corporate risks and risk strategy Plans are in place to provide Risk Management training and will be rolled out throughout the year.

Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)
2015-16 Annual Governance Statement (c/f)			
<u>Capita Reset</u> g) During much of 2015-16 a review and reset of the Council's contract with Capita was ongoing. The review identified many areas where the contract was working well and delivering the Council's original intentions, but other areas where there was a misalignment with the Council's current objectives. The reset has been carried out in a collaborative manner with Capita, although the detailed contract changes are yet to be discussed. As this contract is key to service delivery and because the discussions are ongoing it is appropriate to highlight this area.		Katharine Eberhart, Director of Finance, Performance & Procurement	The work with Capita on reviewing the contract has concluded. The results of the review were reported to PFSC in January 2018. The performance of Capita against the contract is monitored monthly and the delivery of the contract against business needs is continually assessed.
<u>Health Integration</u> h) The Government is encouraging even further integration with health sector partner which represents an opportunity to the Council. However it is a significant governance issue for two reasons: • capacity such integration will require in order to make it successful; • potential for constraining the Council's ability to adjust its care budgets to cope with future spending restraints.		Kim Curry, Executive Director, Children, Adults, Families, Health & Education	The local health and social care system is undergoing significant reform to drive better health and wellbeing outcomes and to close a financial gap of around £900m across the STP footprint. The focus of the work of the CCGs remains tackling their financial gap and so progress on integration has been very slow. The Chief Executive and Executive Director meet regularly with the lead for the Commissioning Alliance and the 2 West Sussex Accountable Officerss . It has been agreed to produce a paper to outline vision and intent and to share this through all relevant governance structures. This will then be supported by a joint appointment at Director level to take forward the

Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)
			strategic commissioning agenda. PWC are supporting the work through the development of a maturity matrix to inform activity, partnership coaching and the development of a refreshed governance structure.
<u>Business Continuity</u> i) As an authority we learn from operational and business continuity events. Incidents in the last twelve months that have provided valuable lessons learnt through the internal and multi-agency debrief processes. As a result the County Council business continuity policy statement has been updated and was approved by Council in February 2016. Additionally, significant work is being undertaken: - to update the business impact analysis for each Directorate, - ensure the County Emergency Centre is fit for purpose - Corporate and directorate plans are up to date and validated.		Neil Stocker, Director of Public Protection and Deputy Chief Fire Officer	Upgrade of Service continuity Planning Tool, July 2018 update – Meeting held with IT (Capita) they are currently reviewing and completing the outstanding works as part of the ongoing maintenance of the BC SCP Tool. Confirmation of completion of this stage of work is awaited. Incident Plans to be kept up to date and monitored - A process for reviewing all Incident Plans is now in place. Completion of all Business Impact Analysis (BAI's) (Service Continuity) - The BIA is now forms part of the Plan as one document. This now allows an easier route to updating BIA's by Business Continuity Coordinators. All Business Resilience Plans to be completed - The Plan is now linked to the BIA so one document is now provided. Ongoing updates as required in liaison with Directorates. Business Resilience Service Plans should be tested/exercised within appropriate timescales - RET are currently reviewing and adding relevant details to spreadsheet. Ongoing liaison with Directorates to highlight the need to exercise their Service Continuity Plans and ongoing reviews linked to their BIA's and Plans. RET offer guidance and assistance to all Directorates with this ongoing process. Progress on this

Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)
			has been slightly hampered due to the loss of 2 experienced RET Advisers. Corporate Response and Recovery Plan to be exercised - The Corporate Exercise was postponed due to a real life Major Incident taking place. The County Council activated all elements of its Corporate Response and Recovery Plan on 5 March 2018 due to water shortages linked to mains disruptions linked to cold weather and burst pipes. An internal debrief of the incident and its management was held in support of a Sussex wide debrief which was held on 1 May. Following the debrief, no direct issues were identified relating to the Corporate Plan Structure. A full review of the CR&R Plan will commence in October 2018 as part of the annual review. The reviewed CR&R Plan will be validated as part of the Pan Sussex SRF Exercise in February 2019. Business Continuity Training is provided to line management - A training package included in the Starter Induction Programme will be produced. The Training will include Introduction to Business Continuity and Introduction to Emergency Planning. The person who was leading on this work has now left WSCC and his replacement is awaited. This workstream has now been re allocated and work is in process to develop an online training package via the Learning and Development Gateway with further training being developed as part of the ongoing BC review. It is anticipated stage 1 of this process (Identify

Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)
			the E Learning Package required) September 2018. General update re Service Continuity Plans - An independent review to include development of a Risk Assessment tool on Service Continuity Plan review periods is currently being arranged. This reduce the number of Service Continuity BIA's/Plans that will be required and with the emphasis being placed on better quality plans that support the WSCC strategic objectives.

*(*some issues identified within the 2015-16 AGS are incorporated within or superseded by highlighted actions listed within the 2016-17 AGS)*

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2017-18 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)
Principle A – Integrity and compliance			
Aligning officer Codes of Conduct with HR policies and procedures		Director of HR and Organisational Change	
A refresh of the Whistleblowing policy		Director of Law and Assurance	
Completion of a revised set of policies processes and systems to manage data protection and security		Director of Law and Assurance	
Review of effectiveness of system for recording officer interests		Director of Law and Assurance	
To review and revise Standing Orders on Contracts and procurement		Director of Law and Assurance	
Revision to form, clarity and accessibility of Constitution		Director of Law and Assurance	
Principle B – Openness and Stakeholders			
Revision of the Forward Plan format		Director of Law and Assurance	
Review to structure and effectiveness of Health & Wellbeing Board		Director of Public Health	
Consultation Q&A system effectiveness review		Head of Communications and Engagement	

2017-18 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)
Principle C – Sustainability			
The actions to embed the priorities of the Sustainability Strategy		Executive Director Economy, Infrastructure & Environment	
To update the Council's Social Value Policy		Director of Finance, Performance & Procurement	
Principle D – Optimising Interventions			
Review of the form and presentation of the Total Performance Monitor		Director of Finance, Performance & Procurement	
Refresh of formal decision report format		Director of Law and Assurance	
Principle F – Risk and Performance Management			
A review of the Risk Management system and recording process		Director of Finance, Performance & Procurement	
Review and update of Financial Regulations and Procedures		Director of Finance, Performance & Procurement	

2017-18 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)
Adults Services audit and peer review actions		Executive Director Children, Adults, Families, Health & Education	
Deprivation of Liberty (DOLS) internal audit recommendations		Executive Director Children, Adults, Families, Health & Education	
Business resilience internal audit recommendations		Director of Public Protection & Deputy Chief Fire Officer	
Procurement – regulatory compliance check		Director of Finance, Performance & Procurement	

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Regulation, Audit and Accounts Committee

23 July 2018

Review of Financial Regulations and Financial Procedures

Report by Director of Finance, Performance and Procurement and Director of Law and Assurance

Recommendations

(1) That the revised Financial Regulations be approved following endorsement by the Governance Committee on 25 June 2018;

(2) That the proposal to hold the Treasury Management Policy Statement and the Financial Procedures outside of the Council's Constitution be endorsed for onward approval by the County Council on 20 July 2018, as part of the current review of the Constitution, subject to endorsement by the Regulation, Audit and Accounts Committee at its meeting on 23 July 2018; and

(3) That the Financial Regulations and Financial Procedures are reviewed in 2021.

1. Introduction

1.1 The Financial Regulations and Financial Procedures are part of the authority's Constitution. They are intended to help the County Council exercise its statutory financial responsibilities, safeguard its finances and assets, and ensure the proper record keeping and reporting of its financial accounts.

2. Review of Financial Regulations and Procedures

2.1 In line with good practice the Financial Regulations and Financial Procedures are now reviewed every three years, with the last review carried out in 2015. The Financial Regulations set out the financial policies and the framework for managing the Council's financial affairs. They seek to ensure that the Council conducts its affairs in a way that complies with specific statutory provisions, generally accepted accounting principles and professional good practice. The Financial Procedures set out the controls in place for the key areas covered in the Financial Regulations, along with the responsibilities of the Directors in respect of each the key areas.

2.2 There is currently a review of the Council's Constitution underway and in line with this, it is proposed that the Treasury Management Policy Statement, which is currently part of the Financial Regulations and the Financial Procedures should be held outside of the Constitution.

2.3 An exercise has recently been undertaken to review both documents and updated regulations are attached as Appendix A. These reflect the current organisational structure and the changes include the inclusion of the Council's capital governance process, updates to the Treasury Management governance arrangements along with minor changes to reflect updated regulations and to clarify the Council's current processes.

3. **Resource Implications and Value for Money**

3.1 None arising from this report.

4. **Equality Duty**

4.1 An Equality Impact Report is not required for this decision as it is a report dealing with internal or procedural matters only.

5. **Risk Management Implications**

5.1 There are financial risks associated with the organisation not having adequate regulations and procedures in place.

6. **Crime and Disorder Act Implications**

6.1 None arising directly from this report.

7. **Human Rights Act Implications**

7.1 None arising directly from this report.

Katharine Eberhart
Director of Finance, Performance and Procurement

Tony Kershaw
Director of Law and Assurance

Contact: Vicky Chuter, Financial Reporting Manager, 033022 23414

Appendices
Appendix A – Financial Regulations

Background Papers
None

Part 4
Section 3

Financial Regulations

Approved by the Regulation, Audit and Accounts Committee
at its meeting on 23 July 2018

July 2018

Index

Regulation		Page Number
Financial Regulation A - General		**1**
1	General Introduction	1
2	Financial Management	1
3	Other Financial Accountabilities	4
Financial Regulation B - Financial Planning		**6**
1	Introduction	6
2	Budgeting	6
Financial Regulation C - Risk Management and Control of Resources		**10**
1	Introduction	10
2	Risk Management	10
3	Internal Control	10
4	Audit Requirements	11
5	Preventing Fraud and Corruption	11
6	Assets	12
7	Insurance	12
8	Treasury Management	12
9	Prudential Code	13
10	Banking Arrangements	13
11	Staffing	13
12	Information Technology and Data and Information Management	14
Financial Regulation D - Systems and Procedures		**15**
1	Introduction	15
2	General	15
3	Income and Expenditure	15
4	Payments to Employees and Members	15
5	Taxation	16
6	Service Providers	16
Financial Regulation E - External Arrangements		**17**
1	Introduction	17
2	Partnerships	17
3	External Funding	17
4	Work for Third Parties	17

Part 4 Section 5

Financial Regulations

Financial Regulation A - General

1. **General Introduction**

1.1 The Financial Regulations and Financial Procedures of the County Council are intended to help the County Council exercise its statutory financial responsibilities, safeguard its finances and assets, and ensure the proper record keeping and reporting of its financial accounts. The Financial Regulations form part of the Council's Constitution while the Financial Procedures are held outside of the Consitution.

1.2 Any changes to Financial Regulations will be drawn up jointly by the Director of Finance, Performance and Procurement and Director of Law and Assurance and approved by the Regulation, Audit and Accounts Committee in the light of advice from the Governance Committee.

1.3 Any employee who knowingly or by negligence breaches the Financial Regulations may be subject to disciplinary action and in some instances may incur criminal liability.

1.4 The regulations also apply to persons who are carrying out the business of the County Council but are employed by any contractor, partner or other organisation acting for the County Council.

1.5 The Director of Finance, Performance and Procurement, in consultation with the Director of Law and Assurance, may approve a departure from Financial Regulations, where he or she concludes that such action is appropriate to safeguard the interests of the County Council.

1.6 It is the responsibility of all Executive Directors and Directors to make all employees and other persons carrying out Council business aware of Financial Regulations.

2. **Financial Management**

2.1 **Introduction**

2.1.1 Financial management covers all financial accountabilities in relation to the running of the authority, including the Policy Framework, revenue and capital budgets and treasury management.

2.2 **The County Council**

2.2.1 The County Council is responsible for adopting the authority's Constitution and for approving the Policy Framework and budget within which the Executive operates. It is also responsible for approving and monitoring compliance with the County Council's overall framework of accountability and

control, and for monitoring compliance with the agreed policy and related executive decisions. The functions of the County Council are listed in Responsibility for Functions, Part 3.

2.3 **The Cabinet**

2.3.1 The Cabinet is the principal Executive body of the County Council. The Cabinet is responsible for proposing the Policy Framework and budget to the County Council, and for discharging Executive functions in accordance with the Policy Framework and budget including Standing Orders and the Scheme of Delegation. The role of the Cabinet is described in the Description of the Constitution, Part 2 Chapter 7.

2.3.2 Executive functions can be delegated to the Cabinet, individual Cabinet Members, County Local Committees, officers or through joint arrangements with other public bodies. The County Council's Scheme of Delegation is set out in Appendices 1-4 of the Constitution.

2.4 **Regulation, Audit and Accounts Committee**

2.4.1 The Regulation, Audit and Accounts Committee is responsible for reviewing the external auditor's reports including the Audit Plan and Audit Results Report. Additionally, it is responsible for reviewing internal audit's work plan and progress and can consult directly with internal and external auditors. The Committee also deals with the approval of the statutory Statement of Accounts of the County Council and the review of the Governance Framework including the system of internal control.

2.5 **Director of Finance, Performance and Procurement**

2.5.1 The Director of Finance, Performance and Procurement is responsible for:

- Promoting and maintaining high standards of financial conduct
- The provision of proactive advice to both Cabinet and the County Council, informing them of the financial implications of all new policies and changes of policy
- The provision of strategic financial planning and advice to the Executive and Corporate Leadership Teams, the Cabinet, other committees and member task groups
- Ensuring proper administration arrangements are in place for the Council's financial affairs
- Reporting to members on the overall budget performance and recommending corrective action
- Ensuring that the council or any officer of the council does not make any unlawful financial transaction or action
- Complying with the relevant accounting and financial procedures and standards in accordance with best accounting practices
- Agreeing and ensuring those locally managed schools and other local financial management arrangements are aligned to these regulations
- Preparing the revenue budget and capital programme
- Securing an effective internal audit function
- Treasury management and banking arrangements
- Maintaining a continuous review of the Financial Regulations and

submitting any additions or changes necessary to the Regulation, Audit and Accounts Committee
- Issuing advice and guidance to underpin the Financial Regulations that Members, officers and others acting on behalf of the Council are required to follow
- The maintenance of reserves, accounting policies, records and returns and the annual statement of accounts

2.5.2 The Director of Finance, Performance and Procurement has statutory duties in relation to the financial administration and stewardship of the County Council. This statutory responsibility cannot be overridden. The statutory duties arise from:

- Section 151 of the Local Government Act 1972
- The Local Government Finance Act 1988
- The Local Government and Housing Act 1989
- The Local Government Act 2003
- The Accounts and Audit Regulations 2015
- Local Government Pension Scheme Regulations 2013 and The Local Government Pension scheme (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006

2.5.3 Section 114 of the Local Government Finance Act 1988 requires the Director of Finance, Performance and Procurement to report to the County Council, the Cabinet and external auditor if the County Council or one of its officers:

- Has made, or is about to make, a decision which involves incurring unlawful expenditure
- Has taken, or is about to take, an unlawful action which has resulted or would result in a loss or deficiency to the authority
- Is about to make an unlawful entry in the County Council's accounts.

