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12 November 2020

Regulation, Audit and Accounts Committee

A virtual meeting of the Committee will be held at **10.30 am** on **Friday, 20 November 2020**.

Note: In accordance with regulations in response to the current public health emergency, this meeting will be held virtually with members in remote attendance. Public access is via webcasting.

The meeting will be available to watch live via the Internet at this address:

http://www.westsussex.public-i.tv/core/portal/home

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 - 10)

   The Committee is asked to agree the minutes of the meeting held on 25 September 2020 (attached, 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. **External Audit** (Pages 11 - 110)

   The Committee is asked to consider the Audit Results Reports for the West Sussex County Council and the West Sussex Pension Fund from the External Auditor EY.

(a) **West Sussex County Council Audit Results Report** (Pages 11 - 68)

(b) **West Sussex Pension Fund Audit Results Report** (Pages 69 - 110)

5. **Financial Statements 2019/20** (Pages 111 - 286)

Report by the Director of Finance and Support Services.

The Committee is asked to approve the Statement of Accounts for 2019/20 for West Sussex County Council and the West Sussex Pension Fund, for signing by the Chairman of the Committee.

6. **Annual Governance Statement 2019/20** (Pages 287 - 330)

Report by the Director of Law and Assurance.

The Committee is asked to recommend the draft Statement and Action Plan for adoption through the signatures of the Leader of the Council and the Chief Executive.

7. **Treasury Management Compliance Report -Second Quarter 2020/21** (Pages 331 - 338)

Report by the Director of Finance and Support Services.

The Committee is asked to review and comment on the Treasury Management Compliance Report.

8. **Internal Audit Progress Report** (Pages 339 - 360)

Report by the Director of Finance and Support Services, and the Head of Southern Internal Audit Partnership.

The Committee is asked to note the Internal Audit Progress Report (October 2020).

9. **External Quality Assessment of Southern Internal Audit Partnership** (Pages 361 - 378)

Report by the Director of Finance and Support Services, and the Head of Southern Internal Audit Partnership.

The Committee is asked to note the External Quality Assessment Report.

10. **Quarterly Review of the Corporate Risk Register** (Pages 379 - 390)

Report by the Director of Finance and Support Services.

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

11. **Date of Next Meeting**

The next meeting of the Committee will be held on 18 January 2021.

To all members of the Regulation, Audit and Accounts Committee

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Regulation, Audit and Accounts Committee

25 September 2020 – At a virtual meeting of the Regulation, Audit and Accounts Committee held at 10.30 am.

Present: Cllr N Dennis (Chairman)

Cllr Waight, Cllr Baldwin, Cllr J Dennis and Cllr Lea

Apologies were received from Cllr Bradford

Absent: Cllr Goldsmith

Also in attendance: Cllr Hunt

Part I

12. Declarations of Interest

12.1 None declared.

13. Minutes of the last meeting of the Committee

13.1 Resolved – That the minutes of the meeting of the Committee held on 23 July 2020 be approved as a correct record and that they be signed by the Chairman.

14. Urgent Matters

14.1 Ms Eberhart, Director of Finance and Support Services, informed the Committee that an independent review of the role of local authority financial reporting and external audit by Sir Tony Redmond, known as the Redmond Review, had been commissioned by the Ministry of Housing, Communities and Local Government to consider audit effectiveness.

14.2 The review had found that 40% of audit work had missed their deadlines in 2018/19. Ms Eberhart confirmed that this was not the case for the County Council. The review has considered elements such as procurement processes and issues on single accountable bodies.

14.3 Recommendations from the report included the benefits of improved audit training; independent membership on audit committees; and the need for the public to be able to understand audit reports.

14.4 The Committee made comments including those that follow.

- Welcomed the update and asked that consideration was given into the protocols required for appointing an independent member to the committee.
- Noted the recommendation for papers to be clear for the public and commented that the requirement to include actuarial information was a factor that caused confusion.

14.5 Ms Eberhart resolved to circulate the report and look into the protocols for independent membership.

15. External Audit

15.1 The Committee received a verbal update from Mrs Thompson and Mr Mathers from EY.

15.2 Mrs Thompson reported that she welcomed the Redmond Review and the consideration into the role of an independent member.

15.3 Mr Mathers reported that COVID-19 had led to a challenging year for the audit; with additional factors to consider such as practical issues and new risk considerations. County Council officers were thanked for their support to EY. The work on the Pension Fund audit was progressing with a large portion of work focussing on liabilities, including IAS 19 Employee Benefits. Most membership data gaps had been filled, and stakeholder assurance letters should be sent out soon. EY expected the audit to meet the November deadline.

15.4 The Committee queried if the data issues were current or historic. – *Mr Mathers confirmed that the issues were historic, and that the 31/03/19 triennial valuation timescale had led to more extensive testing this year. A programme was being followed to improve membership data. 250 areas had been tested with each area having 6 elements. In total there are only 6 gaps remaining. Ms Eberhart confirmed that current administration performance was good and only minor issues missed SLAs. Data was improving and the Pensions Committee and Pension Advisory Board were kept up to date. Mr Hunt, Cabinet Member for Finance and Chairman of the Pensions Committee, explained that the audit was looking at the period during the administration transfer, and that next year's audit would show improvements.*

15.5 Mr Mathers introduced the County Council audit and confirmed that work was progressing well for the November deadline. COVID-19 had impacted valuation work for Plant, Property, and Equipment due to market volatility. This was consistent across all local authorities. EY had commissioned their internal valuers to assist with this work, with this work being ongoing at the time of the meeting. The final processes covered going concern and linked to COVID-19 and that these areas may be highlighted in the report. Mrs Thompson confirmed that the possible impact could be the inclusion of an Emphasis of Matter paragraph in the audit report which would not constitute a qualification of the audit opinion.

15.6 The Committee made comments including those that follow.

- Queried if virtual assessment of the accounts held more danger for error. – *Mrs Thompson reported that the Financial Reporting Council had monitored audits to ensure the quality of work. EY were still working to the same standards. Mr Mathers added that the delays to the audit were likely to put pressure on future timelines.*
- Questioned how fees could be impacted with the new working environment. – *Mrs Thompson confirmed that there had been*

discussions with Ms Eberhart concerning fee implications linked to risks and additional valuation work. Fee details would be included in the November report.

- Raised concerns on the impact for the following year and the sustainability of continued working from home. – *Mrs Thompson agreed with the concerns and reported that the challenge for next year had not been fully considered. EY had other clients such as universities, housing and health and so the timetable for next year would be a challenge.*
- Queried if revisiting the reports would be required. – *Mrs Thompson explained that the going concern assessments paid close attention to future impacts. The report needed to represent a point in time. Mr Mathers did report that lessons had been learned from the working arrangements.*
- Asked if next year's deadlines would be changed. – *Mrs Thompson reported that the Redmond Review had recommended putting the deadlines back.*

15.7 Resolved – That the Committee notes the update.

16. Quarterly Review of the Corporate Risk Register

16.1 The Committee considered a report by the Director of Finance and Support Services (copy appended to the signed minutes).

16.2 Mr Clark, Children's First Transformation Director, attended the committee following a request made at the previous meeting for clarity on the corporate risk CR69. Mr Clark spoke through the Children's First Improvement Plan which pulled together service improvement activity and service redesign elements. The aim was to get the service to a good Ofsted rating. The transformation agenda focussed on three pillars; creating the right bedrock for improvements, creating the right working environment, and improved service design. Collaborative works with Hampshire County Council was helping with the progress through the necessary phases of work. The Hertfordshire family safeguarding model was being used to assist with the service redesign.

16.3 The Committee made comments including those that follow.

- Queried the current risk rating. – *Mr Clark reported that the risk rating was kept under review and that the likelihood score would remain high. Mr Clark confirmed that he would like the risk to reduce, but confirmed that the current score was accurate.*
- Sought clarity on the use of the Hertfordshire family safeguarding model. – *Mr Clark explained that the model had not been directly copied and that the County Council's approach reflected the different local issues. Other local authority risks would be considered. The corporate risks would remain on the register, but it was confirmed that there would be lower level risks monitored in specific departments.*
- Questioned how risks were identified. – *Ms Eberhart explained that the approach to risk was consistent with other local authorities in that every officer was responsible for the identification of risks. The risk register was built from the bottom up, with the top down view*

catering for the County Councillors. The Executive Leadership Team (ELT) worked to mitigate risks, and it was the role of the Committee to consider if the processes in place were appropriate.

- Queried if EY considered the risk register and compared with other local authorities. – *Mrs Thompson explained that explicit comparisons were not made with other authorities due to the each one having unique risks and approaches. EY considered the risks that related to value for money. Mr Pake, Corporate Risk and Business Planning Manager, added that every quarter he liaised with local authority risk officers to consider different risk registers and approaches.*
- Asked if Cabinet Members or Scrutiny Committee Chairman should be responsible for risks on the register. – *Ms Eberhart explained that the constitution placed the responsibility of risks with officers. Cabinet Members and Committee Members held roles related to holding the senior leadership to account, scrutiny and the lobbying of Government. The Committee discussed the matter and felt that the risk register was clear by directorate, and that elected members were different from the corporate body. Cabinet Members were responsible for holding officers to account for risk. Ms Eberhart agreed to discuss the matter with colleagues and report back to the Committee.*

16.4 Mr Pake introduced the report and explained that the period since the last Committee meeting had been busy with two new risks added to the register, CR70 and CR71. Working from home had led to opportunities regarding engagement exercises and a change in format of online courses.

16.5 The Committee made comments including those that follow.

- Queried the timing of the reduction of CR68. – *Ms Eberhart confirmed that the register was reviewed regularly for accuracy*.
- Sought clarity on the lessons earned for CR68 concerning COVID-19. – *Ms Eberhart reported that Internal Audit had been asked to look into the processes to ensure lessons were learned. The findings would be reported in a future Internal Audit report.*
- Questioned the progress on CR11. – *Ms Eberhart confirmed that the next stage had been agreed and that the following risk report would include an update on progress.*
- Asked when the role specific training for CR39a would be delivered and queried the timescales for the reviews of ISO27001 and ISO9001. – *Ms Eberhart resolved to investigate and provide a response to the Committee.*
- Queried the schedule of review of the risk register. – *Ms Eberhart explained that ELT reviewed the risk register monthly alongside the Total Performance Monitor. ELT also discussed risks weekly to consider any areas of relevance.*
- Asked if CR71 extended to include the welfare of subcontractors. – *Ms Eberhart resolved to take this issue away and report back to the Committee.*
- Queried if the risk impacts were listed in order, specifically relating to CR68. – *Ms Eberhart confirmed that the impacts were not in a particular order.*

- Asked if the upsides to COVID-19, such as commuting benefits, should be recorded. – *Ms Eberhart explained that the benefits were recognised, but not within the risk register.*
- Asked if risk CR39a only considered attack elements of cyber security. – *Ms Eberhart confirmed that a wider view was taken to consider multiple aspects of cyber security.*
- Queried if Cabinet Members had asked officers to review which officer roles were more effective for home working arrangements. – *Mr Hunt confirmed that the New Ways of Working programme considered home working and what accommodation was required. It was recognised that there were difficulties with working from home, such as colleague interactions. The mental health of staff was considered, noting that different setups were required for different roles.*
- Asked if the risk rating for CR61 should be reduced following the improvement plan refresh. – *Mr Pake confirmed that he would be discussing the rating with the risk owner.*

16.6 Resolved – That the Committee notes the report.

17. Internal Audit Progress Report (August 2020)

17.1 The Committee considered a report by the Director of Finance and Support Services, and the Head of Southern Internal Audit Partnership (copy appended to the signed minutes).

17.2 The Chairman reported that he had received a letter from the Chairman of the Performance and Finance Select Committee (PFSC) concerning Audit Planning and Internal Control Testing of both financial and non-financial operational controls to identify issues. Mrs Dennis, Chairman of PFSC, clarified that the letter raised concerns that Internal Audit focussed on finance and wondered how risk was considered; and how flexible the Internal Audit programme was. The Chairman resolved to discuss the matter with officers and respond directly to the PFSC Chairman.

17.3 Mr Pitman, Head of Southern Internal Audit Partnership, introduced the report and confirmed that a large assessment review had been undertaken including interviews with stakeholders. All aspects of the standards, framework and governance had been met. The outcomes would be reported in the next Committee report. Mr Pitman explained that quarter one had been impacted by COVID-19 and that quarter two would be used to get actions back on track; this meant there was potential for quarter two work to be impacted. Resources would be directed accordingly and any plan amendments would be reported to the Committee.

17.4 The Committee made comments including those that follow.

- Queried the rolling work programme and if any works would need to slip into the following year. – M*r Pitman* explained that quarter one had been lost and that there was still a full programme of works. It was likely that some work would go into April and May, but Internal Audit were in a strong position for the annual report and opinion in

July. Work would be re-prioritised as necessary, with the November report outlining any movements.

- Queried the lack of documents for the Intentionally Homeless Families. – *Mr Pitman explained that Internal Audit worked with officers on identifying issues and highlighted any delays to the Committee. Ms Eberhart explained that the delay was linked to COVID-19 and that she would request an update and explanation.*
- Requested an update on residential care payments. – *Ms Eberhart explained that it was not for Internal Audit to chase officers on actions. ELT had discussed this and Ms Eberhart resolved to provide a written update for all the blanks in the Internal Audit report.*
- Queried the categories used by Internal Audit and how items could be escalated from limited assurance. – *Mr Pitman explained that page 28 of the report outlined the categories that were used. Internal Audit considered the key objectives within the service area and risks to achieving them. No assurance opinions could be used, but were exceptions rather than normal.*

17.5 Resolved – That the Committee notes the Internal Audit Progress Report.

18. Date of Next Meeting

18.1 The Committee noted that its next scheduled meeting would be held at 10.30 am on 20 November 2020.

The meeting ended at 12.36 pm

Chairman

West Sussex County Council

Audit results report

Year ended 31 March 2020

12 November 2020

Building a better working world

West Sussex County Council

12 November 2020

Regulation, Audit and Accounts Committee

Dear 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 audit conclusion in relation to the audit of West Sussex County Council (the Authority) for 2019/20. We will issue our final report soon after the Committee meeting.

Subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report. As set out on pages 5 to 8, as per our update to the Committee in July 2020, the Covid-19 pandemic has impacted the statements and our audit opinion. We expect to issue a qualified except for conclusion on your arrangements to secure economy, efficiency and effectiveness in your use of resources, see Section 5 of this report for further details.

This report is intended solely for the use of the Regulation, Audit and Accounts Committee, other members of the Authority, 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 given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you at the Regulation, Audit and Accounts Committee meeting on 20 November 2020.

Yours faithfully

Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This 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 April 2018)' issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 3 April 2020 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 exceptions which we reported to the Committee in July 2020.

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- Valuation of Property Plant and Equipment (PPE) and Investment Property (IP) - We had previously treated the valuation of PPE and IP land and buildings as an area of higher inherent risk and therefore an area of audit focus in our audit planning report. Subsequent to issuing our planning report the Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. In light of the market volatility brought about by Covid-19, and the inclusion of a material uncertainty paragraph in the external valuer's report we determined that the valuation of directly owned property should be treated as a significant risk in our audit approach.
- Going Concern and post balance sheet event disclosures – The pandemic has had a significant impact on the Authority's finances and as a result there was a need for the Authority to revisit and update financial plans for 2020/21 and the medium term financial plan. We determined that the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance including associated financial viability disclosures within the Narrative Statement. These disclosures should also include the process undertaken for revising financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions including but not restricted to the use of reserves, and key assumptions (e.g. assumed duration of Covid-19). We also identified an increased risk that further events after the balance sheet date concerning the Covid-19 pandemic would need to be disclosed.
- New accounting standard on leases (IFRS16) – The planned implementation of IFRS16 has been deferred to 2021/22. As a result, we removed this area of audit focus from the audit.

Executive Summary

Scope update

Changes in materiality - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. We made no changes to our basis for materiality in light of Covid-19. Our materiality levels were as follows:

WEST SUSSEX COUNTY COUNCIL			
	Planning materiality	Performance materiality	Audit differences
	Our planning materiality represents 1% of the Authority's gross revenue expenditure. We reduced materiality this year in consideration of the current high public profile of the Authority and level of forecast overspending against the Authority's 2019/20 revenue budget.	Performance materiality represents 75% of planning materiality.	We will report all uncorrected misstatements relating to the primary statements greater than 5% of planning materiality.
Planned	£12.89m	£9.67m	£0.64m
Final	£14.33m	£10.74m	£0.72m

FIREFIGHTERS' PENSIONS			
	Planning materiality	Performance materiality	Audit differences
	Our planning materiality represents 1% of benefits payable.	Performance materiality represents 75% of planning materiality.	We will report all uncorrected misstatements relating to the primary statements greater than 5% of planning materiality.
Planned	£95,030	£71,273	£4,752
Final	£103,320	£77,490	£5,166

Scope update (continued)

Information Produced by the Entity (IPE): As a result of the impact of Covid-19 and need to work remotely we identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. This risk has impacted all of our audit engagements. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.
The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Authority and its stakeholders the firm has introduced a rigorous consultation process for all auditor reports to ensure that they include the appropriate narrative. This consultation process on the Authority's disclosures is currently ongoing.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 45.

Status of the audit

We have substantially completed our audit of the Authority's financial statements for the year 31 March 2020 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 Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Consideration of the results from the EY Real Estates review of the valuation of a sample of property, plant and equipment and investment property assets by the Council's external valuer.
- Final conclusion of Firm consultation processes on Covid-19 impacts on our auditor's report.
- Final review of a small amount of completed work.
- Consideration of post balance sheet events up to the date of issuing the opinion.
- Receipt and review of the management representation letter.

We do not expect to issue the audit certificate at the same time as the audit opinion because of changes in the Whole of Government Accounts timetable.

Executive Summary

Audit differences

As at 12 November there are no unadjusted misstatements.

In agreement with the Authority we initially commenced our work on provisional financial statements which did not include Collection Fund adjustments. The provisional financial statement were subsequently updated to include Collection Fund entries which were received later than planned from billing authorities, and to include the Narrative Statement which was delayed so that the disclosure could fully considered the impacts of Covid-19 on the Authority and its finances. These changes were made before the draft financial statements were certified by the Director of Finance and Support Services.

The IAS19 pension liability has been reduced by approximately £12m, with a corresponding entry made to the pensions reserve, to:

- Account for changes to changed liabilities in relation to the McCloud ruling following consultation undertaken by the Government Actuarial Department (GAD). The impact of this was to reduce the liability by £4.1m.
- Adjust for differences between the Authority's share of estimated Pension Fund assets considered by the actuary in determining the pension liability and the Authority's share of actual Pension Fund assets accounted for in the final 2019/20 Pension Fund accounts. The impact of this was to reduce the liability by £7.9m.

A small number of other additions and amendments were also made to disclosures appearing in the financial statements as a result of our work, which included additional narrative at Note 42, Critical Judgements in Applying Accounting Policies, setting out the Authority's Covid-19 going concern impact assessment.

Areas of audit focus

Our audit planning report and audit planning report update identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings on significant risks.

Significant risk	Findings & conclusions
Management Override: Misstatements due to fraud or error	We have completed our testing and found no indications of management override of controls.
Incorrect capitalisation of revenue expenditure	We have completed our testing and have nothing to report
Valuation of Property Plant and Equipment PPE) and Investment Property (IP)	Our work in this area is well progressed at 12 November 2020. We are however still considering the results from the EY Real Estates review of the valuation of a sample of property, plant and equipment and investment property assets by the Council's external valuer and whether any resulting adjustments need to be made to the financial statement disclosures.