Section 114 of the 1988 Act also requires:

- The Director of Finance, Performance and Procurement to nominate a properly qualified member of staff to deputise should he or she be unable to perform the duties under section 114 personally
- The authority to provide the Director of Finance, Performance and Procurement with sufficient staff, accommodation and other resources - including legal advice where this is necessary - to carry out the duties under section 114.

2.6 **The Chief Executive and Executive Directors**

2.6.1 The Chief Executive and Executive Directors are responsible for:

- Ensuring that Cabinet Members are advised of the financial implications of all proposals and that they have been agreed by the Director of Finance, Performance and Procurement.
- Consulting the Director of Finance, Performance and Procurement and seeking approval on any matter liable to affect the County Council's finances materially, before any commitments are incurred.

3. Other Financial Accountabilities

3.1 Budget Transfer

3.1.1 The Cabinet Member for Finance and Resources is responsible for agreeing procedures for the transfer of budget between budget headings.

3.1.2 Directors (or Executive Directors if appropriate) are responsible for agreeing in-year budget transfers within delegated limits, as set out below, in consultation with the Director of Finance, Performance and Procurement where required.

Minimum approval required	Limit for budget transfer
Key decision process applies	Over £500,000
Director(s) and Director of Finance, Performance and Procurement	Below £500,000
Director of Finance, Performance and Procurement	Technical budget transfers (eg, budget transfers to comply with proper accounting practice)
Director of Finance, Performance and Procurement	Administrative budget transfers (eg, already approved by County Council or Schools Forum)

3.2 Contingency Allocations

3.2.1 Revenue budgets and capital programmes are approved as cash-limited allocations. The presumption is that service budgets and capital programmes will not be supplemented. Any exception to that presumption is the responsibility of the Cabinet Member for Finance and Resources on receiving advice from the Director of Finance, Performance and Procurement.

3.3 Treatment of Year-end Balances

3.3.1 The Cabinet Member for Finance and Resources is responsible for agreeing the carrying forward of underspendings on budget headings, on advice from the Director of Finance, Performance and Procurement.

3.4 Accounting Policies

3.4.1 The Director of Finance, Performance and Procurement is responsible for selecting accounting policies and ensuring that they are applied consistently.

3.5 Accounting Records and Returns

3.5.1 The Director of Finance, Performance and Procurement is responsible for determining the accounting procedures and records for the authority.

3.6 The Annual Statement of Accounts

3.6.1 The Director of Finance, Performance and Procurement is responsible for ensuring that the annual statement of accounts is prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom' (CIPFA/LASAAC). The Regulation, Audit and Accounts Committee is responsible for approving the annual statement of accounts.

3.7 Write Off of Debts

3.7.1 The Director of Finance, Performance and Procurement can approve the write-off of irrecoverable debts up to £15,000, in consultation with the Director of Law and Assurance.

3.7.2 Any irrecoverable debt in excess of £15,000 will require the approval of the Cabinet Member for Finance and Resources.

Financial Regulation B - Financial Planning

1. **Introduction**

1.1 The County Council is responsible for agreeing the authority's Policy Framework and budget, which will be proposed by the Cabinet. In terms of financial planning, the key elements are:

- the West Sussex Plan
- Directorate Business Plans
- annual service business plans
- the revenue budget
- the capital programme.

1.2 The County Council is also responsible for approving procedures for the budgets, plans and strategies forming the Policy Framework and for determining circumstances in which a decision will be deemed to be contrary to the budget or Policy Framework. Such decisions should be referred to the County Council by the Monitoring Officer.

1.3 The Cabinet Members are responsible for taking in-year key decisions on resources and priorities in order to deliver the Policy Framework and services within the annual budget set by the County Council.

2. **Budgeting**

2.1 **Budget format**

2.1.1 The general format of the budget will be approved by the County Council and proposed by the Cabinet on the advice of the Director of Finance, Performance and Procurement. The draft budget should include allocation to different services and projects, proposed taxation levels and contingency funds.

2.2 **Budget and Capital Programme Preparation**

2.2.1 The Cabinet is responsible for issuing guidance on the general content of the budget and capital programme in consultation with the Director of Finance, Performance and Procurement.

2.2.2 It is the responsibility of Executive Directors to ensure that budget and capital programme estimates reflecting agreed service plans are submitted to the Cabinet and that these estimates are prepared in line with guidance issued by the Cabinet.

2.2.3 The Director of Finance, Performance and Procurement is responsible for ensuring that an overall revenue budget and capital programme summarising service budget estimates is prepared on an annual basis for consideration by the Cabinet, before submission to the County Council, along with a forward financial forecast in line with Government funding notifications. The Performance and Finance Select Committee considers strategic issues relating to the budget including comment on individual portfolio budgets.

The County Council may amend the budget or ask the Cabinet to reconsider it before approving it.

2.3 Budget and Capital Programme Monitoring and Control

2.3.1 The Director of Finance, Performance and Procurement is responsible for providing appropriate financial information to enable both the revenue budgets and the capital programme to be monitored effectively. He or she must monitor expenditure against budget allocations and report to the Cabinet on the overall position on a regular basis, as part of an overall performance management reporting process. The Director of Finance, Performance and Procurement will collate and present the Total Performance Monitor to the Executive Leadership Team and Cabinet each month, including a forecast of the financial outturn at year end. This report will cover both financial and performance reporting.

2.3.2 It is the responsibility of Executive Directors and Directors to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Director of Finance, Performance and Procurement. They should report on variances within their own areas. They should also take any action necessary to avoid exceeding their budget allocation and alert the Director of Finance, Performance and Procurement to any problems. Any new proposal containing significant financial implications must take note of the Director of Finance, Performance and Procurement's advice as well as that of the relevant Executive Director or Director and Cabinet Member.

2.4 Capital Governance

2.4.1 The Council has an established officer governance process which ensures transparency and gives assurance to members. Officer panels receive and consider proposals and business cases, which are supported by a set of tools and procedures ('the officer handbook') to define the process for getting capital schemes approved and to manage subsequent variations, including how officers provide members with information and assurance that controls are in place alongside an audit trail that meets member expectations.

2.4.2 The same process for considering and approving projects and business cases applies whether the decision is for an officer or a Cabinet Member. A model for business cases is used, which is streamlined for less complex projects, to ensure the input is proportionate. Where a decision relating to the capital programme is also a 'key decision' (investment exceeds £500,000 or significant impact on more than one division), it will be published in the Forward Plan. The quarterly review of the capital programme will be published in the Members' Information Service and linked to the Members' Information Network database.

2.4.3 All projects have a business justification through an initial business case (for schemes that require resources to develop a detailed business case) or outline business case (where the scheme is more straightforward). These are considered for prioritisation each year ahead of recommendation to the Council for approval of the programme. Individual projects may be

considered by the Performance and Finance or relevant service Select Committees.

2.4.4 In addition to the large schemes and development projects that make up much of the capital programme, there will be routine investment plans for the core business of the Council that have block allocations. These include the schools maintenance programme, the maintenance of the Council's operational buildings, highways maintenance, the replacement of vehicles and other essential service assets. These are planned and budgeted for through asset management plans within the capital programme and will operate within the approved control totals. Their implementation is delegated to the relevant Executive Director or Director.

2.4.5 All significant or cross-portfolio changes are taken through the Total Performance Monitor and published as Cabinet Member decisions in accordance with their portfolio. The Performance and Finance and service Select Committees sees the Forward Plan, notice of capital schemes on the programme register and has access to the business cases which may therefore be subject to preview as required.

2.4.6 The monitoring of the capital programme is part of the core business of Cabinet Board on a quarterly basis with formal decisions published in accordance with constitutional arrangements. The Performance and Finance Select Committee has the same quarterly programme review.

2.5 Resource Allocation

2.5.1 The Director of Finance, Performance and Procurement is responsible for developing and maintaining a resource allocation process that ensures due consideration of the County Council's Policy Framework.

2.6 Guidelines

2.6.1 Guidelines on budget preparation are issued to Executive Directors and Directors, following advice from the Director of Finance, Performance and Procurement. The guidelines will take account of:

- legal requirements
- medium-term planning prospects
- West Sussex Plan available resources
- spending pressures
- other relevant government guidelines
- other internal policy documents
- cross-cutting issues (where relevant)
- the role of the Performance and Finance Select Committee in strategic budget issues.

2.7 Maintenance of Reserves

2.7.1 It is the responsibility of the Director of Finance, Performance and Procurement to advise the Cabinet and/or the County Council on prudent

levels of reserves for the authority. This duty is set out in Section 25 of the Local Government Act 2003.

2.8 Budgets Delegated to Schools

2.8.1 Revenue budgets delegated to schools under DfE Regulations are outside the scope of these regulations and are subject to the conditions set out in the Scheme for Financing Schools – Statutory guidance for local authorities - March 2018.

2.9 Fees and Charges

2.9.1 A schedule of fees and charges must be reviewed annually as part of the business planning and budget setting cycle and agreed by Cabinet Members, guided by the Director of Finance, Performance and Procurement.

2.9.2 All income properly due to the Council must be collected promptly and recorded to the Council's benefit, unless specific authority to waive, discount or write-off such income is approved through Cabinet, Cabinet Members or under delegated powers to officers.

2.9.3 Proposals to commence charging for or trading in goods or services not previously subject to charging or trading must be agreed by the relevant Cabinet Member (external charging/trading only).

Financial Regulation C - Risk Management and Control of Resources

1. **Introduction**

1.1 It is essential that robust, integrated systems are developed and maintained for identifying and evaluating all significant risks to the authority. This should include the proactive participation of all those associated with planning and delivering services.

2. **Risk Management**

2.1 The Chief Executive is responsible for approving the County Council's corporate risk management strategy and for reviewing the effectiveness of risk management.

2.2 The Regulation, Audit and Accounts Committee provides assurance of the adequacy of the risk management framework and the associated control environment and scrutiny of the County Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk.

2.3 The Performance and Finance Select Committee considers existing policies and the effectiveness of their delivery relevant to the Select Committee's specific portfolio and to issues of major strategic importance to the County Council. It also considers the effectiveness of the Council's arrangements and systems for the management of contracts and for the scrutiny of the achievement of such commissioning outcomes as have been determined, as well as the annual budget and performance framework on a strategic basis at each meeting.

2.4 Risk management must complement and build on the existing integrated service planning and performance management processes. All significant risks must be managed to, or maintained at, an acceptable level.

2.5 The Executive Leadership Team is responsible for promoting the County Council's risk management policy statement throughout the County Council with Executive Directors responsible for ensuring there are sufficient processes in place to identify, assess and capture risks within their directorates.

2.6 The Director of Finance, Performance and Procurement is responsible for monitoring and reporting all significant risks and the Director of Law and Assurance is responsible for maintaining proper insurance cover where appropriate, in pursuant with paragraph 7 of this section.

3. **Internal Control**

3.1 Internal control refers to the systems of control devised to help ensure that the County Council's objectives are achieved in a manner that promotes economical, efficient and effective use of resources and that its assets and interests are safeguarded.

3.2 The Director of Finance, Performance and Procurement is responsible for advising on effective systems of internal control. These arrangements need to ensure compliance with all applicable statutes and regulations, and other relevant statements of best practice. They should ensure that public funds are properly safeguarded and used economically, efficiently, and in accordance with the statutory and other authorities that govern their use.

3.3 It is the responsibility of Executive Directors and Directors to establish sound arrangements for planning, appraising, authorising and controlling their operations in order to achieve continuous improvement, economy, efficiency and effectiveness and for achieving their business objectives and performance targets.

4. Audit Requirements

4.1 The Accounts and Audit Regulations 2015 require every local authority to "undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance". Accordingly, internal audit is a separate, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4.2 The Local Audit and Accountability Act 2014 requires the County Council to prepare an annual Statement of Accounts, and for these accounts to be subject to an external audit. The general duties of the auditor are set out in section 20 of the Act. The Council has opted into the national auditor appointment provisions of the Local Audit (Appointing Person) Regulations 2015. Under these provisions, an external auditor was appointed to the authority by Public Sector Audit Appointments Ltd for a five year period commencing 2018/19.

4.3 The County Council may, from time to time, be subject to audit, inspection or investigation by external bodies such as HM Revenue and Customs, who have statutory rights of access.

5. Preventing Fraud and Corruption

5.1 The Director of Finance, Performance and Procurement is responsible for the development and maintenance of the Anti-Fraud Strategy (Part 5, Section 10). This is reviewed every three years and approved by the Regulation, Audit and Accounts Committee.

5.2 Where financial irregularity is suspected or discovered, Executive Directors are to notify the Director of Finance, Performance and Procurement (represented by the Head of Internal Audit) immediately, who in turn is to inform the Director of Law and Assurance. Detailed procedures for such action are contained in the Anti-Fraud Strategy.

6. **Assets**

6.1 Executive Directors should ensure that assets, including property, vehicles, equipment, furniture and stocks/stores, are properly maintained and securely held. They should also ensure that contingency plans for the security of assets and continuity of service in the event of disaster or system failure are in place, as set out in the council's Asset Strategy and Business Continuity policies.

7. **Insurance**

7.1 The Director of Law and Assurance shall effect all necessary cover for liability (including employer, third party, personal accident and fidelity guarantee), motor and property (including terrorism) insurance and negotiate all claims, in consultation with other officers where necessary.

7.2 Executive Directors shall notify the Director of Law and Assurance immediately of:

- All new risks and liabilities which may require to be insured
- Any change which may affect existing insurance
- Any loss, damage, claim or event which might give rise to a claim by or against the Council
- Any acquisition or disposal of interests in property which involves an amendment to insurance cover.

7.3 All appropriate employees of the Council shall be included in a suitable fidelity guarantee insurance.

7.4 The Director of Law and Assurance shall, at least annually, review all insurance in consultation with Executive Directors.

8. **Treasury Management**

8.1 The County Council has adopted the key recommendations of CIPFA's Treasury Management in the Public Services: Code of Practice (the Code) as detailed in Section 5 of the Code. Accordingly, the County Council will maintain, as the cornerstones for effective treasury management:

- a Treasury Management Policy Statement, stating the policies, objectives and approach to risk management of its treasury management activities (held outside of the Constitution)

- suitable Treasury Management Practices (TMPs), setting out the manner in which the County Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

8.2 The content of the Policy Statement and TMPs follows the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the County Council materially deviating from the Code's key recommendations.

8.3 The County Council will receive reports on its treasury management policies, practices and activities, including as a minimum an annual Treasury Management Strategy Statement in advance of the year, a mid-year review and an annual report after its close (see 8.4 below), in the form prescribed by its TMPs.

8.4 The County Council delegates to the Performance and Finance Select Committee responsibility for ensuring effective scrutiny of the treasury management strategy and policies. In accordance with the Constitution, a mid-year and year end treasury management report benchmarking security and liquidity, in addition to the actual yield achieved on County Council investments, will be submitted to this Committee.

8.5 The County Council in its Constitution delegates responsibility for monitoring compliance with its treasury management policies and practices against planned parameters to the Regulation, Audit and Accounts Committee

8.6 The County Council delegates responsibility for the execution and administration of treasury management decisions to the Director of Finance, Performance and Procurement.

8.7 The County Council will act in accordance with the Policy Statement, TMPs and CIPFA's Standard of Professional Practice on Treasury Management in the implementation and administration of all treasury management decisions.

9. Prudential Code

9.1 Interlinked with the CIPFA Code of Practice for Treasury Management is the Prudential Code for Capital Finance in Local Authorities; furthermore, the Council is required by regulation to have regard to the code when carrying out its duties under Part 1 of the Local Government Act 2003.

9.2 The Director of Finance, Performance and Procurement will be responsible for ensuring that all matters required to be taken into account are reported to the full Council for consideration, and for establishing procedures to monitor performance.

10. Banking Arrangements

10.1 All arrangements with bankers must be made only by the Director of Finance, Performance and Procurement, who is authorised to operate any bank accounts considered necessary.

11. Staffing

11.1 The Chief Executive as head of paid service is responsible for providing overall management to staff and is responsible for the arrangements for determining how officer support for Executive and non-Executive roles within the authority will be organised.

11.2 Executive Directors and Directors are responsible for controlling total staff numbers by:

- advising the Cabinet on the budget necessary in any given year to cover estimated staffing levels
- managing the staffing numbers within approved budget provision and, where necessary, adjusting the staffing to a level that can be funded within approved budget provision, varying the provision as necessary within that constraint in order to meet changing operational needs
- the proper use of appointment procedures, workforce plans and verified personnel information.

12. **Information Technology and Data and Information Management**

12.1 The Director of Finance, Performance and Procurement shall ensure there is sufficient provision for all Information Technology and data and information management requirements.

Financial Regulation D - Systems and Procedures

1. **Introduction**

1.1 Sound systems and procedures are essential to an effective framework of accountability and control.

2. **General**

2.1 The Director of Finance, Performance and Procurement is responsible for the operation of the County Council's accounting systems, the form of accounts and the supporting financial records. Any changes to the existing financial systems or the establishment of new systems must be approved by the Director of Finance, Performance and Procurement. However, Directors are responsible for the proper operation of financial processes in their own service areas, including those activities which are delivered by an external party.

2.2 Any changes to agreed procedures by Directors to meet their own specific service needs should be agreed with the Director of Finance, Performance and Procurement.

2.3 Executive Directors and Directors should ensure that their staff receive relevant financial training that has been approved by the Director of Finance, Performance and Procurement. This will also apply to external parties.

2.4 Executive Directors and Directors must ensure that, where appropriate, computer and other systems are registered in accordance with data protection legislation. Executive Directors and Directors must ensure that staff are aware of their responsibilities under freedom of information legislation.

3. **Income and Expenditure**

3.1 It is the responsibility of Directors to ensure that a proper scheme of delegation has been established within their area and is operating effectively. The scheme of delegation should identify staff authorised to act on the Director's behalf, or on behalf of the Council, in respect of payments, income collection and placing orders, together with the limits of their authority. The Cabinet Member for Finance and Resources is responsible for approving procedures for writing off debts as part of the overall control framework of accountability and control.

4. **Payments to Employees and Members**

4.1 The Director of Human Resources and Organisational Change is responsible for the payments of salaries and wages to all staff, including payments for overtime, as well as payment of expenses and any loans and for payment of allowances to members. The Director of Finance, Performance and Procurement is responsible for ensuring there are appropriate financial systems in place to make these payments.

5. **Taxation**

5.1 The Director of Finance, Performance and Procurement is responsible for advising Executive Directors, in the light of guidance issued by appropriate bodies and relevant legislation as it applies, on VAT taxation issues that affect the County Council. The Director of Human Resources and Organisational Change is responsible for advising Executive Directors, in the light of guidance issued by appropriate bodies and relevant legislation as it applies, on all employee related taxation issues.

5.2 The Director of Finance, Performance and Procurement is responsible for maintaining the County Council's VAT records, making all VAT payments, receiving VAT credits and submitting VAT returns by their due date as appropriate.

6. **Service Providers**

6.1 It shall be a condition of engagement of any service provider (including consultants, contractors, agency staff and joint committees) for purposes within the scope of these Financial Regulations that they shall have a comprehensive knowledge of these Regulations and abide by them throughout the duration of their engagement. The relevant Director with responsibility for engaging and managing the service provider shall ensure that this requirement is met.

Financial Regulation E - External Arrangements

1. **Introduction**

1.1 The County Council provides a distinctive leadership role for the community and brings together the contributions of the various stakeholders. It has the power to achieve the promotion or improvement of the economic, social or environmental well-being of its area.

2. **Partnerships**

2.1 The County Council is responsible for approving delegations (Part 3, Section 2 of the Constitution), including frameworks for partnerships. The Cabinet is the interface in forming partnerships with other local public, private, voluntary and community sector organisations to address local needs.

2.2 Cabinet Members can delegate functions to officers. These are set out in the Scheme of Delegation that forms part of the County Council's Constitution. Where functions are delegated, the Cabinet remains accountable for them to the County Council.

2.3 The Chief Executive represents the County Council on partnership and external bodies, in accordance with the scheme of delegation.

2.4 The Director of Finance, Performance and Procurement is responsible for promoting and maintaining the same high standards of conduct with regard to financial administration in partnerships that apply throughout the County Council.

2.5 The Director of Finance, Performance and Procurement must ensure that the accounting arrangements to be adopted relating to partnerships and joint ventures are satisfactory. He or she must also consider, in consultation with the Director of Law and Assurance, the overall corporate governance arrangements and legal issues when arranging contracts with external bodies. He or she must ensure that the risks have been fully appraised before agreements are entered into with external bodies.

2.6 Executive Directors and Directors are responsible for ensuring that appropriate approvals are obtained before any negotiations are concluded in relation to work with external bodies.

3. **External Funding**

3.1 All external funding granted to the County Council is to be notified to the Director of Finance, Performance and Procurement and he or she is responsible for ensuring that all funding notified by external bodies is received and properly recorded in the County Council's accounts.

4. **Work for Third Parties**

4.1 The Cabinet Members for a service and the Cabinet Member for Finance and Resources shall be consulted before the completion of any contractual arrangements for any work for third parties or external bodies.

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Regulation, Audit & Accounts Committee

23 July 2018

Internal Audit – Annual Audit Report 2017/18

Report by Director of Finance, Performance and Procurement and Head of Southern Internal Audit Partnership

Executive Summary

This report provides a summary of Internal Audit activity for 2017/18. The Head of Internal Audit's overall opinion that the Council's framework of governance, risk management and control is 'satisfactory' and audit activity during the year has demonstrated controls to be working in practice.

Recommendation

The Committee is asked to approve the annual audit report for the year ended 31st March 2018.

1. Introduction

1.1 This report sets out the individual and collective outcomes of the audit reviews undertaken in the year ended 31st March 2018. It also provides an audit opinion of the control environment based on this audit work.

2 Audit Opinion

2.1 Internal Audit is an assurance function whose primary purpose is to provide an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance, in support of the objectives of the Council.

2.2 The annual audit plan is prepared to take into account key areas of risk and was approved by the Regulation, Audit & Accounts Committee (RAAC). The internal audit plan has been delivered in accordance with the Public Sector Internal Audit Standards (PSIAS).

2.3 Audit work has been undertaken to obtain all information and explanations considered necessary to provide sufficient assurance that the control environment is both reasonable and effective. Whilst no assurance can ever be absolute, on the basis of audit work completed, **it is the Head of Internal Audit's opinion that the County Council's framework of governance, risk management and control is 'satisfactory'.**

3. Resource Implications and Value for Money

3.1 None arising directly from this report

4. Equality Duty.

4.1 An Equality Impact Report is not required for this decision as report dealing with internal or procedural matters only.

5. Risk Management Implications

5.1 There are risks associated with services not addressing key recommendations arising from the audit findings. Follow up audit review will be undertaken to ensure that agreed actions have been implemented. A report detailing the status of high priority Internal Audit recommendations will be presented to each meeting of this Committee for monitoring to ensure that key risks are addressed on a timely basis.

Katharine Eberhart
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Appendices
Appendix A - Annual Internal Audit Report & Opinion 2017-18

Background Papers
None

Annual Internal Audit Report & Opinion

2017 - 18

West Sussex County Council

Southern Internal Audit Partnership

Assurance through excellence and innovation

Agenda Item 9
Appendix A

Contents

Section		Page
1.	Role of Internal Audit	3
2.	Internal Audit Approach	4
3.	Internal Audit Opinion	5
4.	Internal Audit Coverage and Output	6-7
5.	Key Observations	8-10
6.	Anti-Fraud and Corruption	11
7.	Quality Assurance and Improvement	11-12
8.	Disclosure of Non-Conformance	12
9.	Quality control	13
10.	Internal Audit Performance	13
11.	Acknowledgement	14
Appendix 1	Internal Audit Reviews (Non Establishment) – Assurance Opinions	15
Appendix 2	Internal Audit Reviews (Other)	16

1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

'Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'

The standards for 'proper practices' are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].

The role of internal audit is best summarised through its definition within the Standards, as an:

'Independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

2. Internal Audit Approach

To enable effective outcomes, internal audit provide a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisations success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the County Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.

3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the County Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of West Sussex County Council's audit need that has been covered within the period

Annual Internal Audit Opinion 2017-18

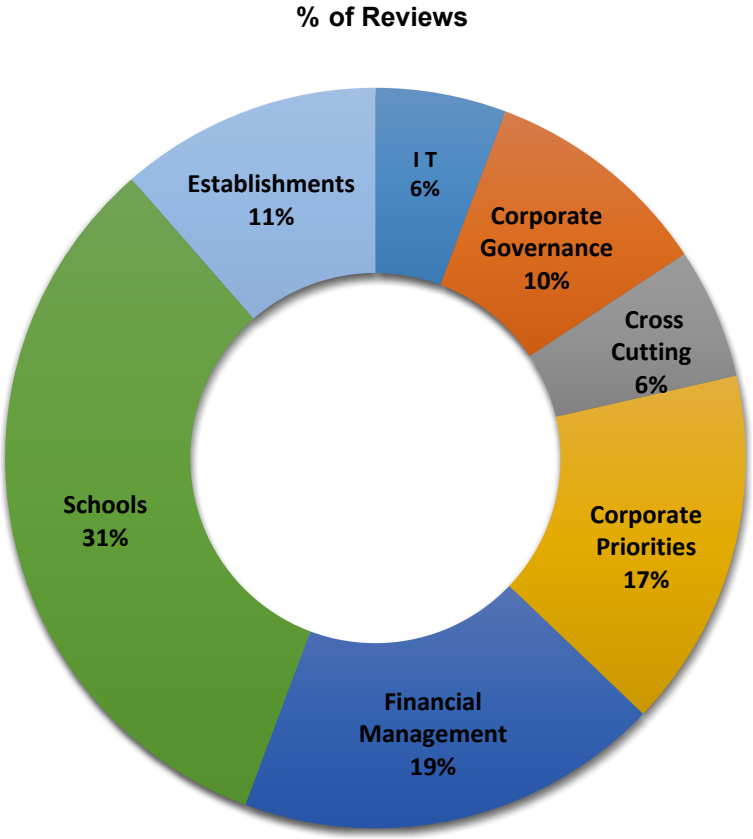
"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of West Sussex County Council's internal control environment.

In my opinion, West Sussex County Council's framework of governance, risk management and control is 'Satisfactory' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council's activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2017-18 Internal audit plan, approved by the Audit Committee in March 2017, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

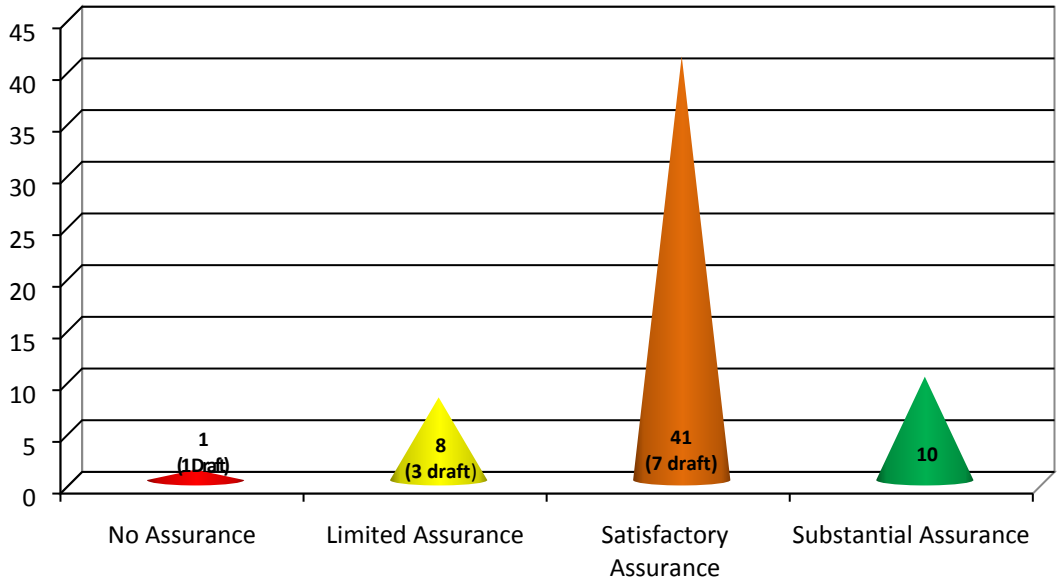
The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion internal audit have undertaken 71 reviews during the year ending 31 March 2018.