Areas of audit focus (continued)

Other area of audit focus	Findings & conclusions
Disclosures on Going Concern and Events after the balance sheet date	The provisional accounts did not include a detailed disclosure on going concern. Officers have used the assessment of the impact of Covid-19 on the Authority's finances to draft a new going concern disclosure note which was included in the draft accounts. We have scrutinised the financial assessment, cashflow, liquidity and borrowing forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We reviewed and further challenged the revised going concern disclosure, which appears at Note 41 and Note 42 to the accounts, and are satisfied that it is an adequate reflection of Management's assessment that it remains appropriate to prepare the financial statements on a going concern basis. As at 12 November this remains subject to the final outcome of Firm consultation.
Pension liability	We have agreed the Authority's pension liability disclosures to the actuarial report. An amendment has been made to the financial statements to reduce the pensions liability accounted for on the Authority's balance sheet to account for the difference between the Authority's share of Pension Fund assets used to inform the actuarial assessment of the pensions liability and the final value of Pension Fund assets accounted for in the Pension Fund's 2019/20 financial statements. A revised assessment of the liability was also obtained from the Pension Fund actuary to consider the impact of GAD consultation on the McCloud ruling. This has now been fully accounted for in the revised accounts.
Private finance initiative	We have completed our review and have nothing to report.
Restatement of the Comprehensive Income and Expenditure Statement (CIES)	We have completed our work and are satisfied that service level income and expenditure in the CIES has been correctly restated to reflect the restructuring of service portfolios during the year.
Accounting for finance leases	Having considered in detail the proposed accounting for two specific transactions shared with us at the planning stage of the audit we are satisfied that: • It is appropriate to recognise associated assets on the Balance Sheet under finance lease arrangements. • Revenue impacts are correctly reflected in the financial statements.
Officer's remuneration disclosures	We are satisfied that officer remuneration disclosures in the financial statements are clear, accurate and comply with the disclosure requirements of the CIPFA Code of Practice on Local Authority Accounting. As a result of our work we have, however, identified scope for improvement in the processes followed by the Authority to determine future exit packages.

Executive Summary

Areas of audit focus (continued)

Section 2 of this report sets out our latest observations and conclusions on the above matters in more detail. 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; and

You agree with the resolution of the issues; and 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 your attention.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission. However Treasury has extended the reporting timetable for WGA so we will not certify completion of the audit at the same time as issuing the audit opinion.

Control observations

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

We have not identified any key control deficiencies as part of the audit process, but we have identified two matters which we wish to bring to your attention. Please refer to Section 7 for details.

Value for money

We identified two significant risks:

- That the Authority may be unable to address failings highlighted following recent service inspections in its organisational governance, culture and capacity. We considered this to be relevant to the Authority's arrangements for informed decision making.
- That the Authority may be unable to continue to adapt its financial planning, monitoring and management arrangements to ensure it is able to continue to deploy the resources available to it sustainably over the medium term. We considered this to be relevant to the Authority's arrangements for sustainable resource deployment.

We have concluded that, except for arrangements for informed decision making, adequate arrangements have been in place throughout 2019/20. In relation to informed decision making, we have concluded there is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable performance information to support informed decision making and performance management, managing risks effectively and maintaining a sound system of internal control. Further details 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 Authority. Some amendments were made to the Annual Governance Statement as a result of our work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission. However Treasury has extended the reporting timetable for WGA so we will not certify completion of the audit at the same time as issuing the audit opinion.

Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2019 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

Significant risk

Management Override: Misstatements due to fraud or error

(Fraud risk)

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.

What judgements are we focused on?

We have considered the risk of management override in respect of the Authority's judgements over capitalisation of revenue expenditure (see over).

What did we do?

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

We also performed mandatory procedures regardless of specifically identified fraud risks, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessing accounting estimates for evidence of management bias.
- Evaluating the business rationale for significant unusual transactions.

We used our data analytics capabilities to assist with our work in this area.

What are our conclusions?

Our testing is complete. We did not identify any:

- material weaknesses in controls or evidence of material management override;
- instances of inappropriate judgements being applied; or
- any other transactions during our audit which appear unusual or outside the Authority's normal course of business.

Significant risk

Inappropriate capitalisation of revenue expenditure

(Fraud risk)

What is the risk?

As identified in ISA 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 would otherwise appear to be operating effectively.

We have determined that the way in which management could override controls is through the inappropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the financial statements.

What judgements are we focused on?

We have identified a risk of expenditure misstatement due to fraud or error that could affect the income and expenditure accounts. We have focused on the Authority's judgement that an item is capital expenditure in nature. If this were to happen it would have the impact of understating revenue expenditure and overstating property, plant and equipment (PPE) and investment property (IP) additions and/or revenue expenditure financed as capital under statute (REFCUS) in the financial statements.

What did we do?

We:

- Tested PPE and IP additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- Tested REFCUS to ensure that it is appropriate for the revenue expenditure incurred to be financed from ring fenced capital resources.
- Sought to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year using our data analytics capabilities.

We also considered the Authority's reliance on the Flexible Use of Capital Receipts Direction issued by the Ministry of Housing, Communities and Local Government which grants local authorities the flexibility to apply capital receipts to fund the revenue costs of transformation projects.

What are our conclusions?

Our sample testing of additions to PPE and IP, and REFCUS:

- Found costs had been correctly classified as capital and included at the correct value.
- Did not identify any revenue items that were incorrectly classified as capital.
- Did not identify any instances of revenue transactions being inappropriately accounted for as REFCUS.

Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.

We are satisfied that the requirements of the Flexible Use of Capital Receipts Guidance have been fully complied with and therefore that it was appropriate to charge £4m of revenue costs to capital receipts. We did however ask the Authority to enhance its disclosure in this area, which it has done in the revised financial statements.

Significant risk

Valuation of Property Plant and Equipment PPE) and Investment Property (IP)

Significant Risk

What is the risk?

PPE and IP, and in particular Land and Buildings, is the largest figure in the Authority's balance sheet. The valuation of land and buildings is complex and is subject to a number of material management assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.

We had previously treated the valuation of land and buildings as an area of higher inherent risk and therefore an area of audit focus in our audit planning report. Subsequent to issuing our planning report, the Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer and were repeated in the financial statements.

In light of the market volatility brought about by Covid-19, and the inclusion of a material uncertainty paragraph in the external valuer's report we determined that the valuation of PPE and IP should be treated as a significant risk in our audit approach. This applied only to operational PPE valued at Existing Use Value or Fair Value and Investment Property valued at Fair Value. We consider operational PPE valued at Depreciated Replacement Cost to be less likely to be impacted by the market volatility brought about by Covid-19 and therefore not within the scope of our significant risk.

our work.

What judgements are we focused on?

The reasonableness of the methodologies adopted by the valuer in undertaking their valuations in 2019/20 and of the key assumptions input into these valuations, specifically for assets with reference to fair value/ market value. Additionally, we considered assets not revalued in the current year for the potential of material misstatement in valuation as of 31 March 2020.

Areas of Audit Focus

Significant risk

What did we do?

We:

- Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuer in performing its valuation (e.g. floor plans to support valuations based on price per square metre) and challenged the key assumptions used by the valuer.
- Considered 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.
- Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated.
- Tested accounting entries have been correctly processed in the financial statements.

To address the risks created by Covid-19 we:

- Ensured the appropriate disclosure has been made in the accounts concerning the material uncertainty.
- Commissioned EY Real Estates, our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets which we consider more likely to be impacted by the market volatility brought about by Covid-19.

Significant risk

What are our conclusions?

Our work in this area is well progressed at 12 November 2020 but not yet fully complete. Based on the work undertaken to date we are satisfied that:

- Key asset information used by the valuer in performing its valuation (e.g. floor plans to support valuations based on price per square metre) was supported by evidence.
- The Council's cycle of valuations is designed to ensure that assets are valued within a 5 year rolling programme as required by the Code for PPE, and annually for Investment Property.
- Assets not subject to valuation in 2019/20 have been updated using indexation calculated based on the results of actual valuations undertaken in the year, analysed by category of asset and geographical location, to ensure the remaining asset base not subject to revaluation in the year is not materially misstated.
- Accounting entries have been correctly processed in the financial statements.

We are also satisfied that appropriate disclosures have been made in the accounts concerning the Covid-19 material valuation uncertainty disclosure included in the external valuer's report. As at 12 November Firm consultation on the impact of the disclosure on our audit report is well progressed but not yet fully complete. We expect to include an emphasis of matter paragraph in our audit report to draw a reader of the account's attention to the Council's disclosure at Notes 4, 7 and 43 of the financial statements. This is not a modification of our audit report.

The widespread issue of material valuation uncertainty caveats by valuers in 2019/20 has led to an unprecedented level of demand for EYRE services, both in relation to other government and public sector bodies and private sector entities. As a direct result of this we were not able to share provisional results and conclusions arising from the EYRE review with the Authority until the start of November. At 12 November we are continuing to discuss the provisional results and conclusions from the EYRE review of the valuation of a sample of property, plant and equipment and investment property assets by the Authority's external valuer, and whether any resulting adjustments need to be made to the financial statement disclosures. This includes the need for the Authority to provide some limited further evidence to support the valuation approach of the external valuer and final resolution of differences in professional opinion between EYRE and the external valuer for a small number of assets subject to detailed review.

We will provide the Regulation, Audit and Accounts Committee with a verbal update on progress in this area at the 20 November 2020 meeting.

Areas of Audit Focus

Disclosures on going concern and events after the balance sheet date

Covid-19 created a number of financial pressures throughout local government, creating financial stress in either, or a combination of, increasing service demand leading to increased expenditure in specific services, and reductions in income sources. There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in chief financial officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this we need to review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

Events after the balance sheet:
There was increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure will need to reflect the specific circumstances of the Authority.

Findings and conclusions
In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we asked management to produce a documented and detailed consideration to support its assertion regarding the going concern basis, particularly with a view whether there are any material uncertainties for disclosure. We reviewed your updated going concern disclosures within the financial statements under IAS1, and associated financial viability disclosures within the Narrative Statement. In doing this we considered:

- The current and developing operating environment.
- Liquidity (operational and funding).
- Mitigating factors.
- Management information and forecasting.
- Sensitivities and stress testing.

The provisional accounts did not include a detailed disclosure on going concern. Officers have used the assessment of the impact of Covid-19 on the Authority's finances to draft a new going concern disclosure note which was included in the draft accounts. We have scrutinised the financial assessment, cashflow, liquidity and borrowing forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. We reviewed and further challenged the revised going concern disclosure, which appears at Note 41 and Note 42 to the accounts, and are satisfied that it is an adequate reflection of Management's assessment that it remains appropriate to prepare the financial statements on a going concern basis. We have considered the need to draw the attention of a reader of the accounts to the Council's updated disclosure through the inclusion of an emphasis of matter paragraph in our audit report, but have ultimately concluded this is not necessary. As at 12 November this remains subject to the final outcome of Firm consultation.

Areas of Audit Focus

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Authority.

The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2020 this totalled approximately £485 million. The information disclosed is based on the IAS 19 report issued to the Authority 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.

To assess this we:

- Liaised 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. A full triennial valuation of West Sussex Pension Fund was undertaken as at 31 March 2019 and signed off on 31 March 2020. As part of our work on the West Sussex Pension Fund audit we undertook testing of the data informing this to gain assurance over the IAS19 liability at 31 March 2020 provided by the actuary for the Authority and accounted for in its financial statements.
- Assessed 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.
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

We also considered outturn information available at the time we undertook our work after production of the Authority's draft financial statements, including the year-end actual valuation of pension fund assets. We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.

Findings and conclusions

We agreed the Authority's pension liability disclosures to the IAS19 report provided by the actuary, assessed the work of the actuary including assumptions made and received the assurances requested from the auditor of West Sussex Pension Fund. As a result of our work the IAS19 pension liability has been reduced by approximately £12m, with a corresponding entry made to the pensions reserve. This adjustment has been made to:

- Account for changes to changed liabilities in relation to the McCloud ruling following consultation undertaken by the Government Actuarial Department. The impact of this was to reduce the liability by £4.1m.
- Adjust for differences between the Authority's share of estimated Pension Fund assets considered by the actuary in determining the pension liability and the Authority's share of actual Pension Fund assets accounted for in the final 2019/20 Pension Fund accounts. The impact of this was to reduce the liability by £7.9m.

Areas of Audit Focus

Private Finance Initiative (PFI)

The Authority 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 and followed-up in 2017/18 and 2018/19.

We reviewed the accounting entries and disclosures in relation to PFI in detail in 2019/20, with a focus on any significant changes since the previous year. This included consideration of a contract variation made to the Authority's waste PFI during the year. For each of the three material PFI schemes at the Authority we undertook testing of in-year inputs to the supporting accounting models and agreed relevant entries in the financial statements to year-end outputs from each of the models.

Findings and conclusions

Apart from the contract variation made to the waste PFI there have been no significant changes in the way the Authority accounts for PFI. We have completed our review and found that the accounting entries and disclosures are in line with the prior year arrangements and satisfactorily reported in the 2019/20 statements. We ae satisfied that the impacts of the variation to the waste PFI, which are not material to our responsibilities, have been reasonably reflected in the supporting detailed accounting model and reflected in the financial statements.

Restatement of the Comprehensive Income and Expenditure Statement (CIES)

Restructuring undertaken in the period required the Authority to re-analyse, re-present and re-state the portfolio analysis of its service level income and expenditure disclosed in the CIES. To gain assurance over this we:

- reviewed the analysis of how service level income and expenditure figures were derived, how the ledger system was re-mapped to reflect the Authority's new organisational structure and how overheads were apportioned across the service areas reported.
- Agreed the restated comparative figures.

Findings and conclusions

We are satisfied that service level income and expenditure in the CIES has been correctly restated to reflect the restructuring of service portfolios during the year.

Areas of Audit Focus

Accounting for finance leases

The Authority shared the proposed accounting for two specific transactions at the planning stage of the audit. In both cases consideration was being given to whether the transactions should be accounted for as finance leases where the Authority is the lessee. Although not individually material, the accounting will determine the timing of when expenditure is recognised in the Authority's accounts and is therefore relevant to our responsibilities in this area.

To assess the Authority's proposed approach we:

- Considered the evidence to support the Authority's assertion that for both transactions it was appropriate to recognise assets on the Authority's balance sheet under the finance lease arrangements.
- Considered whether the revenue impact of the transactions, and in particular any impact on the Minimum Revenue Provision charge, were properly reflected in the Authority's financial statements.

Findings and conclusions

Having considered in detail the proposed accounting for two specific transactions shared with us at the planning stage of the audit we are satisfied that:

- It is appropriate to recognise associated assets on the Balance Sheet under finance lease arrangements.
- Revenue impacts are correctly reflected in the financial statements.

Areas of Audit Focus

Officer's remuneration disclosures

There were a number of changes to the senior leadership of the Authority during 2019/20. This brought an increased complexity to the disclosures required within the Officers' remuneration note. We therefore concluded that the Authority needed to ensure that its reporting was comprehensive and transparent, in addition to being compliant with, and including all of the disclosures required by, the CIPFA Code of Practice on Local Authority Accounting.

Findings and conclusions

We are satisfied that officer remuneration disclosures in the financial statements are clear, accurate and comply with the disclosure requirements of the CIPFA Code of Practice on Local Authority Accounting.

As part of our work in this area we also considered the recruitment and retention processes and policies followed by the Authority more generally. We found there is a need for the Authority to continue to revisit its current recruitment and retention policies to:

- Ensure there is a clear separation between recruitment and retention policies and to remove overlap with any other staffing incentive policies.
- Review its Markets Supplement Policy to address 'hard to fill' roles across the Authority and to implement a procedure to ensure these roles are formally defined, identified and managed appropriately.
- Align policies and processes related to recruitment and retention with the Authority's drive for clarity and transparency in decision and policy making.

Recommendation

Revisit and update recruitment and retention policies and processes to ensure that a consistent and transparent approach is taken.

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 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the: Movement in Reserves Statement, Balance Sheet, Comprehensive Income and Expenditure Statement, Cash Flow Statement and the related notes 1 to 44 and the Expenditure and Funding Analysis on page 25; and include the firefighters' pension fund financial statements comprising the Fund Account and the Net Assets Statement at note 45.

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

In our opinion the financial statements:

- give a true and fair view of the financial position of West Sussex County Council as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

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

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

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

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

Conclusions relating to going concern

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

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

Draft audit report

Our opinion on the financial statements

Other information

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

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

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

We have nothing to report in this regard.

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

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

Basis for Qualified Conclusion

Ofsted undertook an inspection of the Authority's Children's Services, with findings published in early May 2019. In all three areas assessed, inspectors services to be inadequate and as a result the overall effectiveness was judged to be inadequate. Following the results of the inspection, the Secretary of State for Education issued a Direction in late June 2019 instructing the Authority to co-operate with an appointed Children's Commissioner. The Commissioner was requested to carry out an investigation that would lead to a report to the Department for Education, focusing specifically on an assessment of the capacity and capability of the Authority to improve Children's Services within an appropriate timeframe. The results of this review were published in December 2019 and were highly critical of the Authority, highlighting failures in governance and culture at both a service and organisational level. The Authority has responded in 2019/20 by making a number of significant changes to its governance arrangements, including changes to management and political leadership, democratic systems and processes, corporate planning, performance management and staff engagement and culture. Revised arrangements were, however, not in place throughout 2019/20 and further action was needed at the end of the year to fully implement and embed the required improvements.

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

Qualified conclusion

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

Draft audit report

Our opinion on the financial statements

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

Responsibility of the Director of Finance and Support Services

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether West Sussex County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether West Sussex County Council put in place proper arrangements

Draft audit report

Our opinion on the financial statements

for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

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

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

Delay in certification of completion of the audit

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

Use of our report

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

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 audit differences

There are no unadjusted differences as at 12 November 2020.

In agreement with the Authority we initially commenced our work on provisional financial statements which did not include Collection Fund adjustments. The provisional financial statement were subsequently updated to include Collection Fund entries which were received later than planned from billing authorities, and to include the Narrative Statement which was delayed so that the disclosure could fully considered the impacts of Covid-19 on the Authority and its finances. These changes were made before the draft financial statements were certified by the Director of Finance and Support Services.

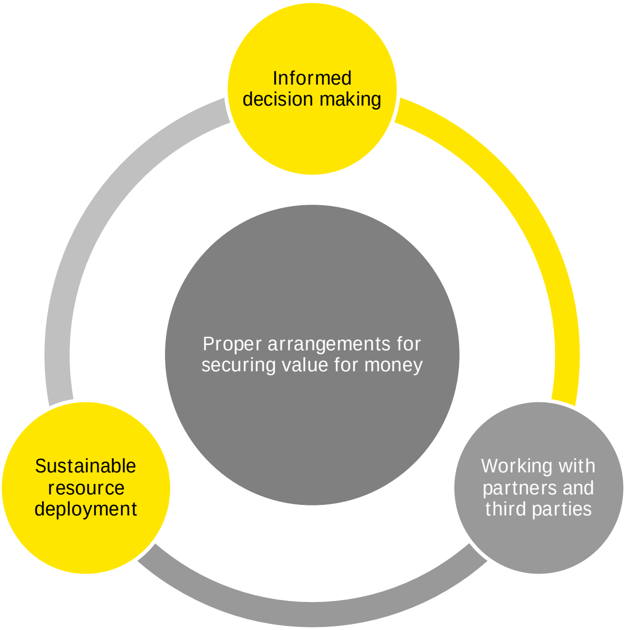
The IAS19 pension liability has been reduced by approximately £12m, with a corresponding entry made to the pensions reserve, to:

- Account for changes to changed liabilities in relation to the McCloud ruling following consultation undertaken by the Government Actuarial Department (GAD). The impact of this was to reduce the liability by £4.1m
- Adjust for differences between the Authority's share of estimated Pension Fund assets considered by the actuary in determining the pension liability and the Authority's share of actual Pension Fund assets accounted for in the final 2019/20 Pension Fund accounts. The impact of this was to reduce the liability by £7.9m

A number of other additions and amendments were also made to disclosures appearing in the financial statements as a result of our work, which included additional narrative at Note 42, Critical Judgements in Applying Accounting Policies, setting out the Authority's Covid-19 going concern impact assessment.