The revised 2017-18 internal audit plan has been delivered with the following exceptions:

- Work is substantially complete and an opinion has been formed for 11 reviews, however, final reports have not yet been agreed;
- Fieldwork remains in progress in respect of two reviews (Direct Payments; and Capital Project Management)

I do not consider these exceptions to have an adverse impact on the delivery of my overall opinion for the period. The opinion assigned to each internal audit review on issue (including draft reports) is defined as follows:



Substantial – There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be of a high standard and few or no material errors or weaknesses were found;

Satisfactory - While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;

Limited - Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk; or

No - Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

*nine reviews did not culminate in an audit opinion as they relate to work conducted in respect of consultancy, advice, assurance mapping, grant certification or concluded with a position statement

5. Key Observations

There was one 'No Assurance' opinion issued during the year relating to the Deprivation of Liberty Safeguards (DoLS).

Deprivation of Liberty Safeguards (DOLS) - are an important protection for people who are at risk of being deprived of their liberty in a hospital or a Care Quality Commission (CQC) registered care home, who lack capacity to consent to the arrangements and are not detained under the Mental Health Act 1983.

Registered homes and hospitals are 'managing authorities' for DOLS and they have the responsibility for preventing unnecessary deprivations of liberty and recognising when a deprivation of liberty is occurring or likely to occur. They are also responsible for referrals to the 'Supervisory Body' to grant 'Authorisation'. West Sussex County Council is the supervisory body for those who may be deprived of their liberty in a hospital or care, lack capacity to consent to this and are 'ordinarily resident' in West Sussex.

Legislatively West Sussex County Council are required to assess 'urgent' request within 7 days and 'standard' requests within 21 days. However, as at the end of 2017/18 there were 3,468 incomplete requests (DOLS statutory sign-off presentation). NHS Digital data for the financial year 2017 identified West Sussex County Council as being in the top four local authorities where over 2,000 requests were outstanding, of which 52% were over 366 days old.

The internal audit review highlighted issues with regard; the absence of an overriding DOLS policy/ strategy; the effectiveness of the prioritisation toolkit and methodology for dealing with requests; the treatment of extended authorisation for existing cases; availability of information to the public in relation to 'challenges'; adequacy of management information; and the ongoing effectiveness & resourcing of DOLS caseloads.

The Law Commission has made proposals to reform the Mental Capacity Act, which would see the Community and Locality teams undertaking DOLS as part of their core function. The authority needs to be mindful of this proposal to effectively align the service moving forward.

In general internal audit work found there to be a sound control environment in place across a majority of review areas that were working effectively to support the delivery of corporate objectives, however, there were some common themes identified that provide challenge to the organisations risk environment:

Adult Social Care – An LGA Peer Review was undertaken during May 2018 to provide an overview of Adult Social Care in West Sussex. One of the recommendations from the review was to implement a one hundred day plan to address care basics and ensure capacity and capability is in the right place, including integrated health & social care responsibilities. Planned internal audit reviews and those specifically commissioned during the year (DOLS, Direct Payments etc.) will feed into the one hundred day plan. Additionally internal audit have assisted in compiling an overview of prior internal audit reviews and other sources of assurance received by the Authority to further inform recurring themes and points of learning to feed into the process. The Director of Adult Service (Interim) initiated the one hundred day plan on 2nd July 2018.

Procurement - Spending public money requires high levels of probity and accountability, supported by an effective framework to ensure that legislative and local standards are maintained. Significant work has been on-going throughout 2017-18 to address known weaknesses in procurement practice and process.

Internal audit review during the year confirmed a number of exposures in the procurement framework remained evident either due to new processes having yet to be embedded or planned changes yet to be implemented. Such exposures included:

- Insufficient monitoring of procurement spend and readily available management information;
- Levels of non-contract spend and spend by vendor; and
- Lack of engagement with Procurement/ Legal in respect of contracts exceeding £100k leading to an incomplete and poorly maintained contract register.

Management maintain a good awareness of these issues and progress remains on-going to mitigate weaknesses. This has included the engagement of a third party to review the Council's corporate procurement approach including a review of the current organisational structures. A revised operating model is currently being implemented, which once fully embedded, will help mitigate highlighted issues.

Business Resilience – The Business Continuity and Resilience Policy outlines a commitment to ensure required plans are in place in the event of an emergency or disruptive event and identifies responsibilities and accountabilities in delivery, testing and review of the plans. At the time of the audit review, documentation to support the effective delivery of the policy and plans (i.e. Business Impact Analysis / Incident Plans etc.) were incomplete or required review, additionally only a minority had been exercised to ensure their effectiveness.

Action has been taken since the internal audit review to update incident plans, upgrade the business continuity management software, and enhance induction and training for existing staff. Additionally the water shortage incident was declared a multi-agency test. However, due to staffing changes which saw the Head of Resilience and Emergencies leave the organisation in April 2018, responsibilities for the team have now been reassigned and a revised date has been set to complete all Business Impact Analysis documents and test Service Plans by September 2018.

GDPR - A position statement was issued during the year providing limited assurance on the Council's progress to enable compliance with the requirements of the General Data Protection Regulation (GDPR) which were enacted on 25 May 2018.

The review was purposefully undertaken early in the process (October / November 2017) to maximize its value to support management in the implementation of the core aspects of legislative requirements.

In response to the position statement the Chief Information Officer attended the Regulation Audit & Accounts Committee on 26 March 2018 providing update and assurances with regard actions in place to meet GDPR requirements and key issues highlighted in the internal audit position statement. The committee noted the plans and actions underway to enable the County Council to meet its obligations arising from the GDPR.

Further reviews of GDPR, Business Resilience, Procurement and a range of Adult Services reviews are incorporated as part of the 2018/19 internal audit plan which will include a follow-up of issues raised as part of our 2017/18 work and reported accordingly to Senior Management and the Regulation, Audit & Accounts Committee.

6. Anti-Fraud and Corruption

The County Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the County Council and damage both its reputation and image.

Policies and strategies are in place setting out the County Council's approach and commitment to the prevention and detection of fraud and corruption. An overview of Internal Audit activity is provided in the Annual Fraud Report 2017-18.

7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within 'the Standards'.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years.

In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015.

In considering all sources of evidence the external assessment team concluded:

"It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to all of the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).

There are no instances across these standards where we determined a standard below "generally conforms", and 4 instances where the standard is assessed as "not applicable" due to the nature of SIAP's remit."

In accordance with PSIAS, annual self-assessments have been completed since the external inspection concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires 'an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation' I can confirm endorsement from the Institute of Infernal Auditors that

> **'the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards'**

There are no disclosures of Non-Conformance to report.

9. Quality control

Our aim is to provide a service that remains responsive to the needs of the County Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2017-18 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Registration under British Standard BS EN ISO 9001:2008, the international quality management standard complimented by a comprehensive set of audit and management procedures;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- A self-assessment against the Public Sector Internal Audit Standards.

10. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Annual performance indicators			
Aspect of service	**2016-17 Actual (%)**		**2017-18 Actual (%)**
Revised plan delivered (including 2016/17 c/f)	-	-	**97**
Positive customer responses to quality appraisal questionnaire **	88	↑	**99**
Compliant with the Public Sector Internal Audit Standards	Yes	↔	**Yes**

**Customer satisfaction has been assessed through response to questionnaire issued to a wide range of stakeholders including senior officers and key contacts involved in the audit process throughout the year.

11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout West Sussex County Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman
Head of Southern Internal Audit Partnership
June 2018

Appendix 1

Internal Audit Reviews (Non Establishment) – Assurance Opinions

Substantial	Satisfactory
Treasury Management Externally Managed Investments	Cyber Security IT Capita Contract Management (Draft) IT Programme & Project Management (Draft) Accounts Payable Accounts Receivable Main Accounting System Capital Accounting & Monitoring Payments (Draft) Payroll (Draft) Pensions – External Bodies Pension Administration Internally Managed Investments Waste Strategy Public Transport Contracts Fleet Management Early Years Payments to Providers (Draft) Prevent Contract Management (Top 21) Scheme of Delegation (Draft) No Recourse to Public Funds (Draft)
Limited	**No**
Procurement Cards Procurement (Draft) Agency Staff Service Business Resilience Plans Beechfield CAMHS Processes (Draft) Fire Core Systems (Draft)	DoLs (Draft)

Appendix 2

Internal Audit Reviews (Other)

Establishments - Schools	Establishment - Other
Singleton Primary	Woodlands Meed
Oathall	Cissbury Lodge
Steyning Grammar	Orchard House
Horsham Nursery School	May House
West Sussex Alternative Provision College	Hammonds
Bersted Green Primary School	Tozer House
London Meed Community Primary School	Strawford Centre
Northchapel Primary School	New Tyne Resource Centre
Amberley C.E. First School	**Positions Statements**
St James' C.E. Primary School	IT Needs Assessment
Rogate C.E. Primary School	School Fraud Health Check
Shipley C.E. Primary School	GDPR Compliance
Steyning Primary	**Consultancy/ Advisory**
Easebourne C.E. Primary School	Coroner
The March C.E. Primary School,	Safe & Cash Handling – Thematic
English Martyrs Catholic Primary School	Health & Safety
Oriel High School	**Grants**
Millais School, Horsham	Grants
Bourne Community College	Think Family
Ifield Community College, Crawley	**Work In Progress**
Felpham Community College	Capital Project Management
St Andrews High School	Direct Payments
Littlegreen School	

Regulation, Audit & Accounts Committee

23 July 2018

Internal Audit – Annual Fraud Report 2017/18

Report by Director of Finance, Performance and Procurement and Head of Southern Internal Audit Partnership

Executive Summary

This report provides a summary of internal audits work in relation to anti fraud activity for 2017/18.

Recommendation

The Committee is asked to note the annual fraud report for the year ended 31st March 2018.

1. Introduction

1.1 This report provides the Regulation, Audit & Accounts Committee with an overview of reactive and proactive counter fraud activity undertaken by internal audit for the period ending 31 March 2018.

2 Contextual Information

2.1 The CIPFA Code of Practice on Managing the Risk of Fraud & Corruption sets out the principles that define the governance and operational arrangements necessary for an effective counter fraud response.

2.2 It is these principles that underpin the Southern Internal Audit Partnership's approach to support the management of the risk of fraud and corruption within West Sussex County Council.

2.3 In accordance with the CIPFA Code of Practice an annual report (attached) is presented to provide those charged with governance an overview of counter fraud activity during the year ending 31 March 2018.

3. Resource Implications and Value for Money

3.1 None arising directly from this report

4. Equality Duty.

4.1 An Equality Impact Report is not required for this decision as report dealing with internal or procedural matters only.

5. Risk Management Implications

5.1 There are risks associated with services not addressing key recommendations arising from the audit findings. Follow up audit review will be undertaken to ensure that agreed actions have been implemented. A report detailing the status of high priority Internal Audit recommendations will be presented to each meeting of this Committee for monitoring to ensure that key risks are addressed on a timely basis.

Katharine Eberhart
Director of Finance, Perfomance & Procurement

Neil Pitman
Head of Southern Internal Audit Partnership

Contact: Neil Pitman, 0330 222 3672

Appendices
Appendix A - Annual Fraud Report 2017-18

Background Papers
None

Annual Fraud Report

2017 - 18

West Sussex County Council

Southern Internal Audit Partnership

Assurance through excellence and innovation

Contents

Section		Page
1.	Forward	3
2.	Reactive Fraud Activity	4
3.	Proactive Fraud Activity	5-10
4.	Ongoing Initiatives	10
5.	Acknowledgement	11

1. Forward

Leaders of public service organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management.

Published in October 2014, the CIPFA Code of Practice on Managing the Risk of Fraud & Corruption sets out the principles that define the governance and operational arrangements necessary for an effective counter fraud response.

It is these principles that underpin the Southern Internal Audit Partnership's approach to support the management of the risk of fraud and corruption within West Sussex County Council.

West Sussex County Council promotes a zero tolerance culture to fraud and corruption:

'West Sussex County Council is determined that the culture and tone of the organisation is one of honesty, openness and absolute opposition to fraud and corruption. The Council's expectation on propriety and accountability is that members and staff at all levels will observe the highest standards in ensuring adherence to legal requirements, rules, procedures and practices.' (WSCC - Anti Fraud & Corruption Strategy)

The Council maintains a suite of strategies and policies to support the effective management of the prevention, detection and investigation of fraud and corruption (Anti-Fraud & Corruption Strategy and Response Plan; Whistleblowing Policy and Anti Bribery Policy).

Counter-fraud activity during the year has delivered a programme of proactive and reactive work to complement the internal audit strategy and annual plan focusing resource against assessed fraud risks in addition to new and emerging threats.

2. Reactive Fraud Activity

The Southern Internal Audit Partnership work with West Sussex County Council in the effective review and investigation of any reported incidents of fraud and irregularity. All such reviews are undertaken by professionally accredited (CIPFA CCIP) staff, in accordance with the Council's Anti-Fraud & Corruption Policy and Response Plan.

Recent history has demonstrated that given the size and diversity of the organisation, relatively low levels of activity have been required in respect of reactive fraud work in West Sussex County Council.

Analysis is provided (fig. 1) highlighting the fraud types that have been subject to internal audit investigation across West Sussex County Council over the last two years. It should be acknowledged that the figures relate to areas of investigation and not proven fraud.