05 Value for Money

Value for Money



Background

We are required to consider whether the Authority 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 2019/20 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.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

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 and any other significant weaknesses or issues we want to bring to your attention. We have not identified any new significant risks around these arrangements. We have concluded that, except for arrangements for informed decision making, adequate arrangements have been in place throughout 2019/20. In relation to informed decision making we have concluded there is evidence of weaknesses in proper arrangements for understanding and using appropriate and reliable performance information to support informed decision making and performance management, managing risks effectively and maintaining a sound system of internal control.

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.

We present below the findings of our work in response to the risk area in our audit planning report.

What is the significant value for money risk?

Informed decision making

Ofsted undertook an inspection of the Authority's Children's Services during 2018/19, with their findings being announced in early May 2019. In all three areas considered inspectors found services to be inadequate and as a result the overall effectiveness was judged to be inadequate. Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) published the results of an inspection it undertook in late-June 2019. The service was rated as requiring improvement in two of the three areas reviewed, and inadequate in the third area. In 2018/19 we concluded that the issues highlighted by the Children's Services review in particular were indicative of weaknesses in organisational arrangements as follows:

- Weaknesses in the effectiveness of Children's Improvement Board which did not identify required improvements in practice within the service more quickly.
- Performance information and monitoring did not fully flag the scale of the quality weaknesses in social work practice.
- Risk management arrangements in the service did not identify and escalate the scale of the weaknesses more promptly.

We therefore concluded that adequate arrangements were not in place to take informed decisions and issued an except for qualification of the 2018/19 value for money conclusion. Following the results of the Children's Services inspection the Secretary of State for Education issued a Direction in late June instructing the Authority to co-operate with the appointed Children's Commissioner, the Chief Executive of Hampshire County Council. The Commissioner was requested to carry out an investigation that would lead to a report to the Department for Education, focusing specifically on an assessment of the capacity and capability of the Authority to improve Children's Services within an appropriate timeframe. The results of this review were published in December 2019 and were highly critical of the Authority, highlighting failures in governance and culture at both a service and organisational level. During this period the Chief Executive and Leader changed and there continued to be a high level of churn in senior management and a number of vacant posts. Following this, in early 2020, East Sussex County Council (ESCC) became the corporate improvement partner for the Authority, with the Chief Executive of ESCC now working as Chief Executive for East Sussex and West Sussex County Councils.

We therefore considered there to be a significant risk that the Authority may be unable to address failings highlighted following recent service inspections in its organisational governance, culture and capacity.

Value for Money Risks (continued)

What did we do?

Our approach focused on reviewing and assessing the progress made by the Authority in addressing the weaknesses highlighted by the recent service inspections and Children's Commissioner review in organisational governance arrangements, including the development of sufficient capacity to address the issues raised.

What did we find?

The Authority underwent inspections of both its Fire & Rescue Services (FRS) and Children's Services which resulted in the need for significant improvement plans to be implemented over 2019/20.

The service inspections criticised the Authority's governance arrangements, culture and capacity which limited its ability to address the Inspection findings effectively. The Authority responded by making a number of significant changes in-year, including a change of Leader and Cabinet (October 2019), a new Chief Executive (January 2020), and by revising the reporting structure to position the Director of Children's Services (DCS) to report directly into the CEO to comply with the 2004 Children's Act (completed October 2019). The appointment of the Authority's new Chief Executive has facilitated wider collaborative working with ESCC. This allows senior leadership at the Authority to benefit from a closer working relationship with the ESCC management team. In December 2019 the Authority also approved a number of significant changes to corporate governance, largely aimed at improving the County Council's democratic systems to achieve greater transparency, clarity of role and focus on purpose. Those changes included:

- monthly public Cabinet meetings;
- collective decisions by Cabinet on all major policy areas;
- a reset of the County Council's approach to its role as Fire & Rescue authority including a dedicated scrutiny committee; and
- a revised set of governance arrangements for the scrutiny function.

The Authority invested in commissioning an external review of WSCC governance arrangements by the Centre for Public Scrutiny in February 2020. Consequently, it has established the ground work required for transformation, which should act as a springboard to change in its governance, culture and capacity in 2020/21, impacting Children's Services in particular.

Value for Money Risks (continued)

What did we find (continued)?

Work in relation to the review of governance arrangements has involved a wide range of members, staff and partners to identify and shape five key areas of action:

- create stable, visible collective leadership;
- clarify and simplify Authority decision making, with greater transparency, empowerment and accountability;
- develop a compelling vision with clear priorities. Reboot corporate planning and performance management to deliver these priorities;
- become an outward looking, collaborative and engaging organisation; and
- Invest in people to improve how the Authority manages services and staff and to create capability.

The revised arrangements were not, however, in place for much of the 2019/20 financial year and further work is required for them to become fully embedded in the operations of the Authority. Some delays were also experienced in finalising the external work undertaken because of the operational impact of Covid-19. 2019/20 was therefore a year of transition, with most changes being implemented in the last half of the year or prepared for implementation in Q1 of 2020/21, which is when, for example, the new substantive Children's Services DCS joined the Authority. Although not directly relevant to our judgement, work has continued into 2020/21 through the Authority's ongoing 'reset and reboot' initiative, building on the work of the governance reviews undertaken and the resulting emerging areas for action identified at the end of the 2019/20 year. The intention of the reset process is to bring together the Authority's policy, business and financial planning and risk management. It is hoped it will be the vehicle for the County Council's decision making and planning to improve the use of the resources available, understanding the value for money the Authority delivers and improving the level of focus on securing its priority outcomes. The next stage is to reboot current arrangements and processes to realise this vision.

The impact of work in Children's Social Services in 2019/20 to address weaknesses identified through the service inspection and subsequent regulatory intervention was limited by the churn in the senior team and the decision to await the new DCS joining in April 2020 before significant changes were made. In addition, performance monitoring data was still developing, which meant that decision makers did not have access to complete, accurate and timely data to drive change against clear targets. This was recognised in the report of the Ofsted monitoring visit in December 2019, which noted 'Tentative improvements but significant weaknesses remain' and highlighted factors which made improvement and management difficult to achieve, including: gaps in data collection and/or analysis of performance; lack of review to understand the data; variations in quality, accuracy, currency and consistency of data; and ineffective auditing of case management. While an updated Improvement Plan and dashboard was approved by the Commissioner in March 2020, this was implemented after the end of the year under review. More generally, through work to inform the reviews of governance and reset and reboot initiative, the Authority has identified, through a survey of its own staff including senior management, that further work is required to improve the monitoring of performance and delivery of actions taken to address performance issues. The Authority is therefore aware of the need to continue to develop its arrangements in this area through the reset and reboot process.

Value for Money Risks (continued)

What did we find (continued)?

Much of the activity in Children's Services during the year was focussed on increasing social worker capacity, and this did improve in-year, largely attributed to the payment of retention bonuses. However, the future of the retention and recruitment scheme was not determined in 2019/20 potentially leading to a significant gap in staffing and consequent drop in support for children and families. As part of the joint arrangements with ESCC significant support has provided by ESCC Children's Services to recruitment within West Sussex County Council. It is hoped this closer working will lead to a collaborative rather than competitive approach in a labour market where supply is constrained.

The June 2020 Commissioner's monitoring report clearly recognises the positive progress made in many area, but also notes the work that remains, including: (i) Departmental structures still need to be addressed urgently to enable meaningful improvement (ii) address its findings that, while staff recognise criticisms, they think they apply to other parts of the service rather than their own so are unlikely to change and (iii) establish a system of continuous, robust service audits to facilitate change in social workers' performance.

FRS, being a smaller, self-contained service with a more stable management team, made effective inroads into its improvement plan over the year. FRS's response to the Inspection indicates a good grip of information and data which is applied to inform decisions, adapt financial planning and drive improvements. The way in which the improvement plan is designed and reported on indicates a clear 'golden thread' from issue to solution implementation.

Based on all the above we have therefore concluded that effective arrangements have not been in place throughout 2019/20 and the Authority itself acknowledges that its decision-making processes have led to a lack of collective ownership of decisions. The Internal Audit Annual Report for 2019/20, which considers both Internal Audit's own work and the findings and conclusions of other external reviews and inspections, has concluded that a 'limited' opinion should be given on the Authority's overall framework of governance, risk management and control. The Authority's ongoing work to fully understand the governance weaknesses and challenges it faces, and formulation of the reset and reboot approach to address these in 2020/21, is a significant and necessary step to addressing this. The next challenge for the Authority is to fully design, implement and embed its new arrangements at a corporate level.

Value for Money Risks

What is the significant value for money risk?

Sustainable resource deployment

As at the end of month 6, in September 2019, the Authority forecast a projected overspend of £7.4 million against its revenue budget, which was a significant reduction in the level of overspending forecast earlier in the year. The main cause of this overspending continued to relate to cost pressures in Children and Young People resulting from the need to implement remedial actions to address issues highlighted by the Children's Services Inspection.

As at June 2019 the Authority forecast a cumulative budget gap of £75.5 million for the four years commencing 2020/21. The reported size of the forecast budget gap had continued to vary over the remainder of 2019/20 reflecting benefits to the Authority from the recent Local Government Financial Settlement, the continued assessment of the recurrent impact of spending needed to address the findings of the Children's Services and Fire and Rescue inspections and mitigating actions to address the current year forecast overspending. As at January 2020 the four-year budget gap was estimated to be £74 million before approved savings of £29 million.

We therefore considered there to be a significant risk the Authority may be unable to continue to adapt its financial planning, monitoring and management arrangements to ensure it is able to continue to deploy the resources available to it sustainably over the medium term.

What did we do?

Our approach focused on:

- Consideration of the 2019/20 financial outturn for the Authority, both revenue and capital, and any associated impacts on the Authority's medium-term financial planning.
- Review of the Authority's medium term financial strategy and underpinning assumptions and arrangements to consider whether or not they are both reasonable and fit for purpose, with a particular focus on how accurately and completely one-off and recurrent costs arising from the need to address service delivery concerns identified have been incorporated in the Authority's medium term financial plans.

Value for Money Risks (continued)

What did we find?

Regarding financial planning, the Authority is working to refine budgets and the Medium Term Financial Strategy (MTFS) to respond to cost pressures as they emerge, and we recognise that effective financial planning remains difficult due to continuing uncertainties in the funding that will be made available to councils. In 2019/20, financial planning was hindered by key staff vacancies which meant that progress was slower than planned, for example with key decisions awaiting the new DCS joining the Authority in April 2020, after the end of the year under review.

The Authority did not deliver against its 2019/20 revenue budget, primarily as a result of overspending at service/portfolio level. Mitigations implemented during the year resulted in an overspend of £6.3m at year end, which was reduced from £16.3m by transferring funds from reserves and other one-off sources of income, Contingency Budget and the use of flexible capital receipts. The balance of £6.3m was then mitigated by a draw-down from the Budget Management Reserve.

The capital programme overall capital monitor shows spending for 2019/20 totalled £91.5m, with £84.5m on Core Services and £7m on Income Generating Initiatives. The capital budget was underspent overall, caused by slippage on both the core programme and income-generating activities. The only significant overspending related to Children's Services as part of the core programme.

In contrast to its success in delivery of over 90% of planned savings in previous years, the Authority failed to deliver 30% of its planned savings (£6.7m) in 2019/20 including savings in Children's Services set out in the 2019/20 budget report.

Although the Authority did not manage to contain revenue spending to budget there were a number of financial pressures and risks within the year which, without mitigating actions, could have caused a significant overspend and greater use of the Budget Management Reserve. A number of these remain for 2020/21, with additional pressures arising from the impact of Covid-19, ongoing costs associated with the improvement of Children's Services as well Fire & Rescue Services, plus increases in the volume of both children's placements and children's court cases. The need to create a greater level of financial sustainability, bolster capacity and capability and improve value for money feature highly in the Authority's ambitions through its reset and reboot strategy.

The Authority continues to hold an adequate level of reserves at the end of 2019/20 to ensure future financial resilience. However, based on value for money profile comparative information accurate to the end of 2018/19, the level of usable reserves held by the Authority is falling at a faster rate than for other English counties and CIPFA statistical nearest neighbours, and for the first time is below the average level of usable reserves held by comparable authorities. This was before the need to call on reserves on an unplanned basis in 2019/20 to balance-off revenue over-spending. The Authority has also undertaken its own analysis of its financial resilience relative to comparable bodies at the end of 2019/20 through an analysis of national revenue account budget data submissions. Although not subject to detailed audit review this shows the level of available reserves relative to comparable bodies to be slightly above average and further supports our conclusion that an adequate level of reserves was held at the end of the 2019/20 to ensure future financial resilience.

Value for Money Risks (continued)

What did we find (continued)?

While we have not sought to test the assumptions and arrangements that underpin the Authority's MTFS in detail beyond Children's Services, we have gained assurance that cost pressures that led to overspending in the 2019/20 year have been properly considered in the 2020/21 budget and fed through to the formal update of the MTFS in December 2020. However, at February 2020, which was the latest available information at the time we undertook our detailed work, the Authority continued to forecast a cumulative budget gap of £73.6m for the four years commencing 2020/21, and sufficient growth may not be have been added to the 2020/21 budgets to account for the increasing numbers of Children Looked after and resulting cost pressures experienced in 2019/20 relating to Children Services. The Budget Gap for 2021/22 has increased significantly since undertaking our detailed work in February. The current estimate at the time of undertaking our detailed work was that the budget gap for 2021/22 is somewhere between £34m and £73m, depending primarily upon the impact upon Council Tax and Business Rates as a consequence of the Covid-19 pandemic and the anticipated recession. The financial risks facing the Authority are significant, growing and potentially will impact in the near future. It is therefore essential that wider organisational changes through the reset and reboot initiative continue to focus on improving efficiency, capability and capacity and value for money as a whole. It is likely that difficult decisions will need to be made to facilitate this.

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 2019/20 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.

Financial information in the Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements.

Some changes were made to the Annual Governance Statement as a result of work. The updated Annual Governance Statement is consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

The Treasury has extended the timetable for the Authority to make its WGA submission and for the auditor's assurance statement. As a result, we have yet to fully complete our procedures in this area.

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 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 have had no reason to exercise these duties.

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 Authority'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.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Authority 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. 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, but wish to draw the following issues to your attention.

Completeness of the Authority's lease register

During the course of our work we identified a number of operating leases present in the Authority's lease register in the current year that were not present in the prior year, even though the lease has been extant for a number of years. This is as a result of ongoing work by the Authority during the year to collate and review all contracts it is party to with the purpose of identifying contractual arrangements that may be operating lease agreements. A new accounting standard, IFRS 16, is likely to apply to the Authority's accounts from 2021/22 and will change:

- How operating leases are recognised (as lessee); and
- The disclosure requirements for operating leases (as lessee).

The exercise was initiated by the Authority in anticipation of the adoption of IFRS 16, we understand is now complete and, although not yet reviewed by us, controls have been established to ensure new operating leases are identified at the point new agreements are entered into. We are satisfied that the amounts omitted from prior year disclosures do not impact our responsibilities.

Recommendation

Fully embed and continue to operate the new arrangements established by the Council to ensure that all operating leases are identified and recorded on the Authority's lease register.

Related party declarations

As part of our work to gain assurance over related party transactions disclosed in the financial statements we identified that the Authority does not routinely request related party declarations from departing senior officers. Although we are satisfied that related party transaction disclosures appearing in the financial statements are complete this should be a routine part of the Authority's processes to identify related party interests and transactions.

Recommendation

Ensure that related party declarations are routinely requested obtained for senior officers leaving the Authority prior to their departure.

08 Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated March 2020.
We complied with the APB Ethical Standards. 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 20 November 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

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 Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, 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 2019 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

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Audit Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

In our discussions with the Director of Finance and Support Services and the Regulation, Audit and Accounts Committee, we have communicated our intention to increase the scale fee for 2019/20. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. The table includes those items where we need to determine the final fee to present to the Director of Finance and Support Services, excluding changes to the scale fee.

	Final fee 2019/20 (£)	Planned fee 2019/20 (£)	Final Fee 2018/19 (£)
Scale Fee – Code work	90,561	90,561	90,561
Planned fee for additional risks impacting the financial statements audit	See detailed analysis below	10,000	
Planned fee for additional risks impacting the VFM conclusion	17,000**	15,000	
Additional financial statements work:			3,000*
• PPE/IP including RICS related material uncertainty	24,000**		
• Additional work to gain assurance over pensions liability disclosures	5,500**		
• Additional work on officer remuneration disclosures	5,000**		
• Going concern assessment and disclosure	2,000**		-
• EY consultation on auditor's report on the statements involving EY professional practice directorate to ensure the auditor's report is appropriate.	5,000**		-
• Additional fee for CIES restatement work.	1,000**		
Total fees	150,061	115,561	93,561

* the 2018/19 final fee included a scale fee variation for work undertaken the restatement of the CIES, EFA and related notes which constitutes a change in audit scope. This also includes a fee for the use of our PFI expert in order to gain assurance over the PFI model adjustments in 2018/19. This fee variation has now been approved by PSAA and paid by the Authority.

** These items are outside of the PSAA scale fee and will be subject to agreement with the Director of Finance and Support Services and then PSAA where appropriate. As at 12 November these additional fees remain subject to final quantification and represent our best estimate.

Independence

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services - Remuneration advisory services - Internal audit services - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Regulation, Audit and Accounts Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Regulation, Audit and Accounts Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf

09 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.

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

There were no significant changes to our audit approach.

Appendix B

Summary of communications

Date	Nature	Summary
Throughout the year	Meetings, calls and emails.	The Associate Partner and Senior Manager has been in regular contact with the Director of Finance and Support Services and the corporate finance team in respect of the Council's risks, accounts closedown and the audit approach.
Throughout the year	Meetings, calls and emails.	The Associate Partner have met with the Chief Executive and Director of Finance and Support Services on a ad hoc basis throughout the year to discuss key audit findings and reporting up to the date of issue of this report.
All Regulation, Audit and Accounts Committee meetings held in the year	Committee attendance	The Associate Partner and/or Senior Manager have attended those meetings of the Regulation, Audit and Accounts Committee held throughout the financial year and to the date of issue of this report. The majority of pre-meetings have also been attended. Specific reports issued and communications with the Committee are detailed in Appendix C.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

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:

Required communications	What is reported?	Our Reporting to you 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.	Audit Planning Report – April 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report – April 2020 Audit Planning Report Update – July 2020
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 – November 2020

Appendix C

		Our Reporting to you
Required communications	What is reported?	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 the Authority'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 – November 2020
Subsequent events	• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report – November 2020
Fraud	• Enquiries of the Regulation, Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • 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 Authority, 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 – November 2020

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the Authority'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 Authority	Audit Results Report – November 2020
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. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit	Audit Planning Report – April 2020 and Audit Results Report – November 2020

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
	• Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
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 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	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit Results Report – November 2020

Appendix C

Required communications	What is reported?	Our Reporting to you When and where
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 – November 2020
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 – November 2020
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – November 2020
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 – April 2020 and Audit Results Report – November 2020

Management representation letter – Illustrative draft

Management Rep Letter

[To be prepared on the entity's letterhead]
Helen Thompson
Associate Partner
Ernst & Young LLP
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE

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 2020. 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 2020 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 2019/20.

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), 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 CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
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 2019/20, and are free of material misstatements, including omissions. 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 2019/20, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

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.