Many of the 'fraud types' evident in the table are reflective of national trends and as such are not issues unique to West Sussex County Council.

Type	16/17	17/18
Social Care	3	5
School Related	2	4
Procurement	1	1
Pensions	1	3
P-Card	1	1
Family Operations	3	3
Employee/ Recruitment	7	4
Blue Badge	-	6
Mandate	-	5
Others	-	4
Total	**18**	**36**

Fig.1

3. Proactive Approach

Whilst the established process to reactive fraud assists the Council in responding to notified incidents or suspicions of fraud and irregularity, it is equally important to ensure proactive initiatives are appropriately explored to understand, prevent and detect fraud risks across the organisation. Initiatives and subsequent outcomes during the year included:

Compliance against the CIPFA Code – During the year we implemented all necessary actions following a self-assessment of the organisations arrangements against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. We are satisfied that in all material respects the organisation operate in accordance with the Code of Practice.

Schools Fraud Health Check – A combination of face to face interviews and questionnaires were used to assess fraud awareness and control across maintained schools in West Sussex. The health check was modelled on key areas of risk exposure attained from a national analysis of reported frauds within schools compiled by Mazars coupled with our own understanding and knowledge of fraud risk exposures.

In total 220 schools were contacted from which we received feedback from 127. Generally responses were found to provide a reasonable level of assurance that the framework of controls and governance maintained were working effectively. However, there were a number of areas of commonality identified for improvement including recording and retention of gifts and hospitality; effective review and maintenance of key policies and procedures; secure retention of assets; and poor IT controls (password reviews, sharing of log-on etc.).

Feedback from the survey is being analysed in conjunction with the statutory Schools Financial Value Standard (SFVS) return that schools are required to submit by 31 March each year. The review will conclude with a consolidated report highlighting common areas of weakness and recommendations for improvement which will be disseminated to all schools.

Specific feedback will be provided to schools to whom physical visits have been made or where survey responses indicate a particularly poor control environment. Those schools who failed to respond to the survey will be considered for individual site visits during 2018-19.

National Fraud Initiative (NFI) - The NFI is a statutory exercise facilitated by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Public sector bodies are required to submit data to the National Fraud Initiative on a regular basis (every two years). The last NFI data upload was carried out in October 2016. Match reports were received and disseminated to key contacts in January 2017. The outcomes of NFI work across West Sussex County Council is summarised below:

Dataset	Recommended Matches	Matches Reviewed	Fraud/ irregularities Identified	Value (£)	Recovered (£)
Pensions	255	528	10	54,612.34	On-going
Payroll	7	124	1	100.00	100.00
Blue Badges	1,091	1102	12	0	0
Concessionary Travel	5,509	6098	4,892*	117,408.00*	n/a
Residential Parking Permits	9	10	0	0	0
Private Residential Care Homes	79	172	4	44,117.55	44,117.55
Insurance Claimants	0	4	0	0	0
Personal Budgets	61	142	0	0	0
Creditors	866	1631	6	6,271.56	On-going
VAT	256	355	0	0	0
Total	**8,133**	**9,076**	**4,913**	**222,509.45**	**44,217.55**

* As a result of the NFI 4,892 concessionary travel passes were cancelled from the database. Although no fraud was identified, the Cabinet Office assigns a notional value of £24 per pass saved to the public purse based on the cost of reimbursement to bus operators for journeys made under the concessionary pass scheme.

A further NFI data upload will be carried out in October 2018 and new match reports will be available for review in January / February 2019. Service areas will continue to work on existing matches received from the 2017 match reports that have yet to be reviewed.

Joint Working Initiatives - Following a joint correspondence from the DCLG and DWP in October 2017 West Sussex County Council completed an expressions of interest to take up the opportunity of working with Government to more efficiently and effectively fight local fraud and corruption.

The initiative builds on DWP's work with council fraud teams, on joint criminal fraud investigations of the Council Tax Reduction Scheme (CTRS) and Social Security benefit fraud.

DWP's Joint Working project team continue to develop the principles of including other types of local authority (incl. county council payments) within joint criminal fraud investigations and work is underway to establish the extent of data sharing and disclosure allowed under existing legislation in order to expand the scope further.

We look forward to working with colleagues across Government throughout 2018/19 as initiatives and opportunities present.

Additionally we continue to engage with and currently Chair the South East Fraud Hub which comprises fraud leads for County Councils across the South East.

Blue Badge Initiative - The County Council is responsible for awarding blue badges, which provide a range of parking concessions for people with severe mobility problems, or who have difficulty using public transport.

Fraudsters exploit the scheme by forging badges or stealing badges from cars. Abuse also occurs when badges remain in use, or are renewed by someone, after a badge holder has died.

West Sussex County Council has a number of processes in place to help reduce Blue Badge fraud and react to reported cases of misuse. However, there was no proactive pursuit of those who misuse Blue Badges in the streets and car parks in the county, nor was prosecution used as a sanction and consequent disincentive.

During 2017-18 an initiative (led by Highways & Transport) was launched to work with Brighton & Hove City Council (one of the Department for Transport's Blue Badge Centres of Excellence) to use their team of experts to conduct fortnightly enforcement activity across the West Sussex area.

B&HCC Blue Badge investigators were subsequently deployed on-street to inspect Blue Badges in parked vehicles. They liaised by telephone with an office-based member of staff who called the badge holder at their home to attempt to ascertain their whereabouts. The inspectors often wait for the driver and passengers of the vehicle to return and so find out if the Badge Holder is present. Where possible, the inspectors seize misused badges.

Since the blue badge enforcement exercises commenced in August 2017, there have been:

Sanction	Cases	Description
Prosecution	4	Criminal prosecution and a fine of up to £1,000
Community Resolutions	42	Administered by Sussex Police - keeps low level anti-social behaviour out of the courts and does not criminalise people unnecessarily. People who take a community resolution pay £40 to attend an educational session on how their behaviour affects disabled people
Warning Letters	30	Reminds the badge holder of the requirements of use of the badge and warns that if further misuse is found their badge will be withdrawn and prosecution considered.
Blue Badges Retained	86	Seized by inspector(s) at point of challenge
Blue Badges Destroyed	24	Badge has expired or already been cancelled, so removed from circulation.

There are a further 20 cases where action is still to be determined.

No Recourse to Public Funds (NRPF) – presents a significant fraud risk to local authorities through falsification of documentation to obtain benefits.

NRPF refers to those subject to immigration controls and whom are not eligible for public funds (welfare benefits, public housing or financial support from the home office), but may still be eligible for local authority assistance under Section 17 of the Children Act 1989, or Section 21 of the National Assistance Act 1948. Assistance under these acts is not defined as 'a public fund'; hence individuals with NRPF are not excluded from these provisions. Local authorities have a duty to provide assistance to individuals under these acts if they meet certain criteria.

There were only a minimal number of cases (16) administered by West Sussex County Council at the time of this review for which NRPF was applicable. All cases reviewed arose from the obligation to support a child or children (and by association their parent(s)) under Section 17 of the Children's Act.

Our review found that case records were generally sound; however, there were instances where copies of documents relevant to the NRPF status, such as evidence to confirm identity, immigration status and communication with other parties acting on their behalf, such as solicitors were not evident. A lack of supporting evidence can indicate an individual is either not who they purport to be, or not having disclosed a true representation of their situation.

Whilst pleasingly our review did not identify any fraudulent activity in this area a number of recommendations have been made to enhance the control framework to further prevent / detect the potential of future exposure.

Direct Payments – Nationally there has been a rise in the number of fraud cases identified in adult social care and the value of loss has started to increase.

A personal budget is a sum of money that the council allocates to an adult/ child (user) to meet their assessed needs for care and support. The user can choose how their budget is paid and how money is used. Personal budgets can be managed by the council, which commissions services for the user, or given to the applicant or the carer as a direct payment so they can buy their own care and support services.

The value and volume of personal budgets in West Sussex is significant, as at the time of our analysis there were 2,166 personal budgets (1,611 adults and 555 children's) with a weekly value of £530k.

Fraud can be perpetrated through direct payments not being used to pay for the care of the vulnerable adult / child; or care workers claiming money for time they had not worked or were spending the allocated budget inappropriately. A recent national survey by the CIPFA Counter Fraud Centre highlighted nationally greater links between adult social care fraud and insider fraud.

A review of direct payments is currently underway and testing of individual cases is progressing. The review has a specific focus on controls and systems in place to prevent and detect fraud and a report and subsequent management actions will be produced on conclusion. There are also changes to the manner in which direct payments are made and advice has also been given on this.

4. Ongoing initiatives

We have maintained a number of initiatives throughout the year to ensure internal audit remains responsive to the fraud needs of the County Council and maintains consistently high standards:

- Facilitate a 'Fraud Hotline' (telephone and email) for members of staff or the public to report instances of suspected fraud
- Fraud Awareness Bulletin's, providing oversight of emerging fraud risk threats and advice;
- Completion and receipt of outcomes from the CIPFA Fraud Survey;
- Compliance with the Public Sector Internal Audit Standards;
- Compliance with the CIPFA Code of Practice on Managing the Risk of Fraud & Corruption;
- Responsible Authority within the Council Whistle blowing policy (Confidential Reporting Policy)

5. Acknowledgement

I would like to take this opportunity to thank all those staff throughout West Sussex County Council with whom we have made contact in the year. Our relationship has been positive and management were responsive to the comments we made both informally and through our formal reporting.

Neil Pitman
Head of Southern Internal Audit Partnership
June 2018

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Regulation, Audit and Accounts Committee

23 July 2018

Quarterly Review of the Corporate Risk Register

Report by Director of Finance, Performance and Procurement

Executive Summary

This Committee has responsibility for oversight of the County Council's risk management arrangements.

A new format risk register has been produced, with all risk information updated and transferred to the new version. This activity resulted in several amendments to existing risks, and the inclusion of two additional risks as a consequence of the LGA Peer Review of Adults' Services and review of the Deprivation of Liberty Safeguards (DoLS).
The Risk Management SharePoint page, which acts as a repository for all risk information and documentation, has been updated; with an additional risk management page created on the Council's intranet page (the Point), providing a direct link to this area to improve accessibility.
The storyboarding for the e-learning course has been completed and is currently being developed into software; with completion and course launch in the summer.

Recommendations

The Committee is asked to review the information detailed in the report, the current Corporate Risk Register and provide comment as necessary.

1. Introduction

1.1 The Committee has responsibility 'to monitor the effective development and operation of risk management in the County Council'. That role, together with a description of the Council's approach to risk management, is set out in the Constitution at Part 4 Section 4. It covers the allocation of responsibilities, including the quarterly review of risk management activity.

2. Background and Context

2.1 At the March 2018 meeting this committee reviewed the Corporate Risk Register and risk management processes. The Corporate Risk Manager presented an amended version of the County Council Risk Management Strategy, with a summary document of the key changes, and asked Members to review and provide comment at the next meeting.

2.2 At the March 2018 meeting the Corporate Risk Manager revealed that a new format risk register was being developed and would be presented as the current, 'live' document at the July 2018 meeting.

2.3 The new corporate risk register presented is a singular document which displays a clear link between impacts and actions, with the updates to these actions justifying the current risk score. The County Council Risk Management Strategy has been amended to reflect the removal of the separate action plan.

2.4 The information transfer to the new format corporate risk register, coupled with changes to risk ownership, presented an opportunity to thoroughly review the risks and associated actions. As a consequence, there were several amendments to the corporate risk register this preceding quarter.

- Corporate risk #9 – Sub-cultures and organisational restructuring
    - Separated in three risks
    - CR9a - Organisational restructuring
    - CR9b - Governance processes and development of sub-cultures (internal partners)
    - CR9c - Governance processes and development of sub-cultures (external partners)
- Corporate risk #14 – Lack of capacity or competition
    - Current score increased from 16 to 20
- Corporate risk #19 – Commercial awareness
    - Removed due to similarity with CR18
- Corporate risk #27 – Demand for Council's services
    - Unmerged
    - CR12 and CR18 retained
    - CR25 and CR27 removed due to similarity with CR12
- Corporate risk #39b – Lack of capacity or competition
    - Current score reduced from 20 to 16
- Corporate risk #55 – Lack of capacity or competition
    - Current score reduced from 25 to 20
- New corporate risk #56 - LGA Peer Review of Adults' Services
- New corporate risk #57 - Backlog of Deprivation of Liberty Safeguards (DoLS) assessments

2.5 During the preceding quarter directorate risk registers were also transferred to the new format risks register; with the same extensive review carried out. The corporate risk register has been reviewed once in the last quarter by the Executive Leadership Team. The directorate risk registers have been reviewed at least monthly by each Director and their management team, with support and guidance from the Corporate Business Managers, particularly during the transfer process. The Corporate Risk Manager has continued to engage monthly with CLT members to discuss owned corporate risks, and quarterly to provide assurance on directorate risks and governance.

2.6 The quality of information contained in the directorate and corporate risk registers has improved significantly; primarily due to the new and uncomplicated format enhancing data capture and analysis. Ensuring risk owners identify specific action owners is encouraging risk awareness through the delegation of responsibility; subsequently promoting a supportive and inclusive culture when managing uncertainties in the council.

2.7 A risk management page has been developed on 'The Point' with a link to the SharePoint page which holds all risk documents. This will provide simple and controlled access to risk registers, the risk management strategy and other useful material and information e.g. where to go for support on risk and upcoming risk management courses.

2.8 The storyboarding for the risk management e-learning course has been completed and submitted to Learning & Development for creation into software. This process may take longer than anticipated due to the implementation of a new authoring tool and the officers inexperience in operating it; however the aspiration remains to launch this course in the Summer. In the interim, all directorates have been offered the opportunity to receive bespoke risk management training/workshops from the Corporate Risk Manager; in a direct learning format.

2.9 Activities the Corporate Risk Manager is going to carry out/continue with this quarter, to ensure continuous improvement and alignment with best practice.

- Continue to attend the Sussex Resilience Forum Risk Group to maintain visibility on National Risks that may impact WSCC and require inclusion on Corporate Risk Register
- Attend the South East Risk Managers Group to share best practice of risk management in the public sector across various local authorities
- Attend appropriate seminars held by professional bodies e.g. Alarm
- Support projects and programmes to provide assurance and support on robust governance
- Engage and support service managers on capturing and communicating risk

2.10 The committee is asked to consider the Corporate Risk Register and future actions and provide comment as necessary.

3. Equality Impact Report

3.1 An Equality Impact Report is not required for this decision as it is a report dealing with internal and procedural matters only, although the Council's responsibilities in relation to the public sector equality duty will be one element of the approach to risk management.

4. Resource Implications and Value for Money

4.1 At this stage, there will be no additional resources required to facilitate the embedding of risk and future actions as current support within the organisation is sufficient. The Corporate Risk Manager is conducting risk workshops in existing management meetings to mitigate resource and scheduling conflicts.

5. Risk Management Implications

5.1 The subject of the report is the CRR. It would be contrary to the interests of the Council not to ensure that its risk management processes and registers were not aligned to Risk Management Strategy.

6. Crime and Disorder Act Implications

6.1 None.

7. Human Rights Act Implications

7.1 None.

Katharine Eberhart
Director of Finance, Performance
and Procurement

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Appendices
Appendix A - Corporate Risk Register

Background Papers
None

Risk No	Risk Category	Risk Description	Risk Owner	Risk Impact	Date Risk Raised	Initial Risk			Risk Strategy	Target Risk			Risk Control/Action	Action Owner	Action Target Date	Risk Update	Current Risk			Next Risk Review Date
						Impact	Likelihood	Score		Impact	Likelihood	Score					Impact	Likelihood	Score	
CR1	Political	As a result off **Brexit** there may be changes to laws and policies that may impact WSCC and partners (i.e. employment law).	Nathan Elvery	1. Uncertainty on staff available to deliver council services i.e. care workers. 2. Uncertainty on local businesses. 3. Impact of growth projections.	Nov-17	4	4	16	Tolerate	4	4	16				Gather data to inform impact of negotiations; liaise with network to share information; work with businesses to show ongoing commitment. Background activity by directorates to collate and determine data that can be used for analysis once Brexit is fully understood. Risk to be re-assessed 6 monthly or in the event of significant Brexit statements.	4	4	16	Jul-18
CR7	Governance	There is a culture of **non-compliance** and lack of standardisation in some **systems and processes**. Levels of familiarity with, and use of, corporate requirements for sound decisions and meeting legal obligations needs to improve.	Tony Kershaw	1. Invalid decisions.	Mar-17	4	4	16	Treat	3	2	6	Module on governance embedded in corporate training and the induction programme.	Head of Democratic Services	Mar-18	**Completed.**	4	3	12	Aug-18
				2. Fraud error.									Data on areas of non-compliance used to inform Directors to enforce compliance with standards.	Tony Kershaw	Jul-18	Included in Annual Governance Review.				
				3. Poor VFM.									Guidance for specific procedures to be created.	Tony Kershaw	Jul-18	Partially completed.				
				4. Compliants and claims.									Regular compliance monitoring and active corporate support when non-compliance happens to establish better practice.	Head of Democratic Services	Ongoing					
				5. Censure by audit inspection.									Audit plan focussing reviews on key corporate support systems to identify key areas in need of improvement.	Head of Audit	Ongoing	Discussed as part of Audit plan.				
CR9a (linked to CR11)	Managerial/ Professional	**Organisational restructuring** may lead to staff and departmental instability.	Heather Daley	1. Adverse effect on the Council's partners and providers.	Mar-17	4	4	16	Treat	3	3	9	Revise JCC structure to ensure executive director/departmental engagement with trade unions on practive basis.	Jamie McGarry	Jun-18		4	3	12	Jul-18
				2. Low staff morale and performance.									Within HR&OC directorate 'Subject matter expertise' for restructure and other employee relation matters to be developed and quality assurance processes to be put in place.	Jamie McGarry	Sep-18					
				3. Failure to deliver statutory services.									Implement staff engagement methods within the consultation process restructures, i.e. alongside JCC.	Jamie McGarry	Aug-18					
													Revising HR policy and guidance in relation to handling of org restructure.	Jamie McGarry	Sep-18					
													Examine HR KPI's to improve HR intelligence and intervention planning.	Head of Specialist HR	Oct-18					
CR9b	Managerial/ Professional	The Council fails to act as 'One Team' with internal partners e.g. central enabling services, which may lead to miaslignment of **governance processes and development of sub-cultures**.	Heather Daley	1. Adverse effect on the Council's partners and providers.	Mar-17	4	4	16	Treat	3	3	9	Producing an ELT and SLT Development Programme which links to the Value Centre Leadership Programme for more generic management positions.	Lindsey Hannant	Jul-18	ELT and CLT development programme in place. CMT development programme commissioned, launching Oct 18.	4	3	12	Jul-18
				2. Inadequate pace/speed of delivery.									Develop a council HR strategy with key outcomes, interventions and KPIs; and building the provision for departmental and directorate dashboards as a reporting tool.	Heather Daley	Jul-18					
				3. Failure to deliver statutory and non-statutory services.									Quarterely pulse survey and biennial staff survey.	Lindsey Hannant	Nov-18	Last pulse survey in April and actions being progressed. Staff survey launched June 18; results shared at staff conference in Oct 18.				
CR9c	Managerial/ Professional	The Council fails to act as 'One Team' with external partners eg Capita, Balfour Beatty, PWC, which may lead to miaslignment of **governance processes and development of sub-cultures**.	Heather Daley	1. Adverse effect on the Council's partners and providers.	Mar-17	4	4	16	Treat	3	3	9	Carry out a training needs analysis on the intelligent client and customer relation function; focussing on client and contractor.	Lindsey Hannant		To engage with Katharine Eberhart.	4	3	12	Jul-18
				2. Inadequate pace/speed of delivery.									Clear accountabilities and KPIs for client and contractor.	Lindsey Hannant		To engage with Katharine Eberhart.				
				3. Failure to deliver statutory and non-statutory services.									Move to outcomes based commissioning.	Lindsey Hannant		To engage with Katharine Eberhart.				
				4. Additonal cost/duplication of services.																

CR11 (linked to CR9a)	Managerial/ Professional	Due to skills shortages in several disciplines and areas (internally and externally), the Council is unable to **recruit** suitable staff into vacant positions; and may encounter problems with **retaining** experienced existing **staff.**	Heather Daley	1. Over-reliance on interim and agency staff.	Mar-17	4	5	20	Treat	4	3	12	Identification of hard to fill posts and reasons.	Lindsey Hannant	Aug-18		4	4	16	Jul-18
				2. Lack of corporate memory.									Review policy and provisions for recruiting and retaining hard to fill posts.	Lindsey Hannant		Reviewing resettlement policy; going to ELT July 18.				
				3. Inadequate pace/speed of delivery.									Simplifying processes for recruiting and engaging with potential applicants for hard to fill posts.	Lindsey Hannant	Oct-18					
				4. Low staff morale and performance.									Longer term strategies for addressing recruitment issues e.g. apprenticeships.	Lindsey Hannant	Ongoing	Developing 3 year plans				
CR12	Social	A lack of understanding by the Council and partners to **understand and manage the demographic needs and demands** effectively, may result in a failure to obtain or utilise intelligence to model and manage demand effectively.	Kim Curry	1. Services are not sufficiently resourced to address social care and educational issues on a timely manner.	Mar-17	4	3	12	Treat	3	2	6	Develop a CAFHE dashboard that helps to illustrate pressures on the front door, to be discussed monthly at DLT and in conjunction with Performance Team datasets.	Graham Tabbner	Aug-18		4	3	12	Aug-18
				2. Services are not designed appropriately to reflect the needs of a changing demographic, leading to decompensation of individuals or lack of service.									Develop data pack within Adults' Services to understand; demand, waiting lists, service pressure and resource requirements. Ensure this is reviewed regularly within leadership meetings.	Jana Burton	Aug-18					
				3. The cost of provision of services increases beyond expectation or budgets are not allocated most effectively.									Develop data pack within Education and Skills to understand; demand, sufficiency and resource requirements. Ensure this is reviewed regularly within leadership meetings.	Deborah Myers	Aug-18					
				4. Inability of the Council to respond positively to service developments from strategic partners due to unknown picture of demand for own service provisions.									Develop data pack within Family Services to understand; demand, waiting lists, service pressure and resource requirements. Ensure this is reviewed regularly within leadership meetings.	Annie MacIver	Aug-18					
													Ensure links are maintained with Public Health Directorate and that data from JSNA is fed into demand considerations.	Kim Curry	Aug-18					
													Share intelligence from strategic partnership meetings with Health and District & Borough Councils.	Kim Curry	Ongoing					
CR14	Competitive	Due to a **lack of capacity or competition** in areas of the care market in which the Council operates, the Council is not able to manage or stimulate markets, or secure good deals.	Kim Curry	1. The costs of care packages are increased as a lack of supply relative to demand.	Mar-17	5	4	20	Treat	4	3	12	Work with providers to improve recruitment and retention of their workforce.	Debbie Young	Ongoing		5	4	20	Aug-18
				2. The availability of care packages is reduced to lack of capacity, usually through lack of workforce.									Develop a Market Position Statement that clearly states the Council's requirements of the market and the methods by which it will support them.	Debbie Young	Aug-18					
		The LGA Peer Review identified that, in line with Care Act responsibilities, the nature of WSCC's relationship with the market needs to change to one of: 1. Partnership working, not solely commissioner to provider, 2. Co-design and 3. Co-production. The programme plan developed in response to the Peer Review will include the development of engagement strategies to deliver the above.		3. Customers must wait longer for care affecting their ability to remain independent or with lower care needs for longer.									Introduce and implement commissioning strategy developed with PwC.	Catherine Galvin	Sep-18					
				4. Inability to develop innovative service pathways due to lack of capacity or choice of care.									As a result of the Peer Review develop Market engagement strategy that includes processes for codesign and coproduction with	Jana Burton	Oct-18					
				5. Reputational damage for the Council and potential censure from inspectors.																
CR18	Competitive	**Limited cost consciousness** (activity costs, opportunity costs, etc.) and immaturity in **benchmarking and trend analysis** may lead to a lack of awareness of how services sit in the marketplace. As a consequence the Council is not able to identify where it can make improvements.	Kim Curry	1. The Council does not achieve value for money in respect of its procurement and commissioning activity.	Mar-17	4	4	16	Treat	4	2	8	Linked to CR12 and CR14 make better use of data in understanding of service demand and impact, through DLT oversight.	Kim Curry	Ongoing		4	4	16	Aug-18
				2. Service redesign and innovative approaches can not be introduced through lack of market and trend intelligence.									Ensure that commissioners develop a strategy for wider market oversight and understanding of market place evolution to make best use of new opportunities.	Catherine Galvin	Oct-18					
				3. Budget setting and management is hampered as a result of insufficient or incomplete data.									Work with Insights Team to understand how data can underpin benchmarking activity and use of performance for predicting trend.	Graham Tabbner	Oct-18					
													Ensure system-wide partnership discussions with health and Districts & Boroughs consider collective approaches to marketplace strategy.	Kim Curry	Ongoing					

CR22	Reputational	West Sussex County Council has a large Council tax base, relatively low deprivation levels and West Sussex's economy is generally strong. If the Council do not seek to influence Central Government on the decisions taken on the national funding formula and on individual funding opportunities, there is a risk that the county will be disadvantaged and **miss out on funding**.	Nathan Elvery	1. Insufficient funding to deliver services.	Mar-17	4	4	16	Treat	4	3	12	To continue to work as part of a representative group of authorities through 3SC, SE7 and SESL to ensure the case can be made for West Sussex County Council and the needs of its residents.	Nathan Elvery	Ongoing		4	3	12	Mar-19
													To continue to work as part of the County Council Network (CCN) - to make the case for upper tier authorities with a large geography.	Nathan Elvery	Ongoing					
													To continue to support the Local Government Association and strength the links between WSCC and the LGA.	Nathan Elvery	Ongoing					
													To continue to engage with West Sussex MPs to ensure that they are aware of the specific impacts of Government policy on West Sussex residents.	Nathan Elvery	Ongoing					
													To continue to engage with Government Ministers and officials to put forward the case for West Sussex, with the LEP and District and Borough partners as approprate.	Nathan Elvery	Ongoing					
CR24	Economic	The **Council's funding** is heavily reliant on the global, EU, national local economy (e.g. Government reductions for local government, future of EU grants with Brexit, local retention of Business Rates, inflation, energy costs, etc.). As a result, income and costs may be less than predicted and planned for.	Katharine Eberhart	1. Adverse effect on reserves/balanced budget.	Mar-17	4	4	16	Treat	3	3	9	Influence development of funding initiatives through Treasurers working groups.	Katharine Eberhart	Ongoing	Delivery of Growth Deals with D and Bs to help support built environment.	3	4	12	Feb-19
													Involvement in influencing groups such as county council networks.	Katharine Eberhart	Ongoing					
													Interaction with MPs.	Katharine Eberhart	Ongoing	Business Rate Pools maximises available rates income support.				
													Respond to consultations.	Katharine Eberhart	Ongoing					
													Ensure sufficient budget provision to deal with uncertainty.	Katharine Eberhart	Feb-19					
CR34	Partnership/ Contractual/ Supplier	In order to deliver the Councils objectives, there is requirement to work with a number of local strategic partners in research, commissioning and provision. Each partnering organisation will have differences in policy, perspective, priorities and resource cycles; which may result in a **failure to agree to, or operate, essential services and interfaces**.	Kim Curry	1. Policies and procedures contradict or dilute service delivery, thereby preventing service delivery or hampering the achievement of outcomes for customers.	Mar-17	4	4	16	Treat	3	3	9	Discuss collective CAFHE approach to this risk at DLT and develop actions as a result.	Kim Curry	Jul-18		4	4	16	Aug-18
				2. Services are unable to effectively innovate or redesign in order to improve outcomes for customers.									As part of Peer Review response, ensure that deliverables of improvement plan includes development of strategies and / or training for codesign, coproduction and collaborative working.	Graham Tabbner	Jul-18					
				3. Opportunities to reduce costs by making use of collective purchasing power or collective commissioning approaches are lost.																
CR36	Partnership/ Contractual/ Supplier	The Council has a large number of third party suppliers and an inconsistent approach to contract management (particularly outside of a few strategic suppliers); which may result in a failure to ensure that contractors perform or operate safely, or to ensure compliance with contract terms and prices.	Katharine Eberhart	1. Failure to make planned improvements.	Mar-17	4	4	16	Treat	3	3	9	Create a central contracting unit to quality control contracting activities and support contract management in directorates.	Katharine Eberhart	Sep-18	Contract management service is progressing and FPP directorate has set up a Task & Finish Group.	4	4	16	Oct-18
				2. Off contract spend.																
				3. Poor value for money.																
				4. Failure to monitor outcomes for residents.																
CR39a	Technological	**Cyber-security**. The Council has a wealth of personal and confidential data that needs to be protected from corruption or loss as a result of deliberate and targeted malicious activity (e.g. virus, ransomware etc.). Similarly, the Council's on-line services are increasingly critical to service users and to the Council workforce, these need to be protected from service disruption through malicious technological attack (e.g. DDOS). There is a risk that Information is manipulated in such a way that it can no longer be accessed; or data is deleted, corrupted or stolen; or the Council is subject to a cyber-attack resulting in loss of technology-based digital services.	Katharine Eberhart	1. FRS information breach due to identified system concerns by Surecloud .	Apr-18	4	5	20	Treat	4	4	16	Clarify accountability and responsibility for security of the mobilising network.	Roland Mezulis / Neil	Sep-18	In progress.	4	5	20	Aug-18
				2. Loss of service through exploitation of technology vulnerability.									Ensure that the whole mobilisation IT estate is reviewed.	Roland Mezulis / Neil	Sep-18	In progress.				
				3. Individuals or groups come to harm.									Address all items with severity level 6.8 or above.	Roland Mezulis / Neil	Jul-18	In progress.				
				4. The Council cannot deliver services.									Create pan for dealing with items with severity rating less than 6.8.	Roland Mezulis / Neil	Jul-18	In progress.				
				5. The Council suffers significant financial loss or cost.	Mar-17								Improve staff awareness of personal & business information security practices & identification of cyber-security issues.	Roland Mezulis	Sep-18	Regular communications are being distributed to all members of staff.				
				6. The Council's reputation is damaged.									Improve risk assessments of data stores, both local and cloud-based, during procurement and deployment.	Roland Mezulis	Sep-18	As part of new data privacy impact assessments.				