Management Rep Letter

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 all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council and committees held through 2019/20 to the most recent meeting of the Regulation, Audit and Accounts Committee held on 20 November 2020.
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 the period end. 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.
7. We have disclosed to you any cybersecurity breach that either occurred or that third parties (including regulatory agencies, law enforcement agencies and security consultants) had brought to our attention during the period under audit that could potentially be material to the financial statements.

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 40 to the financial statements all guarantees that we have given to third parties.

Management Rep Letter

E. Subsequent Events

1. Other than as described in Note 38 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, 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.
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 liabilities. 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.

H. Estimates

Valuation of Property, Plant and Equipment and Investment Property assets

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 estimate(s) 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 2019/20.
2. We confirm that the significant assumptions used in making the estimate appropriately reflect our intent and ability to carry out the valuation of property, plant and equipment and investment property assets, the valuation of pension fund assets and liabilities and accounting entries relating to Private Finance Initiative schemes on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic on the valuation of property, plant and equipment and investment property assets, and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

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,

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Katharine Eberhart, Director of Finance and Support Services

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Dr Nigel Dennis

Chairman of the Regulation, Audit and Accounts Committee

EY | Assurance | Tax | Transactions | Consultancy

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ED None

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West Sussex Pension Fund

Audit results report

Year ended 31 March 2020

12 November 2020

Agenda Item 4b

Building a better working world

West Sussex County Council

12 November 2020

Regulation, Audit and Accounts Committee

Dear 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 audit conclusion in relation to the audit of West Sussex Pension Fund for 2019/20. We will issue our final report soon after the Committee meeting on 20 November 2020.

Subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at Section 3 of this report. As set out on pages 5 to 7, as per our update to the Regulation, Audit and Accounts Committee in July 2020, the Covid-19 pandemic has impacted the statements and our audit opinion.

This report is intended solely for the use of the Regulation, Audit and Accounts Committee, other members of the Authority, 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 given the additional pressures they have faced responding to the pandemic and working remotely.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 20 November 2020.

Yours faithfully

Helen Thompson, Associate Partner

For and on behalf of Ernst & Young LLP

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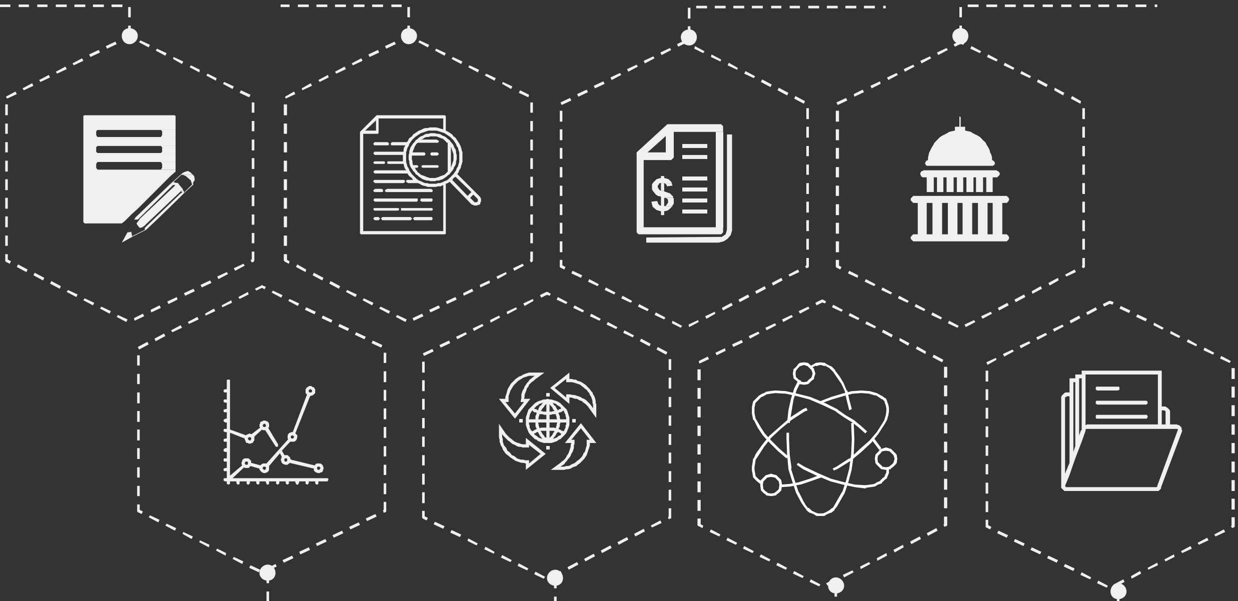

01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented to the 3 April 2020 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 exceptions which we reported to the Committee in July 2020 in our audit plan update:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- Valuation of directly owned property investment assets - We had previously treated the valuation of property investments as an area of high inherent risk and therefore an area of audit focus in our audit planning report. Subsequent to issuing our planning report the Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 (C-19) on markets might cause a valuer to conclude that there is a material uncertainty. In light of the market volatility brought about by C-19, and the inclusion of a material uncertainty paragraph in the external valuer's report we determined that the valuation of directly owned property should be treated as a significant risk in our audit approach.
- Going concern and post balance sheet event disclosures – The pandemic has had a significant impact on the value of investments and as a result there was a need for the Fund to consider its financial plans for 2020/21 and the medium term. We determined that the unpredictability of the current environment gave rise to a risk that the Fund would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Fund's actual year end financial position and performance. We also identified an increased risk that further events after the balance sheet date concerning the Covid-19 pandemic would need to be disclosed, specifically for the Fund, changes to the value of investments after the initial lockdown announcement.
- Private equity assets – the Fund holds a material value of private equity investment assets which, like directly owned property assets, are also categorised and disclosed as Level 3 in the fair value hierarchy. Given the impact of C-19 on investment values in the final quarter of the year we determined there was a higher inherent risk year end valuations would not be correctly reflected in the financial statements.

Changes in materiality - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment.

Executive Summary

Scope update (continued)

Changes in materiality - We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment.

	Planning materiality	Performance materiality	Audit differences
	Our planning materiality represents 1% of the prior year's net assets, consistent year on year.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality.
Planned	£43.7m	£32.8m	£2.2m
Final	£43.0m	£32.3m	£2.15m

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Fund's systems. We undertook the following procedures to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.
The continued impact of the Covid-19 pandemic increases the risks to the material accuracy of financial statements and disclosures. To ensure we are providing the right assurances to the Fund and its stakeholders the firm has introduced a rigorous consultation process for all auditor reports to ensure that they include the appropriate narrative. This consultation process on the Fund's disclosures is well progressed but not finally concluded at 12 November.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee on page 27.

Executive Summary

Status of the audit

We have substantially completed our audit of West Sussex Pension Fund's financial statements for the year 31 March 2020 and have performed the procedures outlined in our Audit Plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Completion of Firm consultation processes on Covid-19 impacts on our auditor's report.
- Consideration of post balance sheet events up to the date of issuing the opinion.
- Receipt and review of the management representation letter.

Audit differences

At the date of this report there are no unadjusted audit differences. The Fund has agreed to adjust for a small number of differences arising from our audit, relating to disclosure only. We include further details in Section 4.

Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Authority's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Risk of manipulation of Investment income and valuation.	We have completed our testing and found no indications of management override of controls.
Valuation of directly owned property investment assets	We have completed our testing, including review of the valuation by our independent valuation specialist, and found no errors or other issues with the approach taken. Our audit opinion is likely to include an emphasis of matter paragraph in this area. This is not a modification to, or qualification of, the audit report. The emphasis of matter paragraph draws a reader of the account's attention to the disclosure made in the financial statements which explains the material uncertainty paragraph included in the valuer's report.

Executive Summary

Areas of audit focus

Other area of audit focus	Findings & conclusions
Going concern and post balance sheet event disclosures	Note 2 of the draft accounts stated that they are prepared on a going concern basis but included no further disclosures. Following audit queries, the Fund prepared a going concern assessment and drafted an associated disclosure. We scrutinised the assessment, focusing on cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. Based on the assessment and response to our queries, we are satisfied that the Fund's disclosure adequately reflects the impact of the Covid-19 pandemic on its future finances. The Fund is currently 112% funded and has positive cash flow with the majority of the investment income being reinvested into the respective investment for further growth. No post balance sheet events are disclosed. Given that the advent of Covid-19 was prior to financial year end we are content this disclosure is reasonable and consistent with our wider understanding of events in the new financial year. Our conclusion remains subject to the final outcome of Firm consultation procedures at 12 November 2020.
Private equity assets	We used comparative data to assess the reasonableness of movements in the value of the Fund's private equity investments in the final quarter of the financial year given that valuation is not actively quoted or underpinned by audited financial statements after 31 December 2019. We concluded that valuation movements in the final quarter of the year were reasonable.

This report sets out our latest observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" 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; and
- You agree with the resolution of the issues; and 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 your attention.

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. We have, however, identified control weaknesses relating to the quality of data held on the pensions administration system which we consider in more detail in Section 6 of this 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 2019 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

Significant risk

Risk of manipulation of Investment income and valuation

What is the risk?

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.

We assessed that the risk of manipulation of investment income and valuation through management override of controls was most likely to affect investment income and assets in the year, specifically through journal postings.

Significant Risk

What did we do and what judgements did we focus on?

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 any 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
- For quoted investment income we will agreed the reconciliation between fund managers and custodians back to the source reports and publicly quoted values at year end.

We also utilised our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.

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.

Areas of Audit Focus

Significant risk

Valuation of directly owned property investment assets

What is the risk?

Asset and liability valuations are classified into three levels in the Pension Fund's financial statements according to the quality and reliability of information used to determine fair values. Investment assets at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Level 3 assets are therefore inherently more difficult to value, and for the Fund include material directly owned investment property.

We had previously treated the valuation of property investments as an area of higher inherent risk and therefore an area of audit focus in our Audit Plan. Subsequent to issuing our Plan the Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 (C-19) on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty were included in the year-end valuation report produced by the Fund's external valuer of its directly owned property investments.

In light of the market volatility brought about by C-19, and the inclusion of a material uncertainty paragraph in the external valuer's report we determined that the valuation of directly owned property should be treated as a significant risk in our audit approach. We reported this change to the Regulation, Audit and Accounts Committee in July 2020.

Significant Risk

What did we do and what judgements did we focus on?

We:

- Considered the work performed by the Fund's property valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuer in performing its valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuer.
- Tested accounting entries had been correctly processed in the financial statements.

To address the risks created by C-19 we also:

- Ensured the appropriate disclosure has been made in the accounts concerning the material uncertainty.
- Commissioned EY Real Estates (EYRE), our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets.

Significant risk

What are our conclusions?

Our key findings and conclusions were as follows:

- We identified no issues with the property valuer's scope of work performed and professional capabilities.
- Our sample testing of key asset information used by the valuer in performing its valuation identified no issues.
- Entries to process the valuation on the Fund's systems and in the financial statements were correct.
- Appropriate disclosure was made in the accounts concerning the material uncertainty.
- EYRE Real Estates concluded that for a sample of assets reviewed in detail the valuation approach was reasonable, including allowances made for the impact of Covid-19, and that the carrying value for the assets reviewed was within a materially accurate range.

Our audit opinion is likely to include an emphasis of matter paragraph in this area. This is not a modification to, or qualification of, the audit report. The emphasis of matter paragraph draws a reader of the account's attention to the disclosure made in the financial statements which explains the material uncertainty paragraph included in the valuer's report. Our conclusion remains subject to the final outcome of Firm consultation procedures at 12 November. Our draft audit report is set out in Section 3.

Areas of Audit Focus

Going concern disclosure and post balance sheet event disclosures

Management's assessment of whether the Fund is a going concern needed to consider the impact of Covid-19 on the financial sustainability of the Fund including, but not limited to:

- the impact on the carrying value of Fund assets;
- the continued ability of scheduled and admitted bodies to pay contributions;
- the level of reliance on investment income to pay benefits; and
- the ease and speed with which investment assets can be converted to cash if necessary to support liquidity.

The Fund's assessment focuses on the fact that the last triennial valuation reported that it was 112% funded. The Fund's assessment also considered future cashflows and the potential impact of Covid-19, the level of investments it holds that could quickly be realised to support liquidity if required and the impact of Covid-19 in contributions. The Fund has used its assessment to derive an additional disclosure around going concern at Note 2 of the accounts. We have now reviewed the new going concern disclosure and are satisfied that it adequately reflects the Fund's assessment and informs the reader of the impact of the pandemic on the Fund. Our conclusion remains subject to the final outcome of Firm consultation procedures at 12 November 2020.

No post balance sheet events are disclosed in the financial statements. Given that the advent of Covid-19 was prior to financial year end we are content this disclosure is reasonable and consistent with our wider understanding of events in the new financial year which do not require disclosure.

Private equity assets

The Fund holds a material value of private equity investment assets which, like directly owned property assets, are also categorised and disclosed as Level 3 in the fair value hierarchy. The previous approach taken by the Fund to value these assets needed to change because of market volatility brought about by C-19 in the final quarter of 2019/20.

We considered the revised valuation approach taken by the Fund and relevant fund managers to gain assurance that the impact of C-19 on investment values has been properly accounted for in the financial statements. Our approach focused on using comparative data to assess the reasonableness of movements in the value of the Fund's private equity investments in the final quarter of the financial year given that valuation is not actively quoted or underpinned by audited financial statements after 31 December 2019. We concluded that valuation movements in the final quarter of the year were reasonable and therefore that the year end valuation was materially accurate.

03 Draft 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 pension fund financial statements for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

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

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

Emphasis of matter – Directly held property valuation

We draw attention to Note 5, Assumptions made about the future and other major sources of estimation uncertainty, of the financial statements, which describes the valuation uncertainty the Pension Fund is facing as a result of COVID-19 in relation to directly held property valuations. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

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

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

Other information

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

Draft Audit Report

Our opinion on the financial statements

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

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

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

Responsibility of the Director of Finance and Support Services

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

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

Draft Audit Report

Our opinion on the financial statements

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

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

There were no uncorrected misstatements.

As outlined earlier in the report, the Fund has included additional disclosure in respect of going concern at Note 2. A number of other disclosure changes were made as a result of our work. Outside of the amendments made to the Fund’s going concern disclosure we do not consider the other amendments made are sufficiently significant to bring to your attention.

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 2019/20 with the audited financial statements. We are satisfied that the pension fund financial statements are consistent with the full annual statement of accounts of West Sussex County Council for the year ended 31 March 2020.

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 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 have had no reason to exercise these duties.

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 Fund's financial reporting process. We have no matters to report.

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the 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 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 internal control but our work identified weaknesses in the quality of data held on the pensions administration system which we wish to bring to your attention. As part of our IAS19 protocol work conducted on behalf of the auditors of scheduled bodies of the Fund we were required to test membership data submitted by the Fund to the Actuary that was used to inform the triennial valuation of the Fund at 31 March 2019. We randomly selected a sample of 250 entries from 10 data extracts from the pensions administration system that were shared with the Actuary in two separate submission for this purpose, and sought to agree key data points for each entry to prime documentation. Significant difficulties were experienced in undertaking these IAS19 protocol procedures at the Fund stemming from data quality weaknesses in membership data held on the pensions administration system:

- Two sets of data extracts were submitted to the Actuary by the Fund at different points in time. The need to submit updated data was to allow time for further data cleansing by the Fund between the time of the first submission in July 2019, and the second submission in March 2020.
- The Actuary has made a comment on membership data quality in its 2019 triennial valuation report setting out that it needed to make a number of material assumptions in respect of unprocessed leavers and joiners when preparing the data for its calculations. This is consistent with our work in the current and prior year which highlighted a backlog in processing joiner and leaver data.
- The Fund was not initially able to support a significant proportion of the data points selected for detailed testing.

Good progress was made in relation to this latter finding during the course of the audit, but considerable time was needed to locate supporting prime documentation. Ultimately there were six from the 250 items, all from the beneficiaries or frozen category of fund member, where we were not able to agree at least one data point to supporting prime documentation. We note that a 'Breach Report' has already been issued to the Pensions Regulator in relation to the 2019 Annual Benefit Statements which covers similar concerns raised in relation to membership data quality, and that a data quality improvement programme has been devised and implemented to begin to address this. We are therefore satisfied that no further reporting to the Pensions Regulator is required.

While these findings do not directly impact our audit of the Pension Fund's 2019/20 financial statements it is important that accurate and supportable membership data is held on the pensions administration system, noting that we also raised recommendations relating to the completeness and accuracy of membership data held on the pensions administration system in our 2017/18 and 2018/19 audit results reports.

Recommendation

Improve the quality of Fund membership data held on the pensions administration system.

07 Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated February 2020.
We complied with the APB Ethical Standards. 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 Regulation, Audit and Accounts 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 Committee on 20 November 2020.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

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 Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, 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 2019 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

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.
As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

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 2020.

In our discussions with the Director of Finance and Support Services and the Regulation, Audit and Accounts Committee, we have communicated our intention to increase the scale fee for 2019/20. This proposal is currently being considered by PSAA as part of their national consideration of EY's fee proposals. The table includes those items where we need to determine the final fee to present to the Director of Finance and Support Services, excluding changes to the scale fee

	Final fee 2019/20	Planned fee 2019/20	Final Fee 2018/19
	£	£	£
Scale Fee – Code work	20,364	20,364	20,364
Additional work and associated fees:			
EYRE review of the valuation of directly owned property investments (1)	6,000		
Going concern and PBSE assessments and disclosures including EY consultations (2)	4,000		
IAS 19 protocol procedures (3)	5,500	5,500	5,500
Additional IAS 19 protocol work on the 2019 triennial valuation of the Fund (4)	6,000	TBC	
Total indicative Pension Fund fee	41,864	TBC	25,864

Notes: These items are outside of the PSAA scale fee and will be subject to agreement with the Director of Finance and Support Services and then PSAA where appropriate. As at 12 November these additional fees remain subject to final quantification and represent our best estimate.

1. *We reported in the Audit Plan Update that the new significant risk would necessitate additional work and the involvement of EYRE. We are now able to estimate the fee for this*
2. *We reported in the update to the Audit Plan that we would need to carry out additional work to review, assess and challenge the Authority's going concern assessment and associated disclosure. We also highlighted that to ensure that we are giving the right assurance to the Authority, EY have instigated a consultation process involving the Firm's Professional Practice Directorate.*
3. *This is the recurrent fee for IAS19 protocol work. IAS 19 protocol fee variations no longer require agreement by PSAA.*
4. *We reported in the Audit Plan that as a result of the triennial valuation of the Fund we would be required to undertake additional testing of membership date. We are now able to estimate this fee noting the significant difficulties and time spent completing this work. This fee is also not subject to approval by PSAA.*

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Regulation, Audit and Accounts Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Regulation, Audit and Accounts Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf

08 Appendices

Audit approach update

We summarise below our approach to the audit of the net asset statement and any changes to this approach from the prior year audit.

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

There were no significant changes to our audit approach.

Appendix B

Summary of communications

Date	Nature	Summary
Throughout the year	Meetings, calls and emails.	The Associate Partner and Senior Manager has been in regular contact with the Director of Finance and Support Services and the Pension Strategist in respect of the Fund's risks, accounts closedown and the audit approach.
Throughout the year	Meetings, calls and emails.	The Associate Partner have met with the Director of Finance and Support Services on a ad hoc basis throughout the year to discuss key audit findings and reporting up to the date of issue of this report.
All Regulation, Audit and Accounts Committee meetings held in the year	Committee attendance	The Associate Partner and/or Senior Manager have attended those meetings of the Regulation, Audit and Accounts Committee held throughout the financial year and to the date of issue of this report. The majority of pre-meetings have also been attended. Specific reports issued and communications with the Committee are detailed in Appendix C.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

Required communications with the Audit, Regulation 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.	Audit Plan – dated February 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan – dated February 2020 Audit Plan Update – dated June 2020
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 – dated November 2020

Appendix C

		Our Reporting to you
Required communications	What is reported?	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 Pension Fund'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 – dated November 2020
Subsequent events	• Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	
Fraud	• Enquiries of the Regulation, Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • 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 Authority, 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, Regulation and Accounts Committee responsibility.	Audit Results Report – dated November 2020

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority'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 Authority	Audit Results Report – November 2020
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. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees • A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit	Audit Plan – dated February 2020 and Audit Results Report – November 2020

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Agenda Item 4b

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
	• Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
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 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	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Audit Results Report – November 2020

Appendix C

Required communications	What is reported?	Our Reporting to you: When and where
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 – November 2020
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 – November 2020
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – November 2020
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 Plan – dated February 2020 and Audit Results Report – November 2020

Appendix D

Management representation letter – Illustrative draft

Management Rep Letter

[To be prepared on the entity's letterhead]
Helen Thompson
Associate Partner
Ernst & Young LLP
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE

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 2020. 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 2019 to 31 March 2020 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2020, 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 2019/20.