		based digital services.		7. Resident's trust in the Council is undermined.									Provide capacity & capability to align with National Cyber-Security centre recommendations.	Roland Mezulis	Sep-18	Maintain watching brief for updated guidance notes.					
				8. Partners will not share data or information with the Council.									Adopt ISO27001 (Information Security Management) aligned process & practices.	Roland Mezulis	Ongoing						
				9. Punitive penalties are made on the Council.									Maintain IG Toolkit (NHS) & Public Service Network security accreditations.	Roland Mezulis	Dec-18	Joint submission to NHS Digital in the 2019 assessment by the Data Protection Team; to cover ensure IGTK incorporates Information Security, along with Information Governance.					
													Enable safe data sharing, including using appropriate data standards & appropriate anonymization techniques.	Roland Mezulis	Dec-18	As part of GDPR reviews of existing arrangements.					
													Subscribe to early warning and intelligence sharing arrangements.	Roland Mezulis	Ongoing						
													Ensure that cyber-attack is identified early, that reporting & monitoring is effective, and recovery can be prompt.	Roland Mezulis	Ongoing						
													Conduct tests including penetration, DR and social engineering.	Roland Mezulis	Aug-18	Next DR test due Jul 18.					
CR39b	Governance	The **General Data Protection Regulation** will be enacted into UK law and the Council will need to address its obligations. The Council is a Data Controller and has obligations and responsibilities arising from that role. Council lacks resources, skills, knowledge, systems and procedures to ensure obligations are met.	Tony Kershaw	1. Individuals or groups come to harm.	Mar-17	4	5	20	Treat	3	3	9	Improve staff awareness of personal & business information security practices.	Tony Kershaw	Sep-18	In progress.	4	4	16	Aug-18
				2. The Council's reputation is damaged.									Ensure that access to sensitive data and information is controlled.	Tony Kershaw	Sep-18						
				3. Resident's trust in the Council is undermined.									Ensure that data is appropriately mapped and classified.	Tony Kershaw	Sep-18	**Completed.**					
				4. Partners will not share data or information with the Council.									Develop & support effective information governance across the Council.	Tony Kershaw	Sep-18	All policies have been reviewed and plans for disemmination in place.					
				5. Punitive penalties are made on the Council.									Provide capacity & capability to align with GDPR requirements.	Tony Kershaw	Sep-18	Recruitment for DPM is underway.					
													Adopt ISO27001 (Information Security Management) aligned process & practices.	Roland Mezulis	Dec-18						
													Maintain IG Toolkit (NHS) & Public Service Network security accreditations.	Roland Mezulis	Dec-18	Joint submission to NHS Digital in the 2019 assessment by the Data Protection Team; to ensure IGTK incorporates Information Security, along with Information Governance.					
													Undertake privacy impact assessments when system or processes change.	Tony Kershaw	Ongoing	Processes settled.					
													Ensure mandatory training is undertaken and updated for annual refresher.	Tony Kershaw	Ongoing	Processes settled.					
CR42	Technological	The Council's **IT infrastructure** is ageing and it has historically under-invested in IT. Although there is a strategy, priorities aren't clear and there is a lack of agility and speed in making changes; which may result in new and emerging IT opportunities not evaluated, core infrastructure and applications become unfit for purpose, shadow IT capability emerges creating data silos, cost and complexity.	Katharine Eberhart	1. Economies of scale are lost.	Mar-17	4	5	20		3	4	12	Clearly link IT investment with achievement of desired organisational outcomes.	Roland Mezulis	Sep-18	A business case is being developed in conjunction with Capita to outline the future architectures with Capita. Due to be completed in June 18.	4	4	16	Sep-18
				2. Data and information cannot be joined up to support re-design of service and process.									Undertake full review of existing infrastructure to identify opportunities from planned equipment refresh.	Roland Mezulis	Sep-18						
				3. Data quality suffers, introducing inaccuracies and, therefore, re-work and service failure.									Plan for IT investment implications arising from the end of current outsource arrangements.	Roland Mezulis	Sep-18						
				4. Inaccurate reporting and decision- making.									Review commercial arrangements to ensure all parties are motivated to maintain pace with technology change.	Roland Mezulis	Sep-18						
				5. Failure to re-configure services.									Work within our partners to enable agile and innovative responses to IT challenges and review of Continuous Service Improvement Plan.	Roland Mezulis	Sep-18						
				6. Joint working hampered.									Develop the rationale and implement principles that articulate the need to keep pace with technology change.	Roland Mezulis	Sep-18	Re-issue of IT strategy to re-state key principles.					
				7. Increased costs as systems require more support.																	
				8. Adverse effect on morale.																	
				9. Stress and absenteeism.																	
				10. Adverse effect on the Council's partners and providers.																	

CR50	Governance	Insufficient **health & safety** governance and training across the organisation and in relation to outsourced providers or via traded services eg schools, coupled with a lack of accountability by directorate; may lead to a serious health & safety incident occurring and/or not being reported.	Heather Daley	1. People come to harm.	Mar-17	4	5	20	Treat	4	3	12	Revise the governance structure and terms of reference for H&S.	Amanda Rablin	Jul-18	Draft H&S and Wellbeing framework to be presented to ELT 11 July	4	4	16	Jul-18
				2. Complaints/claims/litigation.									Conduct a training needs analysis, produce gap analysis to understand requirements and produce suitable courses as a consequence.	Amanda Rablin/ Lindsey Hannant		TNA to be produced by Sep 18.				
				3. Increased costs.									Review well-being service delivery model.	Head of Specialist HR	Dec-18					
				4. Censure by audit/inspection/intervention by statutory agencies.									Produce robust performance dashboard.	Amanda Rablin		Amanda to speak with Heather on requirement				
				5. Adverse publicity.									Invite peer review from other LGA to share best practice (critical friend).	Heather Daley		Kent CC invited to participate				
				6. Reputation damage.									Review internal audit report and reporting mechanism.	Amanda Rablin	Jul-18	Review completed and outcomes to be identified. Outcomes feeding into training action/control				
				7. Adverse effect on morale.																
				8. Stress and absenteeism.																
CR53	Physical	The Council has an extensive asset base and its **asset management** strategy is inadequate. Condition surveys are out of data and some buildings are known not to be fit for purpose (e.g. condition, space, accessibility, parking). The lack of robust asset data may lead to poor maintenance scheduling, reactive maintenance, and pose a significant H&S risk.	Steve Read	1. Danger to life.	Mar-17	4	5	20	Treat	4	3	12	Asset Strategy completed and signed off and recommendations implemented.	Jo Twine	Aug-18	17/4/18 - Completed strategy going for approval at CAB on 1/5/18. To be presented to P&F committee for scrutiny Jul 18.	4	4	16	Aug-18
				2. Reputation damage and/or poor publicity.									Demolition of structures at Southwick, Barnham and the Wallis Centre.		Apr-18	**Completed.**				
				3. Litigation and compensation claims.									Strategic Outline Case for targeted asset improvement capital line.	Nick Smales	Apr-18	**Completed.**				
				4. Criminal prosecution (Corporate Manslaughter).									Facilities Management restructure.	Nick Smales	May-18	**Completed.**				
				5. Poor VFM.									Asset register completed.	Jo Twine	Aug-18	17/4/18 - Completed strategy going for approval at CAB on 1/5/18. To be presented to P&F committee for scrutiny Jul 18.				
				6. Financial - increased costs through reactive maintenance budget overspend.									Full asset condition survey to be carried out (£1.5m required to complete).	Jeremy Rigby	Apr-19	Funding approved. Draft preliminary survey expected on priority assets by end Dec 18.				
				7. Adverse effect on the Council's partners and providers.																
CR54	Physical	A **child safeguarding failure** occurs due to a child dying or being seriously injured as a result of abuse and neglect. The child will be currently or recently known to childrens social care or IPEH (Integrated Prevention and Earliest Help).	Annie MacIver/ Ellie Evans	1. People come to harm.	Mar-17	5	4	20	Treat	4	3	12	S11 audits completed in timely fashion.	Annie MacIver	Ongoing		4	4	16	Oct-18
				2. Complaints/claims/litigation.									Recruit and retain sufficient number of qualified social workers	Annie MacIver	Ongoing	To be dealt with under CR11; LH to capture hard to fill posts through organisational wide engagement				
				3. Increased costs.									Manageable case loads	Annie MacIver	Ongoing					
				4. Censure by audit/inspection.									Front line family workers receive safeguarding training at level 3 or 4 as appropriate.	Annie MacIver	Ongoing					
				5. Adverse publicity.									Campaign material available advising public about how to make a referral.	Annie MacIver	Ongoing					
				6. Reputation damage.									Enhance risk knowledge and capability of Practice Managers to equip them to undertake their role effectively	Annie MacIver	Ongoing					
				7. Adverse effect on the Council's partners and providers.									Review LADO capacity in education and skills.	Ellie Evans						
				8. Adverse effect on morale.									Ensure all schools have access to policies and guidance on safeguarding and these are kept up to date.	Ellie Evans						
				9. Stress and absenteeism.									Governors support services review training for governing bodies.	Ellie Evans						
				10. Political turmoil.									For actions specific to family services outside of those listed above please see agreed priorities of Children.	Ellie Evans						
													Safeguarding in education schools reviews..	Ellie Evans						
													CSE.....	Ellie Evans						
													MASH.....	Ellie Evans						
													Quality and Development Board....	Ellie Evans						

CR55	Physical	Due to a lack of compliance to The Care Act 2014 and local authority directives, an **adult safeguarding failure** occurs.	Kim Curry	1. Potential that people will come to harm as a result of safeguarding issues not being addressed quickly and comprehensively.	Mar-17	5	4	20	Treat	5	3	15	As part of the response to the Adults' Services Peer Review an improvement programme is being developed, of which a major project will be a review of Safeguarding. Specific actions and activity will need to be scoped following ASCIB on 12/6/18.	Jana Burton	Jun-18		5	4	20	Aug-18
		The LGA Peer Review identified that there is work for the Council to do in respect of Making Safeguarding Personal and the management of safeguarding processes. Consequently, a major piece of work will be delivered in the improvement work that Adults' Services must undertake. This is yet to be agreed through ASCIB but is likely to include: 1. Fundamental process review, 2. Making Safeguarding Personal guidance, 3. Improved performance monitoring arrangements 4. Addressing backlogs 5. Contract monitoring and quality process development.		2. Potential for legal challenge to WSCC for failure to comply with statutory obligations.									The new independent chair of the Safeguarding Adults Board is undertaking a review of its processes and governance.	Jana Burton	Aug-18					
				3. Reputational damage to the Council for failure or manage safeguarding issues in a timely and comprehensive manner.									Sussex Health Care risks are being managed via a separate mechanism and being reviewed monthly at strategic oversight meeting.	Kim Curry	Ongoing					
				4. Potential financial impact for the Council as a result of any legal action.																
				5. Censure by inspectors for failure to tackle issues identified as a result of peer review exercise.																
CR56	Managerial/ Professional	The **LGA Peer Review of Adults' Services** in May 2018, highlighted a number of areas for improvement required within provision of Adults Social Care. These included: long waiting lists across a number of services; lack of understanding of and work aligned to the Care Act 2016; working in a non-evidenced base manner; lack of genuine partnership working to address system wide issues; little evidence that Making Safeguarding Personal has been understood or implemented; and issues regarding use of Mosaic.	Kim Curry	1. People are not assessed in a timely way and so their needs increase, reducing quality of life for the individual and incurring increased costs for the Council.	May-18	5	5	25	Treat	3	3	9	Develop and implement a 100 Day Action Plan to tackle the most serious issues raised within the review, including waiting lists.	Jana Burton	Sep-18		5	5	25	Aug-18
				2. People are not assessed based on their strengths leading to decompensation and costlier interventions.									Develop and implement a longer term strategy for continued improvement including co-design and co-production with partners.	Jana Burton	Dec-18					
				3. The MOSAIC system leads practice and generates artificial service boundaries.									Work to develop Mosaic to be more practise lead and supportive.	Jana Burton	Mar-19					
				4. Partners, including the VCS, are not able to work with the Council in the best way to address need and help slow the demand for higher cost interventions.									Work to develop through ASCIB a data suite that highlights performance and areas of concern.	Jana Burton	Jul-18					
				5. There is potential that future safeguarding issues may arise through lack of appropriate management at an early stage.									Regulalry review the learning from the Peer Review to ensure that progress is being made.	Jana Burton	Ongoing					

CR57	Managerial/ Professional	There is a significant **backlog of Deprivation of Liberty Safeguards (DoLS) assessments**, both those received in paper format and in community teams, the latter can't be quantified due to lack of monitoring data.	Kim Curry	1. Customers may be being deprived of their liberty for reasons that are not in their best interests leaving the Council open to potential challenge.	May-18	5	5	25	Treat	3	3	9	Work with Audit to develop a clear action plan of key issues and mitigations to be introduced as a matter of urgency.	Jana Burton	Jul-18		5	5	25	Aug-18
				2. Customers may need additional restrictions put in place to ensure their safety but these are not being processed in a timely way leaving the Council open to potential challenge.									Communicate to all SW Teams the imperative to resolve these issues with appropriately trained staff and the need to ensure that recording is undertaken effectively, supported with training materials where required.	Jana Burton	Jul-18					
				3. The Councils performance in this area is reportable so could leave the Council open to reputational risk if the backlog is not reduced significantly.									Establish a working group to oversee the rectification of the issue with clearly defined targets, scope and authority.	Jana Burton	Jul-18					
				4. Best Interest Assessor training and individuals with those skills are not being directed to tackle the backlog meaning that training resource is not being utilised effectively.									Report progress back via separate workstream of ASCIB Governance.	Jana Burton	Ongoing					
				5. Staff morale in teams with significant backlogs will decline.																

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Regulation, Audit and Accounts Committee

23 July 2018

Treasury Management
Compliance Report – First Quarter 2018/19

Report by Director of Finance, Performance and Procurement

Executive Summary

In accordance with treasury management governance arrangements, this report details compliance against planned parameters as approved within the annual Treasury Management Strategy Statement (TMSS).

During the first quarter of 2018/19 the Council complied with all of the relevant statutory and regulatory requirements. In accordance with the regulatory requirements the Director of Finance, Performance and Procurement confirms that on one occasion a monetary exposure limit as approved within the 2018/19 Annual Investment Strategy was exceeded; details contained within the report below (paragraph 2.5).

Recommendation

That the report be noted.

1. Introduction

1.1 The Council has substantial amounts of investments and borrowings and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management recommends that members are regularly updated on treasury management activity; this report therefore ensures the Council is implementing best practice in accordance with the Code.

2. Compliance Report

1.1 Throughout the first quarter of 2018/19 the Council complied with the relevant statutory and regulatory requirements which require officers to identify and where possible quantify the levels of risk associated with its treasury management activities.

1.2 The Director of Finance, Performance and Procurement approved two changes to the Council's lending list during the first quarter of 2018/19. Both changes related to bank deposits placed on an unsecured basis and were a result of UK Bank Ring-Fencing Regulations and related credit rating updates published by Fitch, Moody's and Standard & Poor's during the period:

(1) Following a credit rating upgrade for Lloyds Bank plc (Lloyds ring-fenced bank) the maximum duration limit for unsecured deposits

increased to **one year** from six months. No changes were made to either the maximum duration period for deposits with Lloyds Bank Corporate Markets plc (Lloyds non ring-fenced bank; six months) or the maximum monetary limit for total investments held within the Lloyds Banking Group on an unsecured basis (£15m). The Council's investment with Lloyds Bank Plc totalled £14.7m at 30 June 2018 (see **Appendix A**).

(2) Following a credit rating downgrade to NatWest Markets plc (RBS non ring-fenced bank) no new deposits to be arranged with this name. Unsecured investments with National Westminster Bank plc (RBS ring-fenced bank) however continue to be approved up to a maximum monetary limit of £15m for up to a maximum investment duration of one year. The Council held no investments with the RBS Banking Group during the first quarter of 2018/19.

1.3 Borrowing Strategy: The Director of Finance, Performance and Procurement confirms that there were no breaches of the Council's Prudential Indicators approved in connection with its capital programme and borrowing activities (in accordance with CIPFA's "Prudential Code"). At 30 June 2018 the Council's Public Works Loan Board (PWLB) borrowing totalled £392.4m (£395.9m at 31 March 2018); during the first quarter:

- There was no new external borrowing for capital purposes (an internal borrowing strategy was maintained throughout the period).
- £3.5m (plus interest) was repaid to the PWLB as per the terms and conditions of the £70m borrowing taken during April 2011.
- No external debt rescheduling was undertaken during the period.
- Excluding money held on behalf of the Chichester Harbour Conservancy (and its associated charities) no other short-term borrowing was undertaken for cash flow purposes. All daily cash flow shortages were funded by withdrawals from the Council's instant access accounts (including short-term Money Market Funds).

1.4 Investment Strategy: The average level of Council funds available for treasury investment during 2018/19 to-date, including Local Enterprise Partnership (LEP) grant monies, was £314.8m. Actual levels of available funds amounted to £333.7m at 30 June 2018; including £80.2m held as the accountable body for the LEP. Investment balances continue to depend on the timing of precept payments from West Sussex Boroughs/Districts and government grants (received in advance of expenditure), levels of useable reserves and the progress on the Council's capital programme. The full breakdown of the Council's investment portfolio at 30 June 2018 is shown in **Appendix A**.

1.5 The Director of Finance, Performance and Procurement confirms that on one occasion a monetary exposure limit as approved within the 2018/19 Annual Investment Strategy was exceeded; details reported below:

(1) The maximum approved limit for total investments held in short-term Money Market Funds (£115m) was exceeded for one day (£132.5m on 17 May 2018) due to actual payments and receipts differing from the cash flow forecast; with corrective action being taken on the next working day. Money Market Funds are used to cover the Council's daily liquidity requirements (as opposed to short-term borrowing from other institutions). The maximum monetary limit approved for all such funds is maintained to ensure that the Council is not over exposed to lower yielding investment products; and is therefore not reflective of any additional credit risk. Internal controls continue to be reviewed to ensure that this limit is not exceeded in the future.

1.6 UK banking legislation places the burden of rescuing failing banks disproportionately onto unsecured creditors (including local authority investors) through the potential bail-in of unsecured bank deposits. The use of unsecured bank deposits and short-term Money Market Funds however remains an integral part of the Council's investment strategy in maintaining adequate cash-flow liquidity as well as enhancing short-term investment returns. As a consequence, the disposition of bank unsecured/other investments at 30 June 2018 as compared with 31 March 2018, is detailed below:

Investment Type	31-March-18		30-June-18	
	£m	%	£m	%
Bank & Building Society Unsecured	118.9	46.8	139.6	41.8
Money Market Funds	38.8	15.3	78.8	23.6
Total Bank Unsecured	**157.7**	**62.1**	**218.4**	**65.4**
Bank Secured (less than 1 year)	10.4	4.1	0.0	0.0
Bank Secured (greater than 1 year)	7.9	3.1	7.9	2.4
Non-Bank (less than 1 year)	37.0	14.6	46.5	13.9
Non-Bank (greater than 1 year)	16.2	6.4	26.2	7.9
Internally Managed Investments	**229.2**	**90.3**	**299.0**	**89.6**
Externally Managed - Bond Funds *(i)*	15.0	5.9	25.0	7.5
Externally Managed - Property Funds	9.7	3.8	9.7	2.9
TOTAL INVESTMENTS	**253.9**	**100.0**	**333.7**	**100.0**

(i) Ultra-Short Dated Bond Funds (Enhanced Cash)

1.7 The increase in non-bank investments in excess of one year is a consequence of a new £10m two year investment arranged with Plymouth City Council during April 2018 (in addition to £16m invested with two other local authorities and a £0.2m shareholding in the UK Municipal Bond Agency). The increase in externally managed bond funds follows a £10m investment into the Federated Sterling Cash Plus Fund during April 2018 (AAA rated; fund size £828bn at 30 June 2018).

1.8 In demonstrating compliance with the Council's creditworthiness policy (as contained within the approved 2018/19 "Annual Investment Strategy") the movement in the Council's investment portfolio (actual cash position) by the credit rating of the financial institution, or the credit rating of the specific investment (for example covered bonds) if higher than the individual counterparty rating, is shown below:

Institution / Investment Credit Rating	2017/18	2018/19			
	31.03.18 £'m	30-Jun £'m	30-Sep £'m	31-Dec £'m	31-Mar £'m
AAA *(i)*	57.1	86.7			
AA	0.0	0.0			
AA- *(ii)*	118.7	137.9			
A+	8.5	14.7			
A	44.7	55.0			
A-	0.0	4.5			
BBB+	0.0	0.0			
Externally Managed Funds	24.7	34.7			
UK Municipal Bond Agency	0.2	0.2			
TOTAL INVESTMENTS	**253.9**	**333.7**			

(i) Includes short-term Money Market Funds and Covered Bonds.
(ii) Includes all non-rated UK local authorities (assumed AA- rating).

1.9 Furthermore, the Director of Finance, Performance and Procurement confirms that during the period there were no breaches of the following additional exposure limits as approved within the 2018/19 Annual Investment Strategy, including:

- Up to a maximum of £90m (£30m per individual sovereign) may be invested in non-UK organisations (excluding investments held in short-term Money Market Funds and externally managed pooled funds): Actual **£54.9m** at 30 June 2018 (£30m Australia; £14.9m Canada; and £10m Singapore).

- Up to a maximum of £75m to be made available for long-term strategic investment based on forecast levels of PFI/MRMC reserves (as reported in the Council's Treasury Indicators): Actual **£43.8m** at 30 June 2018.

- Up to a maximum of £100m may be invested in negotiable instruments (bonds, certificate of deposits etc.) held in a nominated custody account: Actual **£37.3m** at 30 June 2018.

4. Resource and Value for Money Implications

Covered in main body of report.

5. Risk Management Implications

Covered in main body of report.

6. Human Rights Act Implications

Not applicable.

7. Crime and Disorder Act Implications

Not applicable

Katharine Eberhart
Director of Finance, Performance and Procurement

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Appendices
Appendix A - Investment portfolio at 30 June 2018

Background Papers
None

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Investments held with counterparty's approved within the Council's 2018/19 Treasury Management Strategy (together with prevailing credit ratings and maximum monetary and duration limits) at 30 June 2018, are set out below:

Counterparty	**Credit Rating**	**Approved Limits**		**WSCC Investment**	
		Monetary	**Duration**	**Amount**	**Maximum Period**
UK Banks (Unsecured):					
Close Brothers Ltd	A	£15m	6 Months	£15.0m	183 Days
Goldman Sachs International Bank	A	£15m	6 Months	£15.0m	184 Days
HSBC Bank plc	AA-	£15m	1 Year	£15.0m	3 Months (Notice)
Lloyds Bank Plc *(Ring-fenced Bank)*	A+	£15m	1 Year	£14.7m	175 Days (Notice)
Nationwide Building Society	A	£15m	6 Months	£15.0m	91 Days
Standard Chartered Bank	A	£15m	6 Months	£10.0m	91 Days
UK Banks (Secured):					
Nationwide BS (Covered Floating Rate Note)	AAA	£10m *(i)*	10 Years	£7.9m	1,095 Days
Non-UK Banks (Unsecured):					
Australia and New Zealand Bank (Australia)	AA-	£15m	1 Year	£15.0m	365 Days
Commonwealth Bank of Australia (Australia)	AA-	£15m	1 Year	£15.0m	365 Days
Toronto-Dominion Bank (Canada)	AA-	£15m	1 Year	£14.9m	364 Days
United Overseas Bank (Singapore)	AA-	£15m	1 Year	£10.0m	364 Days
Non-Bank (UK Corporate):					
BP Capital Markets plc	A-	£15m	6 Months	£4.5m	182 Days
UK Municipal Bond Agency plc	n/a	£0.2m	-	£0.2m	-

Counterparty	Credit Rating	Approved Limits		WSCC Investment	
		Monetary	Duration	Amount	Maximum Period
UK Local Authorities:					
Cambridgeshire County Council	AA- *(ii)*	£25m	20 Years	£15.0m	364 Days
City of Lincoln Council	AA- *(ii)*	£25m	20 Years	£2.0m	364 Days
Dorset County Council	AA- *(ii)*	£25m	20 Years	£10.0m	364 Days
Lancashire County Council	AA-	£25m	20 Years	£10.0m	1,187 Days
Northamptonshire County Council	AA- *(ii)*	£25m	20 Years	£15.0m	364 Days
Plymouth City Council	AA- *(ii)*	£25m	20 Years	£10.0m	731 Days
Wolverhampton City Council	AA- *(ii)*	£25m	20 Years	£6.0m	1,096 Days
Short-Term Money Market Funds:					
Blackrock Sterling Liquidity Fund	AAA	£25m	Overnight	£25.0m	Instant Access
Federated Prime Sterling Liquidity Fund	AAA	£17m	Overnight	£14.9m	Instant Access
Standard Life (SLI) Sterling Liquidity Fund	AAA	£25m	Overnight	£25.0m	Instant Access
State Street (SSgA) Sterling Liquidity Fund	AAA	£25m	Overnight	£13.9m	Instant Access
Pooled Funds (Externally Managed):					
Federated Sterling Cash Plus Fund	AAA	£25m	*Note (iii)*	£10.0m	To Be Agreed *(iv)*
Payden Sterling Reserve Fund	AAA	£19m	*Note (iii)*	£15.0m	To Be Agreed *(iv)*
Local Authorities Property Fund (CCLA)	n/a	£15m	*Note (iii)*	£9.7m	To Be Agreed *(v)*
TOTAL INVESTMENTS				**£333.7m**	

(i) The total amount invested per financial institution (secured and unsecured deposits) cannot exceed £25m.
(ii) Assumed UK Local Authority credit rating if no actual rating exists (one notch lower than the UK sovereign rating).
(iii) No defined maturity periods for externally managed pooled funds; withdrawals based on liquidity requirements and/or fund performance (as per approved Treasury Management Strategy).
(iv) Up to one year investment horizon for externally managed ultra-short dated bond funds (enhanced cash funds).
(v) Minimum five year investment horizon for externally managed property funds.