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
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 2019/20.
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 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.
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 2019/20 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
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 for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing 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.

Management Rep Letter

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 other than those of which we have made you aware.
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 all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.
4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of the Fund held throughout 2019/20 to the most recent meeting of the Pensions Committee on 17 November 2020 and the Regulation, Audit and Accounts Committee on 20 November 2020.
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 the period end. 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.
10. We have disclosed to you any cybersecurity breach that either occurred or that third parties (including regulatory agencies, law enforcement agencies and security consultants) had brought to our attention during the period under audit that could potentially be material to the financial statements.

Management Rep Letter

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 relating to 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.

E. Subsequent Events
1. Other than as described in Note 6 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, 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 1 April 2019 to 31 March 2020.
2. We confirm that the content contained within the other information is consistent with the financial statements.

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 Hymans Robertson as at 31 March 2019 and dated 31 March 2020 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.

K. Use of the Work of a Specialist
1. We agree with the findings of the specialists that we have engaged to value:
- The actuarial present value of promised retirement benefits (the Actuary).
- The directly owned property investments of the Fund (the Property Valuer).

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 Rep Letter

L. Estimates

The valuation of directly owned property investments.

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in making the appropriately reflect our intent and ability to carry out the valuation of directly owned property investments on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete, including the effects of the COVID-19 pandemic on the valuation of directly owned property investments and made in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

Yours faithfully,

____
Katharine Eberhart, Director of Finance and Support Services

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

EY | Assurance | Tax | Transactions | Consultancy

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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ED None

ey.com

Key decision: No
Unrestricted

Regulation, Audit and Accounts Committee

20 November 2020

Financial Statements 2019/20

Report by Director of Finance and Support Services

Summary

The audit of the Statement of Accounts for 2019/20 for both West Sussex County Council and the West Sussex Pension Fund has largely concluded. 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. Despite the difficult circumstances as a result of the current pandemic, the audits have progressed well. During the audits, EY have identified a small number of changes to both sets of account as outlined below and these have been reflected in the attached updated statements.

For the County Council accounts, there remains some valuation issues outstanding which are yet to be resolved. It is however, anticipated than an unqualified opinion will be issued.

For the Pension Fund statements, it is anticipated that an unqualified opinion will be issued.

Recommendation

The Committee is asked to approve the Statement of Accounts for 2019/20 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.

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1 Introduction

1.1 Due to Covid-19, there was a temporary revision to the legislative deadlines for 2020, with the date when the draft accounts are submitted for audit moving from 31 May to 31 August and the date of publication of the audited accounts moving from 31 July to 30 November.

1.2 A provisional set of accounts for the County Council were submitted to EY for audit on 5 June. The Pension Fund submitted a complete set of draft accounts to EY on the same date. This was almost three full months before the revised legislative deadline and was achieved to enable EY to commence their audit work in accordance with their original resource plan, albeit undertaken entirely remotely. However, the provisional County accounts excluded the adjustments relating to the Collection Fund entries which were not submitted by billing authorities until July in accordance with the revised legislative deadlines, the

Narrative Report which was delayed so that the disclosure could fully consider the impacts of Covid-19 on the Authority and its finances and the Going Concern disclosures.

1.3 A complete draft set of accounts were then certified by the Director of Finance and Support Services for both the County Council and the Pension Fund on 7 August and the accounts were published on the Council's website on 20 August. The accounts inspection period then ran from 21 August to 2 October inclusive.

1.4 The provisional accounts did not include a detailed disclosure on Going Concern. Officers carried out work over the summer to assess the impact of Covid-19 on the Council's financial resilience and concluded that there was no material uncertainty relating to the Council's cashflow position up to 31 March 2022. It was recognised however, that there was a high degree of estimation uncertainty in reaching that conclusion. A new Going Concern accounting policy was included in the draft accounts at disclosure note 41, and additional commentary in support of the application of this policy was incorporated in the Critical Judgements in Applying Accounting Policies disclosure (note 42).

1.5 Members have already had the opportunity to review the draft unaudited financial statements for both West Sussex County Council and West Sussex Pension Fund at the member briefing session held on 8 October 2020. This aimed to help members gain a greater understanding of the accounts, including a walk through of the financial statements.

1.6 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, except for the outstanding valuation issues.

1.7 EY amended their risk assessment in relation to the valuation of Property Plant and Equipment (PPE) and Investment Property (IP) in light of market volatility brought about by Covid-19 and the material uncertainty paragraph in the external valuer's report and determined that the valuation of directly owned property should be treated as a significant risk in their audit approach. This change of approach applied only to operational PPE valued at Existing Use Value and IP valued at Fair Value as EY considered operational PPE valued at Depreciated Replacement Cost to be less likely to be impacted by the market volatility brought about by Covid-19 and therefore not within the scope of their significant risk. As part of this additional work, EY commissioned their valuers (EYRE) to undertake a valuation of a sample of 15 assets. This work started in June and since then there have been ongoing discussions between our valuers (Montagu Evans) and EYRE. Due to the demands on EYRE, it has taken a number of months for them to conclude their work. For some of the valuations in the sample there is a difference in professional opinion between Montagu Evans and EYRE and the relevant detail was shared with the Council on 6 November. As at the time of despatch of the report, there continues to be ongoing discussions between the Council, our external valuers and the valuers from EYRE. A verbal update will be provided at the Committee.

1.8 The audit of the Whole of Government Accounts submission is also outstanding.

1.9 For both the West Sussex County Council and the West Sussex Pension Fund statements, it is anticipated that an unqualified opinion will be issued.

1.10 As in previous years and particularly acknowledging the difficult circumstances that everyone is working under, 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.

1.11 As part of the audit, EY also consider whether the Council has put in place "proper arrangements" to secure economy, efficiency and effectiveness on our use of resources, this is known as the value for money conclusion. EY identified two key risks in this area:

- Informed decision making – that the Council may be unable to address failings highlighted following service inspections in its organisational governance, culture and capacity
- Sustainable resource deployment – that the Council may be unable to continue to adapt its financial planning, monitoring and management arrangements to ensure it is able to continue to deploy the resources available to it sustainably over the medium term

1.12 EY have concluded that, except for arrangements for informed decision making, adequate arrangements have been in place throughout 2019/20. In relation to informed decision making, EY acknowledges the steps being taken to improve over the period referencing the changes in the Council's governance processes including collective decision making and progress made responding to the Commissioner's report on Children's Services. However, the majority of the improvements were made in the second half of the year and they have therefore concluded that effective arrangements have not been in place for informed decision making throughout 2019/20.

1.13 The review into sustainable resource deployment recognises the pressure on the budget for 2019/20 and the steps taken to reduce the overspend minimising the required use of reserves to balance the budget. EY also reviewed the budget for 2020/21 particularly to see if cost pressures incurred in 2019/20 were adequately considered. EY recognised the current level of reserves provide sufficient financial resilience but emphasised the importance of ensuring we continue to focus on improving efficiency, capability and capacity and value for money as a whole and the difficult decisions needed to facilitate this outcome.

2 Financial Statements

2.1 <u>West Sussex County Council</u> - the following changes have been reflected in the latest version of the accounts:

- The IAS19 pension liability has been reduced by approximately £12.0m, with a corresponding entry made to the pensions reserve, to:
  - Account for changes (£4.1m) to changed liabilities in relation to the McCloud ruling following consultation undertaken by the Government Actuarial Department (GAD).
  - Adjust for differences (£7.9m) between the Authority's share of estimated Pension Fund assets considered by the actuary in determining the pension liability and the Authority's share of actual Pension Fund assets accounted for in the final 2019/20 Pension Fund accounts.

- Changes arising from the EY pre-issuance review, including narrative changes within the Narrative Report and some of the disclosures. In addition, the Accrued Leave Provision (£9.840m set out in disclosure note 14) has been reclassified as accrued expenditure (short term creditor) on the balance sheet rather than as a provision.

2.2 The changes outlined above have had no impact on the General Fund balance and have been reflected in the latest version of the statements attached at Appendix Ai.

2.3 As part of their work to assess the control environment, EY have not identified any significant deficiencies which might result in a material misstatement in the financial statements. However, recommendations have been made to ensure that related party declarations are routinely requested from senior officers prior to their departure from the Authority, and to embed new arrangements already established by the Council to ensure that all operating leases are recorded on its lease register in anticipation of the adoption of new accounting standard IFRS 16.

2.4 West Sussex Pension Fund – during the audit, a small number of changes were identified within the draft statements, including:

- Additional narrative was added to support the accounts being prepared on a going concern basis. The wording in note 2 was expanded on to reflect the current environment.
- An early estimate of the fund manager performance fee was included in the draft accounts. This was updated thereby increasing the fee from £1.5m to £4.2m.
- Potential liabilities of £0.7m in respect of members who had enquired about transferring benefits out of the scheme were included as a contingent liability.

2.5 Due to the tight reporting deadlines, the Fund had adopted an approach whereby an estimate was used for the private equity valuations in agreement with EY. The actual valuation received was £0.4m higher than the estimate used in the draft statements. The Fund has updated the valuation in the final statements to reflect this increase.

2.6 All the changes outlined above have been amended in the final version of the statements attached at Appendix Aii.

2.7 EY have made one observation relating to the control environment. Whilst they did not identify any significant deficiencies in internal control, they did note again that there were some weaknesses in the quality of data held on the pensions administration system. These findings however do not directly impact on the audit of the Pension Fund’s 2019/20 financial statements. The Fund has a data improvement plan in place and continues to work proactively with its administration provider and employers to reduce discrepancies as far as possible.

3 Finance

3.1 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.

3.2 EY's proposed audit fee, as set out in their Audit Results Report (Section 8), is £150,061. This includes a proposed additional fee of £59,500 on top of the base scale fee (£90,561), which is subject to the approval of Public Sector Audit Appointments Ltd. This additional fee covers the additional work undertaken by EY to review the work of the Council's external property valuers as a result of their 'material uncertainty' declaration, a planned fee for additional risks impacting the Value for Money conclusion, and additional work to gain assurance over the pensions liability and senior officer remuneration disclosures.

4 Risk implications and mitigations

4.1 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.

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Appendices
Appendix Ai – West Sussex County Council - Statement of Accounts 2019/20
Appendix Aii – West Sussex Pension Fund – Statement of Accounts 2019/20

Background papers
None

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West Sussex County Council

Introduction to West Sussex

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

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

West Sussex County Council's vision

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

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

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

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

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

- The median West Sussex house price in West Sussex is £326,00 at September 2019 impacting the affordability of housing for our residents with a median earnings to median house price ratio of 10:43. As a result of Covid-19, the housing market is estimated to crash by 10-15%, but there is the potential for high earners from London, who are now working from home long term, to move into the area to boost the market, particularly around the M25.
- At the current rate of increase the median weekly earnings for a full-time employee resident in West Sussex is projected to reach around £625 by 2022. Currently the median weekly earnings in West Sussex is £602, which is significantly below the South East average of £636, although this gap has narrowed slightly in the last year and may continue to narrow by 2022. As a result of Covid-19, however, the weekly earnings for towns like Crawley may well be reduced in the future because of the significant impact on aviation.

Further details of the West Sussex Plan can be found on our website.

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

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

Political and Democratic Structures

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

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

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

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

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

Management Structure

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

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

Council Employees

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

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

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

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

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

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

West Sussex Plan Performance for 2019/20

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

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

Best Start in Life

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

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

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

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

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

A Prosperous Place

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

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

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

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

A Strong, Safe Sustainable Place

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

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

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

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

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

Independent for Longer in Later Life

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

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

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

A Council that works for the Community

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

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

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

Full details of the outcomes against all 67 of the targets can be found on the West Sussex Performance Dashboard.

External Performance Assessment and Review

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

Fire and Rescue Service

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

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

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

Children's Services

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

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

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

Financial Performance

The budget for 2019/20, agreed by County Council in February 2019, supported the objectives of the West Sussex Plan and was set against the background of continuing austerity in public finances. The budget aimed to support the delivery of members' vision and deliver the priorities of the plan.

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

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

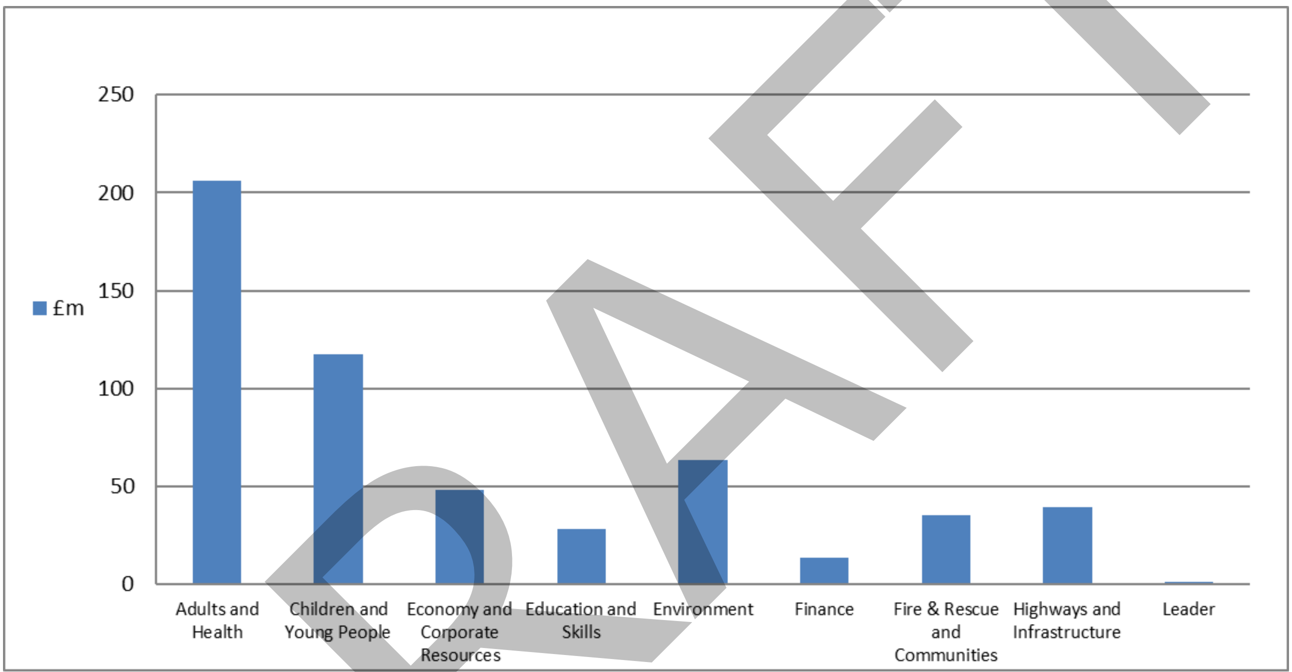
In addition, the Council made a £4.0m payment to Amey, in settlement of the highway's procurement litigation, which was funded from reserves.

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

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

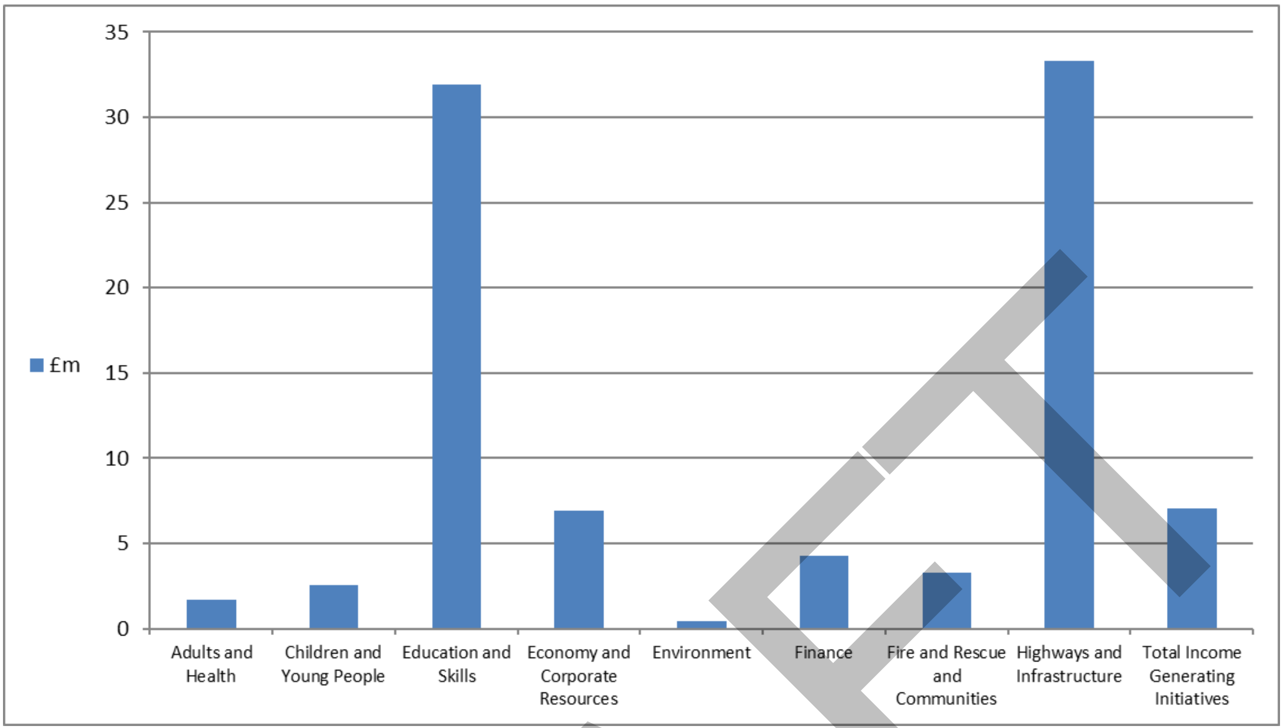
The revenue spending for 2019/20 on portfolio budgets is £553.9m, an overspend of £16.3m within the portfolio budgets. The overspend is mitigated by a variety of means, including the flexible use of capital receipts (£4.0m) as outlined above, the use of available reserves and one-off funding and income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

Graph 1: Revenue Outturn 2019/20



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

Graph 2: Capital Outturn 2019/20



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

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

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

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

Reserves and Balances

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

Table 1: Movement in Reserve Balances 2019/20

	Balance at 1 April 2019 £000	2019/20 Movement £000	Balance at 31 March 2020 £000
General Fund	20,286	0	20,286
Earmarked Reserves	163,313	18,403	181,716
Capital Grants Unapplied Account	44,669	10,918	55,587
Capital Receipts Reserve	0	3,959	3,959
Total Usable Reserves	228,268	33,280	261,548
Unusable Reserves	606,870	383,145	990,015
Total Authority Reserves	835,138	416,425	1,251,563

Unusable reserves are held to offset the impact of accounting adjustments required by International Accounting Standards; for example, charges to the Comprehensive Income and Expenditure Statement in relation to depreciation, asset revaluation and the accrued pension liability. These reserves are not cash-backed and therefore are not available to finance the provision of services. Furthermore, with the exception of the General Fund the usable reserves are earmarked for specific purposes and are not available to support general revenue spending. The General Fund balance at 31 March 2020 is £20.3m, which (at 3.4% of the net expenditure budget for 2020/21) is considered to be a prudent buffer against the significant financial pressures affecting the Council, although this does not include the impact of Covid-19. The General Fund would provide some additional means for the County Council to protect itself from future demand pressures that could adversely impact on our financial position and strengthen the Council's financial resilience. Earmarked reserves totalling £181.7m are held as at 31 March 2020; this includes £20.5m relating to the Covid-19 Emergency Fund grant received in March 2020 and £20.5m one-off business rates pilot funding that the Council is committed to spending in conjunction with the districts and boroughs. A detailed analysis of this balance is provided in Note 3 to the accounts.

Under International Accounting Standard 19, the Council shows the total future costs of pension liabilities for both the Local Government Pension Scheme and Firefighters. This is a purely notional figure, as the County's budget is constructed on the basis of actual contributions payable. The IAS19 notional liability of £474.0m is offset by a matching notional reserve ensuring there is no impact on the local taxpayer.

Future Capital Programme and Borrowing

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

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

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

Performance and Financial Monitoring

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

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

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

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

Financial impact of Covid-19

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

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

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

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

- Direct costs from Covid-19 activities – increased Adults Social Care costs including; accelerated hospital discharge, increased demand for residential care, supporting the domiciliary care markets, 20% and 10% payment in advance to domiciliary care providers and residential homes, staff working additional hours supporting the 8am-8pm service now being provided, cost of personal protective equipment, and additional cost of updating the IT infrastructure to enable the workforce to work from home.

- Cost associated from being in lockdown – pressure on services including Children's Social Care as the number of vulnerable children increases, a reduction of fees and charges and commercial income.

- Impact of the Council's planned activities – savings plans will be impacted in 2020/21 as efforts have been refocused on Covid-19 measures. Also, the capital programme delivery and cost avoidance projects will be impacted as the construction industry has paused during this time.

- Cost of recovery – looking at how we will emerge will bring additional costs including:

    - dealing with a backlog of work where activity has been paused
    - costs to ensure social distancing can be maintained in our buildings
    - costs of transporting students to school while maintaining social distancing
    - costs incurred in developing cycle and footway initiatives

- Cost related to the local economy including:

    - significant fall in anticipated income arising from Business Rates, particularly as a result of the impact of Gatwick on the local area
    - a loss in Council Tax collection due to increased levels of hardship
    - loss of 'growth' in Council Tax base due to very little, if any, housing development
    - a potential reduction in LEP funding necessary to deliver significant road schemes in the county

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

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

Plans for the Council's Recovery post Covid-19

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

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

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

Financial Outlook

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

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

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

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

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

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

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

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

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

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

Future Opportunities

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

Corporate Risks

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

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

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

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

West Sussex Statement of Accounts

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

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

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

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

Provisions and contingencies

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

Changes to accounting policies

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

Conclusion

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

West Sussex Pension Fund

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

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

Administration

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

Funding

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

Assets

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

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

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

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

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

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

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

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

Statement of Responsibilities

The Chief Financial Officer’s responsibilities:

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

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

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

The Director of Finance and Support Services has also:

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

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

Katharine Eberhart
Director of Finance and Support Services
20 November 2020

The County Council's responsibilities:

The County Council is required to:

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

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

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

MOVEMENT IN RESERVES STATEMENT

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

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2018	**-20,286**	**-174,663**	**0**	**-13,627**	**-208,576**	**-601,304**	**-809,880**
Movement in Reserves during 2018/19:							
Total Comprehensive Income and Expenditure	-31,929	-	-	-	-31,929	6,671	-25,258
Adjustments between Funding and Accounting Basis (Note 2)	43,279	-	0	-31,042	12,237	-12,237	0
(Increase)/Decrease before Reserve Transfers	**11,350**	**-**	**0**	**-31,042**	**-19,692**	**-5,566**	**-25,258**
Transfers to/from Earmarked General Fund Reserves (Note 3)	-11,350	11,350	-	-	0	-	0
(Increase)/Decrease in 2018/19	**0**	**11,350**	**0**	**-31,042**	**-19,692**	**-5,566**	**-25,258**
Balance at 31 March 2019	**-20,286**	**-163,313**	**0**	**-44,669**	**-228,268**	**-606,870**	**-835,138**
Movement in Reserves during 2019/20:							
Total Comprehensive Income and Expenditure	-2,086	-	-	-	-2,086	-414,339	-416,425
Adjustments between Funding and Accounting Basis (Note 2)	-16,317	-	-3,959	-10,918	-31,194	31,194	0
(Increase)/Decrease before Reserve Transfers	**-18,403**	**-**	**-3,959**	**-10,918**	**-33,280**	**-383,145**	**-416,425**
Transfers to/from Earmarked General Fund Reserves (Note 3)	18,403	-18,403	-	-	0	-	0
(Increase)/Decrease in 2019/20	**0**	**-18,403**	**-3,959**	**-10,918**	**-33,280**	**-383,145**	**-416,425**
Balance at 31 March 2020	**-20,286**	**-181,716**	**-3,959**	**-55,587**	**-261,548**	**-990,015**	**-1,251,563**

The total General Fund of the Council is equal to the sum of the *General Fund Balance* and the *Earmarked General Fund Reserves* disclosed above. The total General Fund of the Council, including Earmarked General Fund Reserves, is therefore £202,002,000 as at 31 March 2020.

BALANCE SHEET

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

1 April 2019 £000		Notes	31 March 2020 £000
1,957,034	Property, Plant & Equipment	4	1,986,602
267	Heritage Assets	5	280
79,569	Investment Property	7	91,401
780	Intangible Assets	8	390
49,353	Long Term Investments	9	62,215
20,326	Long Term Debtors	9	28,894
2,107,329	**Long Term Assets**		**2,169,782**
74,302	Short Term Investments	9	210,683
7,507	Assets Held for Sale	10	1,840
161	Inventories	N/A	374
106,229	Short Term Debtors	11	119,172
81,310	Cash and Cash Equivalents	12	66,513
269,509	**Current Assets**		**398,582**
-15,975	Short Term Borrowing	9	-16,439
-118,456	Short Term Creditors	13	-132,295
-15,121	Short Term Provisions	14	-23,199
-2,883	Short Term PFI Liability	15	-2,973
-93	Short Term Finance Lease Liability	16	-99
-152,528	**Current Liabilities**		**-175,005**
-381,834	Long Term Borrowing	9	-474,819
-6,108	Long Term Provisions	14	-3,165
-99,479	Long Term PFI Liability	15	-95,010
-1,639	Long Term Finance Lease Liability	16	-1,703
-818,564	Pension Liability	17	-473,985
-79,481	Capital Grants Receipts in Advance	25	-91,195
-2,067	Other Long Term Liabilities	9	-1,919
-1,389,172	**Long Term Liabilities**		**-1,141,796**
835,138	**Net Assets**		**1,251,563**
-228,268	Usable Reserves	MIRS	-261,548
-606,870	Unusable Reserves	19	-990,015
-835,138	**Total Reserves**		**-1,251,563**

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

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

EXPENDITURE AND FUNDING ANALYSIS

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

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

2018/19 (Restated)				2019/20		
Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
196,732	-5,870	190,862	Adults and Health	206,167	1,771	207,938
100,955	5,326	106,281	Children and Young People	117,316	11,689	129,005
51,751	5,074	56,825	Economy and Corporate Resources	48,040	8,870	56,910
20,727	-63,078	-42,351	Education and Skills	28,549	16,968	45,517
63,559	-8,170	55,389	Environment	63,712	3,833	67,545
17,125	30,891	48,016	Finance	13,864	2,117	15,981
36,107	1,064	37,171	Fire & Rescue and Communities	35,551	5,409	40,960
32,309	25,092	57,401	Highways and Infrastructure	39,249	26,797	66,046
1,406	106	1,512	Leader	1,495	134	1,629
520,671	-9,565	511,106	Net Cost of Services	553,943	77,588	631,531
-509,321	-33,714	-543,035	Other Income and Expenditure	-572,346	-61,271	-633,617
11,350	**-43,279**	**-31,929**	**(Surplus) or Deficit**	**-18,403**	**16,317**	**-2,086**
		-20,286	Opening General Fund Balance	-20,286		
		11,350	Add (Surplus)/Deficit on General Fund Balance in Year	-18,403		
		-11,350	Add Transfers to/(from) Earmarked General Fund Reserves in Year	18,403		
		-20,286	**Closing General Fund Balance**	**-20,286**		

The total General Fund of the Council is equal to the sum of the *General Fund Balance* and the *Earmarked General Fund Reserves* as disclosed in note 3 to the accounts. The total General Fund of the Council, including Earmarked General Fund Reserves, is therefore £202,002,000 as at 31 March 2020.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2018/19 (Restated)				2019/20		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
352,655	-161,793	190,862	Adults and Health	383,322	-175,384	207,938
179,707	-73,426	106,281	Children and Young People	203,529	-74,524	129,005
63,064	-6,239	56,825	Economy and Corporate Resources	60,715	-3,805	56,910
410,952	-453,303	-42,351	Education and Skills	518,372	-472,855	45,517
65,727	-10,338	55,389	Environment	79,230	-11,685	67,545
50,869	-2,853	48,016	Finance	18,939	-2,958	15,981
43,557	-6,386	37,171	Fire & Rescue and Communities	49,184	-8,224	40,960
80,841	-23,440	57,401	Highways and Infrastructure	85,178	-19,132	66,046
1,522	-10	1,512	Leader	1,661	-32	1,629
1,248,894	**-737,788**	**511,106**	**Cost of Services**	**1,400,130**	**-768,599**	**631,531**
10,072	0	10,072	Other Operating Expenditure (Note 22)	19,100	0	19,100
106,636	-52,380	54,256	Financing and Investment Income and Expenditure (Note 23)	86,225	-50,999	35,226
0	-607,363	-607,363	Taxation and Non-Specific Grant Income (Note 24)	0	-687,943	-687,943
1,365,602	**-1,397,531**	**-31,929**	**(Surplus) or Deficit on Provision of Services**	**1,505,455**	**-1,507,541**	**-2,086**
		-86,714	(Surplus) or Deficit on Revaluation of Property, Plant and Equipment Chargeable to the Revaluation Reserve (Note 4)			-9,087
		11	Fair Value Gains/(Losses) released from Financial Instruments Revaluation Reserve and recognised in Financing and Investment Income (Note 19)			0
		93,374	Actuarial (Gains) and Losses on Remeasurement of Pension Scheme Assets and Liabilities (Note 17)			-405,252
		6,671	**Other Comprehensive Income and Expenditure**			**-414,339**
		-25,258	**Total Comprehensive Income and Expenditure**			**-416,425**

CASH FLOW STATEMENT

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

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

2018/19 (Restated) £000		2019/20 £000
-31,929	Net (surplus) or deficit on the provision of services	-2,086
-28,504	Adjustments to net surplus or deficit on the provision of services for non cash movements (Note 34)	-115,287
78,766	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 35)	93,589
18,333	Net cash flows from Operating Activities	-23,784
-72,677	Investing Activities (Note 36)	126,730
16,974	Financing Activities (Note 37)	-88,149
-37,370	Net (increase)/decrease in cash and cash equivalents	14,797
-43,940	Cash and cash equivalents at the beginning of the reporting period	-81,310
-81,310	**Cash and cash equivalents at the end of the reporting period (Note 12)**	**-66,513**

NOTES TO THE FINANCIAL STATEMENTS

1. Prior Period Adjustment

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

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

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

Comprehensive Income and Expenditure Statement

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

Expenditure and Funding Analysis

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

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

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

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

2. Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

2019/20	Usable Reserves		
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
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)	-60,673	-	-
• Financial instrument revaluations (transferred to the Financial Instruments Revaluation Reserve or, for equity investments, the Capital Adjustment Account)	-2,104	-	-
• Council tax and NDR (transferred to or from the Collection Fund Adjustment Account)	-1,773	-	-
• Holiday pay (transferred to the Accumulated Absences Account)	-392	-	-
• Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	20,940	-	-82,437
Total Adjustments to Revenue Resources	-44,002	-	-82,437
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	11,209	-11,209	-
Transfer of deferred sales proceeds from revenue to the Deferred Capital Receipts Reserve	0	-	-
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	-57	57	-
Write down of finance lease debtor (transfer from Deferred Capital Receipts Reserve)	-234	-	-
Statutory provision for the repayment of debt (transfer to the Capital Adjustment Account)	16,470	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	297	-	-
Total Adjustments between Revenue and Capital Resources	27,685	-11,152	-
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	7,901	-
Application of capital grants to finance capital expenditure	-	-	71,519
Cash payments in relation to deferred capital receipts	-	-708	-
Total Adjustments to Capital Resources	-	7,193	71,519
Total Adjustments	**-16,317**	**-3,959**	**-10,918**

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

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

3. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2019/20.

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

- The **Adult Social Care Transformation Fund** holds the funding announced as part of the 2017/18 local government finance settlement. Funds are applied to pump-prime transformational investment in adult social care.
- The **Budget Management** reserve is held to guard against uncertainty and volatility over future Local Government Finance Settlements, business rate income and localisation of Council Tax benefits, as well as guarding against the risk of non delivery of savings and unforeseen service pressures.
- The **Business Infrastructure** reserve is intended to pump-prime local economic developments, through developing the broadband network, facilitating new business start-ups, and financing internal infrastructure improvements using local contractors where appropriate.
- The **Business Rates Pilot Fund** holds the gains arising from the 75% local retention pilot scheme in 2019/20. The fund will be invested jointly by the County Council and its billing authorities on project work with economic benefit, but is reflected in the County's accounts as the lead authority.

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

- The **Capital Expenditure** reserve was established to support expenditure within the capital programme as part of the capital financing strategy and therefore reduce the underlying borrowing requirement.
- The **Capital Infrastructure** reserve was created to support capital plans over the longer term, thus avoiding the need to borrow and incurring the associated long term capital financing costs. In 2020/21, the balance of the reserve will be consolidated within the Budget Management Reserve.
- The **Covid-19 Emergency Fund** holds the unspent balance of monies allocated by central government in March 2020 to support local authorities with pressures arising from the coronavirus pandemic.
- The **Crawley Schools PFI**, **Recycling & Waste PFI** and **Street Lighting PFI** reserves hold the surplus of government credits and other sources of finance over unitary charge payments and other expenditure in the early years of the respective contracts, to meet future expenditure over the life of the PFI arrangements. This equalises the costs to the taxpayer of building and maintaining the facilities over the duration of the contracts.
- The **Dedicated Schools Grant (DSG)** is ring-fenced, and can only be applied to finance expenditure on schools. This includes individual school budgets and central expenditure on educational services provided on a County-wide basis. The deployment of the reserve, including the basis for holding a deficit balance, is detailed further in Note 29.
- The **Deprivation of Liberty Safeguarding** reserve is held to support the Council in undertaking its statutory assessments of whether arrangements made for the care and/or treatment of an individual lacking capacity to consent amounts to a deprivation of liberty.
- The **Economic Growth** reserve is held to support the West Sussex Plan, ensuring that West Sussex remains a 'prosperous place' with a strong and vibrant economy through the delivery of the Economic Growth Plan.
- The **Highways Commuted Sums** reserve holds a balance of contributions received from developers in respect of future maintenance costs of non-standard highways infrastructure.
- The **Highways On-Street Parking** reserve holds the surplus of charges over enforcement and associated costs, which is used to finance on street parking development and eligible transport network expenditure.
- The **Infrastructure Works Feasibility** reserve provides revenue funding for feasibility works to support the development of the Council's capital programme.
- The **Insurance** reserve is held in respect of the Authority's self-funding insurance scheme, and provides for the risk of unknown future claims (i.e. in excess of the known claims as provided for in the insurance provision - see Note 14).
- The **Interest Smoothing Account** is held to meet temporary shortfalls arising from fluctuations in interest rates, such as a reduction in investment returns or increased costs of borrowing.
- The **School Balances** reserve holds net underspending on locally managed school budgets.
- The **Schools Sickness and Maternity** reserve holds the accumulated surplus on the sickness and maternity insurance scheme operated by the Authority for its maintained schools.
- The **Service Transformation Fund** is held to meet the costs of major organisational transformation. It is used to fund short-term costs in order to deliver ongoing savings, and as a source of investment to finance improvements to services so that they become more efficient and provide better outcomes.
- The **Social Care Support Grant 2018/19** reserve holds the balance of monies allocated to the Council as announced in the Local Government Finance Settlement in February 2018 to support the provision of adult social care. This has been earmarked as a contribution towards funding the cost of delivering the Adults' Improvement Programme.
- The **Special Support Centres** reserve is held to fund the creation of special support centres at mainstream schools, thereby negating any additional borrowing requirement (and associated financing costs) in the capital programme.
- The **Statutory Duties** reserve holds funding to meet any obligations over and above that which the Authority has made provision for, such as those relating to payments made outside of payroll, and to meet any costs associated with the implementation of the General Data Protection Regulation (GDPR) and Health and Safety requirements.
- The **Strategic Economic Plan** reserve is held to support the progression of the economic priorities within the Coast to Capital Local Enterprise Partnership.
- The **Unapplied Revenue Grants** reserve represents the unspent balance on revenue grants which are received for specific purposes but where there are no outstanding conditions on the grant which could require its repayment. The grant has therefore been recognised in full in the Comprehensive Income and Expenditure Statement, but the unapplied balance is held in a reserve to fund future expenditure plans relevant to the purpose of the grant.
- The **Waste Materials Resource Management Contract (MRMC)** reserve is the County Council's investment fund to meet the 25-year contract with Biffa Waste Services Ltd for the treatment and disposal of waste, including the development of appropriate facilities.
- **Other Earmarked Reserves** represents the cumulative balances and transactions on a number of smaller reserves which are individually immaterial.

4. Property, Plant and Equipment

Movements in 2019/20	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Surplus Assets £000	Assets under Construction £000	**Total Property, Plant & Equipment £000**	PFI Assets included in Property, Plant & Equipment £000
Cost or Valuation							
At 1 April 2019	1,485,971	114,218	605,396	39,493	11,533	2,256,611	178,224
Additions	18,649	11,165	34,133	394	17,310	81,651	377
Donations	11,708	0	0	0	0	11,708	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-13,172	0	0	-2,438	0	-15,610	-5,283
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	21,062	0	0	-1,359	0	19,703	0
Disposals	-49	-738	0	0	0	-787	0
Derecognition - Academies	-9,643	0	0	0	0	-9,643	0
Derecognition - Finance Leases	-2,866	0	0	0	0	-2,866	0
Derecognition - Other	-9,096	-10,767	-29,924	0	-53	-49,840	-1,227
Assets reclassified (to)/from Assets Held for Sale	-268	0	0	-924	0	-1,192	0
Assets reclassified (to)/from Investment Property	0	0	0	370	0	370	0
Transfer in asset category	19,142	0	0	629	-19,771	0	0
At 31 March 2020	**1,521,438**	**113,878**	**609,605**	**36,165**	**9,019**	**2,290,105**	**172,091**
Accumulated Depreciation and Impairment							
At 1 April 2019	0	-43,579	-255,998	0	0	-299,577	-26,297
Depreciation charge	-35,309	-11,901	-32,716	-824	0	-80,750	-5,815
Depreciation written out to the Revaluation Reserve on revaluation	24,156	0	0	541	0	24,697	2,130
Depreciation written out to the Surplus/Deficit on the Provision of Services on revaluation	10,969	0	0	170	0	11,139	0
Impairment (losses)/reversals recognised in the Revaluation Reserve	0	0	0	0	0	0	0
Impairment (losses)/reversals recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0
Derecognition - Academies	0	0	0	0	0	0	0
Derecognition - Finance Leases	75	0	0	0	0	75	0
Derecognition - Other	212	10,767	29,924	0	0	40,903	1,227
Depreciation written out on newly classified Assets Held for Sale	0	0	0	10	0	10	0
Depreciation written out on newly classified Investment Property	0	0	0	0	0	0	0
Transfer in asset category	-103	0	0	103	0	0	0
At 31 March 2020	**0**	**-44,713**	**-258,790**	**0**	**0**	**-303,503**	**-28,755**
Net Book Value							
At 1 April 2019	**1,485,971**	**70,639**	**349,398**	**39,493**	**11,533**	**1,957,034**	**151,927**
At 31 March 2020	**1,521,438**	**69,165**	**350,815**	**36,165**	**9,019**	**1,986,602**	**143,336**

NOTES TO THE BALANCE SHEET

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

NOTES TO THE BALANCE SHEET

Depreciation

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

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

Capital Commitments

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

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

Revaluations

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

The Authority undertook a number of valuations at 31 March 2020. Valuations were instructed by the Director of Finance and Support Services, and carried out by external independent valuers: Montagu Evans Chartered Surveyors, 5 Bolton Street, London, W1J 8BA. Valuations were undertaken in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS) and the CIPFA Code of Practice.

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

NOTES TO THE BALANCE SHEET

Fair Value Hierarchy

The Council's Surplus Property, Plant and Equipment assets are valued at fair value in accordance with the requirements of IFRS 13 Fair Value Measurement. All surplus assets have been subject to revaluation in 2019/20. A de minimis of £250,000 has been applied in the tables below.

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

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

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

Level 3 – unobservable inputs for the asset

Details of the Authority’s Surplus Assets, and information about the fair value hierarchy as at 31 March 2020, are as follows:

	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 2020 £000
Commercial	0	0	2,461	2,461
Office Units	0	3,550	1,626	5,176
Residential	0	0	24,752	24,752
Sub Total	0	3,550	28,839	32,389
De minimis	0	0	3,776	3,776
Total	**0**	**3,550**	**32,615**	**36,165**

Comparative figures as at 31 March 2019:

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

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

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

5. Heritage Assets

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

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

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

However, the Authority does own a number of assets which do not serve any operational purpose, and are held principally for their contribution to knowledge and culture. Whilst these are therefore considered to be Heritage Assets, they have not been recognised on the balance sheet on the basis that it is not practicable to establish the fair value of the assets. The principal source of such assets is the Record Office in Chichester. The Office holds the written and recorded heritage of the county of West Sussex. This includes paper and parchment documents, books and files, maps and plans, photographs and cine films, and electronic records, the earliest documents dating back to the 8th century. The assets of the Office are not valued for insurance purposes, and whilst they are of significance to the local community, their value is not considered to be material in the context of the Authority's £2.2billion long term asset base.

6. Capital Expenditure and Capital Financing

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

CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

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

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

NOTES TO THE BALANCE SHEET

Reconciliation of the Capital Financing Requirement to the Balance Sheet

	31 March 2019 £000	31 March 2020 £000
Capital Financing Requirement	618,178	609,905
Property Plant & Equipment (Note 4)	1,957,034	1,986,602
Heritage Assets (Note 5)	267	280
Investment Property (Note 7)	79,569	91,401
Intangible Assets (Note 8)	780	390
Equity Investments (Note 9)[1]	4	2
Other Long Term Liabilities (Note 9)[2]	-2,067	-1,919
Assets Held for Sale (Note 10)	7,507	1,840
Capital Adjustment Account (Note 19)	-990,726	-1,039,904
Revaluation Reserve (Note 19)	-434,190	-428,787
	618,178	609,905

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

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

NOTES TO THE BALANCE SHEET

7. Investment Property

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

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

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:

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

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

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

Fair Value Hierarchy

The Council's Investment Property assets are valued at fair value in accordance with the requirements of IFRS 13 Fair Value Measurement. All Investment Property assets have been subject to revaluation in 2019/20. A de minimis of £250,000 has been applied in the tables below.

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

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

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

Level 3 – unobservable inputs for the asset

Details of the Authority's Investment Property, and information about the fair value hierarchy as at 31 March 2020, are as follows:

	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 2020 £000
Agricultural	0	0	3,997	3,997
Commercial	0	0	60,711	60,711
Residential	0	0	21,320	21,320
Sub Total	0	0	86,028	86,028
De minimis	0	0	5,373	5,373
Total	**0**	**0**	**91,401**	**91,401**

Comparative figures as at 31 March 2019:

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

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 2020 £000	Valuation technique used to measure Fair Value	Unobservable inputs	Range (weighted average used)	Valuation process
Agricultural	2,879	Market Approach	Agricultural land sales	£15,000 - £40,000 per hectare	Analysed land values for other agricultural land sales across the county and placed a land value on the site area. Allowances for location, development potential, layout of the site, access issues, size of the site, and demand in the area. Deductions for any lease in place.
	630	Market Approach	Agricultural land sales	Rents - £45,000 to £65,000	Valued as an investment valuation. Specialist nature of the lease, specialist nature of the site and length of lease unexpired.
	488	Income Approach	Agricultural rents and yields	£45,000 to £55,000 per annum	Analysed comparable sites and applied an opinion of a capitalisation yield on the received income.
Commercial	49,608	Income Approach	Commercial rents and yields	£600,000 to £1,500,000 per annum (yields 5% to 7.5%)	Analysed comparable sites and applied an opinion of a capitalisation yield on the received income. Analysed similar income streams to understand the yield position to apply to the income stream. Analysed covenant strength, length of lease, level of rent comparative to market rent, repair clause.
	10,711	Income Approach	Commercial income streams	Not applicable	Analysed other assets let to secure risk free organisations to arrive at an investment yield. This income by this yield has then been capitalised.
	392	Market Approach	Car parking space values	£5,000 per space	Analysed car parking space values in the local area, valued on the basis of 558 spaces. Discounted by 30 years to represent the current Management Agreement in place expiring in 30 years.

	Fair Value as at 31 March 2020 £000	Valuation technique used to measure Fair Value	Unobservable inputs	Range (weighted average used)	Valuation process
Residential	17,399	Market Approach	Residential land sale comparables / residential land values	£400,000 to £1,500,000 per hectare	Land values analysed with residential potential in and around the local area. Discounted for location, planning consent, potential residential development size, access, build cost, finance, contingency and agency fees.
	550	Income Approach	Residential rental and sales values	£30,000 - £35,000 per annum	Valued as a smallholding with a variety of outbuildings on site. Discounts for size of buildings, size of site, location within the county, demand, market conditions, and previous sales values.
	650	Market Approach	Residential sales	£550,000 to £800,000 per dwelling	Valued as a smallholding with a variety of outbuildings on site. Discounts for size of buildings, size of site, location within the county, demand, market conditions, and previous sales values.
	1,474	Market Approach	Residential sales and land values	£15,000 - £21,000 per hectare for land and £205,000 - £475,000 per dwelling	Discounted for type of property, size, layout of plot, location within the local area, and condition. Discounted on the land for shape, size, type of land, future development opportunities.
	1,247	Market Approach	Residential sales comparables	£250,000 to £475,000 per dwelling	Residential sales values analysed in and around local area. Discounts made to take into account location, site layout, condition, parking, number of bedrooms, style of property.

8. Intangible Assets

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

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

The carrying amount of the intangible asset is amortised on a straight-line basis. The amortisation of £390,000 charged to revenue in 2019/20 was charged to the Economy and Corporate Resources portfolio in the Net Cost of Services. The movement on Intangible Asset balances during the year is as follows:

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

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

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

Financial Assets: A Financial Asset is a right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset. The financial assets held by the Council during 2019/20 are classified in accordance with the Code of Practice as follows:

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

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

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

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

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

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

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

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

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

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

Transaction Costs:

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

NOTES TO THE BALANCE SHEET

a. Financial Instruments Balances

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

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

[1] Included within trade debtors total.

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

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

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under 'Current Liabilities' or 'Current Assets'. This would include accrued interest on long term liabilities and investments that are payable and/or receivable in 2020/21.

<u>(i) Soft Loans</u>

In accordance with the 2019/20 Code of Practice, where loans are advanced at below market (commercial) rates they are classified as 'soft loans'. The County Council made one such loan during March 2015; a twenty-year loan advanced to the Littlehampton Harbour Board for the purchase of a multi-purpose vessel at a borrowing rate of 2.56%. The Council estimates that had interest been charged at market rates (assumed as 4% above the prevailing Bank of England base interest rate) interest receivable in the Comprehensive Income and Expenditure Statement would have increased by £5,300 (considered below de minimis for full disclosure).

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

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

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

(ii) Other

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

b. Financial Instruments - Gains and Losses

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

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

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

c. Financial Instruments - Fair Values

The basis for recurring fair value measurements are:

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

<u>(i) Fair Value of Financial Assets</u>

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

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

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

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

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

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

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

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

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

- For Public Works Loan Board (PWLB) loans, New Loan Rates effective at 31 March 2020 from the PWLB (discounted by the 0.2% "Certainty Rate" available to local authorities) have been applied to provide the fair value under PWLB debt redemption procedures; as set out in PWLB Interest Rate Notice No. 128/20.
- The fair values of PFI schemes and finance lease liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA rated corporate bond yield.
- For long-term investments, covered bonds and other securities, prevailing (benchmark where applicable) market rates have been used to provide the fair value at 31 March 2020.
- The fair value of other financial instruments (including those with a maturity of less than 12 months), trade debtors and trade creditors, is assumed to approximate the carrying amount (no fair value hierarchy level).

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

[1] Excludes receipts in advance (£23.247m at 31 March 2020) and statutory creditors (£37.334m at 31 March 2020) including HM Revenue & Customs (Tax/National Insurance pay-over; Construction Industry Tax Deduction Scheme (CITDS); tax deducted from interest payments; SMP overpayments), Teachers Pensions, government department accruals, council tax prepayments and leave accrued by employees.

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

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

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

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

d. Nature and Extent of Risk Arising From Financial Instruments

(i) Key Risks

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

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

(ii) Overall Procedures for Managing Risk

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

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

(iii) Credit Risk

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

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

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

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

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

NOTES TO THE BALANCE SHEET

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

Counterparty	Credit rating criteria met when investment placed	Credit rating criteria met on 31 March 2020	Balance invested at 31 March 2020				Total
	YES / NO	YES / NO	Up to 1 month	>1 month; <6 months	>6 month; <1 Year	>1 year	
			£000	£000	£000	£000	£000
Bank Unsecured: [1]							
-UK Bank	YES	YES	291	40,053	5,010	0	45,354
-Non-UK Bank	YES	YES	10,103	5,049	0	0	15,152
-Money market funds	YES	YES	66,222	0	0	0	66,222
Bank Secured [2]	YES	YES	0	15	0	9,987	10,002
Housing Associations	YES	YES	0	80	0	9,990	10,070
Local authorities	YES	YES	15,185	60,244	74,650	5,000	155,079
Pooled funds [3]	n/a	n/a	294	0	0	37,236	37,530
Other	n/a	n/a	0	0	0	2	2
			92,095	105,441	79,660	62,215	339,411

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

[2] The credit quality of £10.0m of the Council's investments is enhanced by collateral held in the form of covered bonds (bank secured); collateralised by UK residential mortgages. For these investments the collateral significantly reduces the likelihood of the Council suffering a credit loss on these investments.

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

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

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

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

(iv) Amounts Arising from Expected Credit Losses

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

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

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

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

Included within the £30.7m trade debtor balance that is past its due payment date, the Council has identified that £3.392m is potentially at risk of being irrecoverable. This is based on debt which is more than one year old and reflects the likelihood of recovery reduces as the age of the debt increases, with anticipated recovery of 90% of debts aged between one and two years old and only 5% likely recovery of debts over six years old. At 31 March 2020, none of this liability has actually been impaired due to continued negotiations between the Council’s Legal Services team and the relevant debtors.

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

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

(v) Liquidity Risk

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

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

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

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

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

(vi) Refinancing Risk

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

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

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

The following table provides a maturity analysis of the Council's financial liabilities (excluding accrued interest) and the associated contractual interest obligations, alongside the maximum limits for fixed interest rates maturing in each period:

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

(vii) Market Risk

Interest Rate Risk

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

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

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

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

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

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

At 31 March 2020 the Council held no variable long term borrowings, but held 38% (£129m) of its investment portfolio in variable rate bank call/notice accounts, money market funds, bank floating rate notes, pooled funds (collective investment schemes) and equities.

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

Price Risk

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

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

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

Inflationary Risk

Inflationary risk relates to the diminution of the spending powers of the Council’s cash holdings, or the potential escalation of financial liabilities if linked to inflation indices. Throughout 2019/20 the Council achieved a 1.27% return on its investment portfolio as compared against average UK CPI inflation of 1.74% during the same period. Latest Bank of England forecasts report that UK CPI inflation is likely to average around 0.6% in 2020 before returning to 2% by 2022. With low investment rates set to continue over the same period the Council may seek to partially mitigate any resulting inflationary risks through its prescribed cash flow procedures; including the identification of reserves that may be set aside for the continued use of longer-term (higher yielding) investments. The Council does not currently hold any inflation linked borrowings.

Foreign Exchange Risk

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

NOTES TO THE BALANCE SHEET

10. Assets Held for Sale

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

11. Short-Term Debtors

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

12. Cash and Cash Equivalents

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

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

13. Short-Term Creditors

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

14. Provisions

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

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

Long Term Provisions - Descriptions

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

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

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

NOTES TO THE BALANCE SHEET

Short Term Provisions - Descriptions

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

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

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

As part of the introduction of the localised business rates system on 1 April 2013, a liability was assumed by NNDR (National Non-Domestic Rates) billing authorities for refunding ratepayers who successfully appeal against the rateable value of their properties. This includes the liability in respect of appeals against amounts paid to central government prior to that date. As a precepting authority, West Sussex is liable for a share of any successful **NNDR Appeals**, and this provision represents the Authority's estimate of its cumulative liability based upon the total liabilities estimated by its individual billing authorities. The Authority entered into a 75% local business rates retention pilot scheme in 2019/20, and as a consequence the share of the billing authority collection fund provisions notionally attributable to West Sussex County Council increased from 10% (at 31 March 2019) to 55% (at 31 March 2020). In accordance with statutory arrangements the increase to provisions is mitigated via the Collection Fund Adjustment Account and so there is no impact on Usable Reserves.

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

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

15. Private Finance Initiatives and Similar Contracts

Crawley Schools PFI

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

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

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

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

Recycling and Waste Handling PFI

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

Throughout the contract the contractor is responsible for the replacement of equipment at the facilities. The lifecycle costs incurred to date have been included in the balance sheet on the basis of the actual provision. As at 31 March 2020 £15.1m of lifecycle costs remained to be delivered. The payments to the contractor for the lifecycle costs are on a consistent basis across the life of the contract.

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

Street Lighting PFI

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

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

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

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

NOTES TO THE BALANCE SHEET

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

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

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

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

Note (iii) – Payments due under PFI Contracts

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

16. Leases

Authority as Lessee

Finance Leases

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

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

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 2019 £000		31 March 2020 £000
1,732	Finance Lease Liability	1,802
1,150	Finance costs payable in future years	877
2,882	Minimum lease payments	2,679

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

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

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

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

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

Authority as Lessor

Finance Leases

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

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

[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 2019 £000	31 March 2020 £000	1 April 2019 £000	31 March 2020 £000
No later than one year	496	496	234	242
Later than one year and not later than five years	1,984	1,982	1,020	1,056
Later than five years	8,503	7,991	6,090	5,812
	10,983	10,469	7,344	7,110

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

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

17. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Authority participates in two post-employment schemes:

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

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

Transactions Relating to Post-Employment Benefits

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

NOTES TO THE BALANCE SHEET

	Local Government Pension Scheme 2018/19 £000	Local Government Pension Scheme 2019/20 £000	Uniformed Firefighters 2018/19 £000	Uniformed Firefighters 2019/20 £000
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	77,614	93,678	6,931	6,842
Past service cost (including curtailments)	12,787	196	15,008	0
(Gain)/loss from settlements	-213	0	0	0
Financing and Investment Income and Expenditure:				
Interest cost on defined benefit obligation	57,149	57,703	10,315	9,435
Interest income on plan assets	-49,102	-46,989	0	0
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	98,235	104,588	32,254	16,277
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement:				
Remeasurement (gains) and losses	97,671	-360,897	-4,297	-44,355
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	195,906	-256,309	27,957	-28,078
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	-98,235	-104,588	-32,254	-16,277
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers' contributions payable to scheme	49,651	51,393		
Retirement benefits payable to pensioners			8,494	8,799

Assets and Liabilities in Relation to Post-Employment Benefits

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

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

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

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

Scheme History

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

The liabilities show the underlying commitments that the Authority has in the long run to pay post-employment (retirement) benefits. The total liability of £473.985m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

▪ The deficit on the Local Government Pension Scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary, Hymans Robertson LLP.

▪ Finance is only required to be raised to cover Uniformed Firefighters' benefits when the pensions are actually paid.

The total contribution expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2021 is £47.037m. Payments (net of employee contributions) in respect of the Uniformed Firefighters scheme for the year to 31 March 2021 are projected to be £8.134m.

Basis for Estimating Assets and Liabilities

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

Both the Local Government Pension Scheme and Uniformed Firefighters liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2019.

The principal assumptions used by the actuary have been:

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

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

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

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

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

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

18. Pension Schemes Accounted for as Defined Contribution Schemes

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

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

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

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

19. Unusable Reserves

1 April 2019 £000		31 March 2020 £000
9,448	Accumulated Absences Account	9,840
663	Financial Instruments Revaluation Reserve	2,765
-990,726	Capital Adjustment Account	-1,039,904
-2,577	Collection Fund Adjustment Account	-804
-8,052	Deferred Capital Receipts Reserve	-7,110
818,564	Pensions Reserve	473,985
-434,190	Revaluation Reserve	-428,787
-606,870	**Total Unusable Reserves**	**-990,015**

Accumulated Absences Account

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

2018/19 £000		2019/20 £000	2019/20 £000
9,541	**Balance at 1 April**		**9,448**
-9,541	Settlement or cancellation of accrual made at end of the preceding year	-9,448	
9,448	Amounts accrued at the end of the current year	9,840	
-93	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		392
9,448	**Balance at 31 March**		**9,840**

Financial Instruments Revaluation Reserve

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

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

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

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.

2018/19		2019/20	
£000		**£000**	**£000**
-895,315	**Balance at 1 April**		**-990,726**
	Reversal of items relating to capital expenditure debited/credited to the Comprehensive Income and Expenditure Statement:		
68,334	Charges for depreciation of non current assets	80,750	
400	Charges for amortisation of intangible assets	390	
0	Charges for impairment of non current assets	0	
-100,014	Revaluation (gains) / losses on Property, Plant and Equipment and Assets Held for Sale	-30,837	
17	Revaluation (gains) / losses on equity investments	2	
5,330	Revenue Expenditure Funded from Capital Under Statute (REFCUS)	10,536	
15,830	Amounts written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	29,184	
355	Release of deferred income from Private Finance Initiatives	-148	
0	Gains from Donated Assets	-11,708	
-9,748			78,169
-9,021	Adjusting amounts written out of the Revaluation Reserve		-14,490
-18,769	**Net written out amount of the cost of non current assets consumed in the year**		**63,679**
	Capital financing applied in the year:		
-6,742	Use of the Capital Receipts Reserve to finance new capital expenditure	-7,901	
-40,982	Application of grants to capital financing from the Capital Grants Unapplied Account	-71,519	
-3,137	Capital grants and contributions applied to REFCUS	-4,425	
-20,689	Statutory provision for the financing of capital investment charged against the General Fund balance	-16,470	
-4,677	Revenue Contribution to Capital Outlay	-297	
-76,227			-100,612
-415	Movements in the market value of Investment Properties debited/ credited to the Comprehensive Income & Expenditure Statement		-12,245
-990,726	**Balance at 31 March**		**-1,039,904**

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.

2018/19		2019/20	
£000		£000	£000
-4,605	**Balance at 1 April**		**-2,577**
4,605	Settlement or cancellation of accrual made at end of the preceding year	2,577	
-2,577	Amounts accrued at the end of the current year	-804	
2,028	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements		1,773
-2,577	**Balance at 31 March**		**-804**

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.

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

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.

2018/19 £000		2019/20 £000
652,846	**Balance at 1 April**	**818,564**
93,374	(Gains)/losses on remeasurement of pension assets/liabilities	-405,252
130,489	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	120,865
-58,145	Employer's pensions contributions and direct payments to pensioners payable in the year	-60,192
818,564	**Balance at 31 March**	**473,985**

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.

2018/19 £000		2019/20 £000	2019/20 £000
-356,497	**Balance at 1 April**		**-434,190**
-110,912	Upward revaluation of assets	-45,239	
24,198	Downward revaluation of assets and revaluation losses not charged to the Surplus/Deficit on the Provision of Services	36,152	
0	Impairment losses not charged to the Surplus/Deficit on the Provision of Services	0	
-86,714	**Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services**		**-9,087**
4,790	Difference between fair value depreciation and historical cost depreciation	8,642	
4,231	Accumulated gains on assets sold or scrapped	5,848	
9,021	**Amount written off to the Capital Adjustment Account**		**14,490**
-434,190	**Balance at 31 March**		**-428,787**

20. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2019/20

Adjustments from General Fund to Comprehensive Income and Expenditure Statement	Adjustments for Capital Purposes [1] £000	Net Pensions Adjustments [2] £000	Other Differences [3] £000	Total Adjustments £000
Adults and Health	266	6,748	-5,243	1,771
Children and Young People	3,888	8,177	-376	11,689
Economy and Corporate Resources	3,844	3,030	1,996	8,870
Education and Skills	535	18,333	-1,900	16,968
Environment	5,183	959	-2,309	3,833
Finance	-87	1,397	807	2,117
Fire & Rescue and Communities	5,214	207	-12	5,409
Highways and Infrastructure	32,139	1,538	-6,880	26,797
Leader	0	135	-1	134
Net Cost of Services	50,982	40,524	-13,918	77,588
Other Income and Expenditure	-99,607	20,149	18,187	-61,271
Difference between General Fund Surplus and Comprehensive Income and Expenditure Surplus	**-48,625**	**60,673**	**4,269**	**16,317**

NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

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

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

NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

[1] Adjustments for Capital Purposes

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

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

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

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

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

[2] Net Pensions Adjustment

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

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

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

[3] Other Differences

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

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

▪ For **Financing and Investment Income and Expenditure**, an adjustment for revaluation gains and losses on financial instruments, which are not chargeable to the General Fund.

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

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

21. Segmental Income

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

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

22. Other Operating Expenditure

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

23. Financing and Investment Income and Expenditure

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

24. Taxation and Non Specific Grant Income

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

25. Grant Income

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

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

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

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

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

Key to Central Government Departments:

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

26. External Audit Costs

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

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

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

The Authority incurred further costs of £4,375 in 2019/20 (2018/19 £4,375) in relation to grant certification services provided by another audit firm.

27. Members' Allowances

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

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

28. Environment Agency Services

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

29. Dedicated Schools Grant

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

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

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

Notes

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

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

(C) Budgeted distribution of DSG as agreed with Schools Forum, January 2019.

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

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

30. Expenditure and Income Analysed by Nature

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

Expenditure/Income	2018/19 £000	2019/20 £000
Expenditure		
Employee benefits expenses	575,382	589,384
Other service expenses	705,398	760,448
Depreciation, amortisation and impairment	-31,695	38,058
Interest payments	107,041	98,415
Precepts and levies	1,096	1,118
(Gain)/loss on the disposal of non-current assets	8,380	18,032
Total Expenditure	**1,365,602**	**1,505,455**
Income		
Fees, charges and other service income	-188,211	-198,630
Interest and investment income	-52,020	-49,267
Income from Council Tax and Non-Domestic Rates	-519,025	-569,161
Gains from Donated Assets	0	-11,708
Government grants and contributions	-638,275	-678,775
Total Income	**-1,397,531**	**-1,507,541**
(Surplus)/Deficit on the Provision of Services	**-31,929**	**-2,086**

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

Staff at voluntary aided and foundation schools are not employees of the Authority, as at these schools the governing body is considered to be the employer. Employee expenses of £70.939m in 2019/20 (£67.487m in 2018/19) in relation to staff employed at the Authority's voluntary aided and foundation schools are included within *Employee benefits expenses* above.

31. Officers' Remuneration

Bandings Disclosure

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

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

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

Senior Officer Disclosure

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

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

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

Notes to 2019/20 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] Chief Executive to 25 November 2019
[4] Chief Executive from 6 January 2020 (shared with East Sussex County Council)
[5] Executive Director for Communities and Public Protection to 30 June 2019
[6] Previously Executive Director for Children, Adults, Families, Health and Education until 30 June 2019 and Executive Director for People Services until 31 October 2019
[7] Acting Chief Executive for period 27 September 2019 to 5 January 2020
[8] Interim Executive Director for Resource Services from 1 July to 31 October 2019
[9] Director of Human Resources and Organisational Change to 31 December 2019
[10] Interim Director of Human Resources and Organisational Change from 5 March 2020
[11] Director of Fire Service Operations and Chief Fire Officer to 9 July 2019
[12] Chief Fire Officer from 1 September 2019
[13] Interim Director of Children and Family Services to 29 April 2019
[14] Interim Director of Children Services from 15 April 2019 to 31 January 2020
[15] Interim Director of Children, Young People and Learning from 1 February 2020
[16] Director of Adults Services to 11 October 2019

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

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

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

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

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

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

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

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

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

NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Notes to 2018/19 Senior Officer Remuneration Disclosure

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

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

Payments of £99,461 have been made to Tile Hill for the services of the Interim Director of Children & Family Services from 19 November 2018
Payments of £72,375 have been made to Penna Plc for the services of the Interim Director of Adults' Services to 4 July 2018
Payments of £66,110 have been made to Penna Plc for the services of the Interim Director of Adults' Services from 5 July to 19 December 2018

Exit Packages

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

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

(a) Exit package cost band (including special payments)	(b) Number of compulsory redundancies		(c) Number of other departures agreed		(d) Total number of exit packages by cost band (b + c)		(e) Total cost of exit packages in each band	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
£0 - £20,000	71	25	35	36	106	61	£747,022	£347,034
£20,001 - £40,000	7	6	16	10	23	16	£646,293	£450,274
£40,001 - £60,000	3	1	7	1	10	2	£501,503	£107,748
£60,001 - £80,000	0	1	1	0	1	1	£67,555	£79,365
£80,001 - £100,000	1	0	4	0	5	0	£442,966	£0
£100,001 - £150,000	0	0	1	0	1	0	£106,024	£0
£150,001 - £200,000	0	0	0	1	0	1	£0	£170,000
Total	82	33	64	48	146	81	£2,511,363	£1,154,421

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.

<u>Learning Disabilities</u>

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

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

<u>Mental Health</u>

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.

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

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.

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

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

In addition to the pooled funds disclosed above, the Authority receives Improved Better Care Fund (iBCF) and Winter Pressures Grant (WPG) allocations directly from central government. Whilst the iBCF and WPG are intended to support the wider BCF programme, these monies are not subject to the joint control arrangements of the BCF, and so are not accounted for as part of the pooled budget.

West Sussex County Council received a WPG allocation of £3.3m in 2019/20, all of which has been recognised in the Comprehensive Income and Expenditure Statement for the period (see Note 25).

West Sussex County Council received an iBCF allocation of £16.7m in 2019/20, of which £11.3m has been recognised in the Comprehensive Income and Expenditure Statement for the period (in addition to £2.8m carried forward from 2018/19) per Note 25. The balance of £5.4m has been carried forward as a receipt in advance, as there are outstanding conditions on the grant which will only be met when the funds are applied. Spending commitments had already been made against the majority of this carried forward balance at the reporting date.

33. Related Parties

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

Central Government

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

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2019/20 is shown in Note 27.

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

- Director and Trustee of Crawley Open House, and also a member of the Executive Committee of South-East Employers. In 2019/20 goods and services to the value of £280,017 and £9,062 respectively were commissioned from these organisations.

- Director and Trustee of Coastal West Sussex MIND. In 2019/20, the Authority commissioned goods and services to the value of £175,578 from this entity and received income of £958.

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

Officers

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

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

Other Public Bodies

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

In 2019/20 the Council incurred costs of £0.6m (2018/19 £1.1m) in relation to the administration of the Fund, and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund, and contributed £59.9m to the Fund in 2019/20 (2019/19 £57.5m). All monies owing to and due from the Fund have been accounted for in the year.

Part of the Pension Fund cash holdings are invested in the money market by the Treasury Management operations at West Sussex County Council, in line with the Fund's Treasury Management Policy. During the year to 31 March 2020 the Fund had a daily average investment balance of £107.7m held in Sterling (31 March 2019 £50.0m), earning interest of £0.68m (2018/19 £0.31m) in these funds at a rate of return of 0.63% (2018/19 0.62%). Additionally, the Fund has earned interest of £0.02m on investments held in foreign currency (2018/19 £0.13m).

Entities Controlled or Significantly Influenced by the Authority

Under the West Sussex County Council Act 1972, West Sussex County Council and Arun District Council (ADC) each appoint four members to the Littlehampton Harbour Board. The Act provides that the Harbour Board should meet its expenses from receipts but that any deficiency is made good from its own internal reserve fund and a precept, shared equally, on the County Council and ADC. During 2019/20 the precept on the County Council was £0.141m (2018/19 precept £0.146m).

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

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

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

	2018/19 (Restated) £000	2019/20 £000
Charges for depreciation of non current assets	-68,334	-80,750
Charges for amortisation of intangible assets	-400	-390
Revaluations gains/losses on Property, Plant and Equipment and Assets Held for Sale charged to the Surplus/Deficit on Provision of Services	100,014	30,837
Impairment of non current assets	0	0
Movements in the market value of Investment Property	415	12,245
Amount of assets written off on disposal or sale as part of the gain/loss on disposal charged to the Surplus/Deficit on Provision of Services	-15,830	-29,184
Gains upon recognition of Donated Assets	0	11,708
Net reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	-72,344	-60,673
Revaluation of financial instruments including expected credit losses	-261	-1,944
(Increase) / decrease in creditors	36,982	-14,305
Increase / (decrease) in debtors	-7,137	22,091
Increase / (decrease) in inventories	-16	213
Contributions (to) / from provisions	-1,593	-5,135
Net adjustments for non-cash movements	**-28,504**	**-115,287**

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

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

36. Cash Flow Statement – Investing Activities

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

37. Cash Flow Statement – Financing Activities

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

38. Events after the Balance Sheet date

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

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

39. Contingent Assets

West Sussex County Council currently has no material contingent assets.

40. Contingent Liabilities

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

West Sussex County Council recognises the following contingent liabilities:

(1) A potential liability exists in respect of the insolvency of Independent Insurance Company Ltd, and its failure to enter into a scheme of arrangement with its creditors. This liability is ongoing but cannot be quantified. Known claims are provided for in the Insurance provision (see Note 14), but there is a risk of new claims arising from the period when the Independent Insurance Company provided cover to the Council (September 1992 to September 2000). An Insurance reserve (see Note 3) is maintained to provide for the risk of unknown future claims.

(2) A potential liability exists in relation to any future costs of maintaining six closed landfill sites in the County. The Authority is responsible for monitoring these sites to ensure that they are being maintained correctly, and that there is no harm being caused to the surrounding environment. No provision has been recognised in the accounts as it is not currently possible to measure the size of any such obligation with sufficient reliability.

(3) A potential liability exists in relation to NHS Trusts who are seeking mandatory charitable relief on business rates. They are seeking to appeal a recent first instance decision against their claim. Should this appeal be successful NHS Trusts will be entitled to an 80% discount, backdated for a period of six years. This cost would be split between MHCLG and Local Government. Whilst a general provision for Non-Domestic Rates Appeals is recognised based on the provisions held by the Council’s billing authorities (see Note 14), no specific provision has been made for NHS Trust charitable appeals at this stage as an obligation requiring settlement is not considered to be probable. However, the Authority has earmarked funding in a reserve (see Note 3) for the eventuality of any successful appeals.

(4) The Council is on notice of the potential for claims associated with the possible exposure of a small number of individuals to harm during some building work undertaken for the Council. An investigation identified a low risk but the likelihood of future claims and any necessary provision for their resolution cannot be assessed at this time.

(5) A number of part time staff are potentially affected by the outcome of litigation to which the County Council was not party but which may alter the legal and contractual rights of staff working on 'term time only' contracts, specifically in relation to the accrual of holiday entitlements. This may result in an additional and backdated claim for compensation. The existence of a liability is therefore dependent on future claims being made and as such a potential obligation cannot be measured with any reliability.

(6) The Council is on notice of potential claims from its IT outsourcing partner in connection with a dispute relating to costs associated with a number of services under this contract. These claims are at an early stage and may yet be resolved but will be monitored for their potential financial consequences.

41. Accounting Policies

(i) General Principles

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

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

(ii) Property, Plant and Equipment

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

Recognition

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

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

Recognition - Schools

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

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

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

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

Measurement

Assets are initially measured at cost, comprising:

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

The Authority does not capitalise borrowing costs.

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

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

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

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

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

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

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

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

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

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

Impairment

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

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

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

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

Depreciation

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

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

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

Componentisation

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

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

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

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

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

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

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

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

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

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

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

(iii) Investment Property

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

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

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

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

(iv) Charges to Revenue for Non-Current Assets

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

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

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

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

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

Supported Borrowing

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

Unsupported Borrowing

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

MRP – Finance Lease and PFI

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

(v) Intangible Assets

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

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

(vi) Government Grants and Contributions

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

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

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

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

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

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

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

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

(viii) Leases

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

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

<u>The Authority as Lessee</u>

Finance Leases

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

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

Lease payments are apportioned between:

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

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

Operating Leases

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

<u>The Authority as Lessor</u>

Finance Leases

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

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

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

Lease rentals receivable are apportioned between:

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

Operating Leases

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

IFRS Transitional Rules

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

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

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

(ix) Private Finance Initiatives (PFI) and Similar Contracts

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

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

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

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

(x) Accruals of Income and Expenditure

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

In particular:

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

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

Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected. An examination of debtors outstanding at 31 March has been undertaken and an allowance for doubtful debts has been made.

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

(xi) Overheads and Support Services

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

(xii) Reserves

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

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund via the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

(xiii) Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Authority recognises the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settling the obligation, taking into account relevant risks and uncertainties.

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

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

(xiv) Contingent Liabilities

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

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

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

(xv) Financial Instruments

<u>a) Financial Liabilities</u>

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

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

b) Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost:

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

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

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

Expected Credit Loss Model:

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

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

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

Financial Assets Measured at Fair Value through Profit or Loss:

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

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

Fair Value Measurements of Financial Assets:

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

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

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

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

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

(xvi) Cash and Cash Equivalents

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

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

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

(xvii) Schools

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

(xviii) Council Tax and Non-Domestic Rates

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

Accounting for Council Tax and NDR

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

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

(xix) Value Added Tax

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

(xx) Employee Benefits

Benefits Payable During Employment

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

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

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

Termination Benefits

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

(xxi) Post-employment Benefits

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

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

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

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

The Local Government Pension Scheme and The Firefighters' Pension Scheme

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

- The liabilities of the respective schemes attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees).
- Liabilities are discounted to their value at current prices, using an appropriate discount rate.

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

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

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

Service cost, comprising:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- Net interest on the net defined benefit liability (asset), i.e. net interest expense for the Authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

Remeasurements, comprising:

- The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows, rather than as benefits earned by employees.

(xxii) Early Retirement Costs

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

(xxiii) Senior Officer Remuneration

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

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

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 of Non-Financial Assets

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

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

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

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

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

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

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

(xxvi) Joint Operations and Other Pooled Budgets

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

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

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

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

(xxvii) Events After the Reporting Period

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

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

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

(xxviii) Local Enterprise Partnership

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

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

(xxix) Going Concern

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

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

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

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

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

42. Critical Judgements in Applying Accounting Policies

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

Coronavirus – Going Concern Impact Assessment

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

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

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

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

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

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

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

Local Government Funding Arrangements

There is a high degree of uncertainty about future levels of funding for local government. MHCLG's Fair Funding Review into business rates retention and baseline funding allocations, previously set for consultation in 2020/21, has been delayed. Additionally, there is a high degree of uncertainty around the council tax and business rates base. The onset of the coronavirus pandemic has seen a number of households fall into council tax support, which may impact on the amount of council tax receivable. The requirement for business premises may also reduce, which could have an impact on the amount of business rates collectable. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

Provisions and Contingent Liabilities

The Authority is required to exercise judgement in assessing whether a potential liability should be accounted for as a provision, or whether it should be disclosed as a contingent liability. This judgement requires the Authority to assess the likelihood of the obligation arising. In calculating the level of any provisions, the Authority also exercises judgement; they are measured at the Authority's best estimate at the balance sheet date of the costs required to settle the obligation. The level of the Authority's provisions and details of its contingent liabilities are set out in Notes 14 and 40 respectively.

Schools' Non-Current Assets

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

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

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

Local Enterprise Partnership

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

Interests in Other Entities

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

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

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

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

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

<u>Coronavirus (Covid-19)</u>

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

One such implication is for property valuations. The immediate impact of the pandemic, in many instances, was to cause the deferment of transactions, thereby limiting the amount of market data available against which to gauge any market movements. The Council's property valuers, Montagu Evans, have invoked a 'material valuation uncertainty' in relation to their valuation of the Authority's operational land and buildings, investment property, assets held for sale and surplus assets. This is on the basis that previous market evidence is now considered to be less reliable to inform opinions of future value, and therefore a reduced degree of certainty can be attached to the valuations provided. The valuers have, however, indicated that any negative value movements on market based valuations (e.g. non specialised assets) may be offset by valuation increases attributable to construction cost pressures for specialised assets (which are valued on a replacement cost basis). It is also worth highlighting that a large proportion of the property valuations undertaken at 31 March 2020 were performed on a depreciated replacement cost basis (71% by value); as the valuation uncertainty is considered to primarily apply to assets valued on an existing use or market value basis, the potential impact of this uncertainty on the Authority's balance sheet is diminished. However, at the balance sheet date the Council continued to hold £91.4m of investment property assets and £36.2m of surplus assets at fair value, and £151.8m of operational land and buildings valued at existing use value, that are potentially impacted by the 'material valuation uncertainty'.

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

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

<u>Property, Plant and Equipment – Revaluation</u>

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

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

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

Property, Plant and Equipment – Depreciation

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

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

Private Finance Initiatives

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

Defined Benefit Pension Schemes

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

Local Government

Change in assumptions at 31 March 2020	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	10%	198,843
0.5% increase in the Salary Increase Rate	1%	15,632
0.5% increase in the Pension Increase Rate	9%	181,856

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

Firefighters

Change in assumptions at 31 March 2020	Approximate % increase to Employer Liability	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	9%	33,388
1 year increase in member life expectancy	3%	10,660
0.5% increase in the Salary Increase Rate	1%	3,551
0.5% increase in the Pension Increase Rate	7%	26,854

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

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

A number of accounting changes are being adopted in the 2020/21 Code of Practice, namely:

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

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

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

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

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

45. Firefighters' Pension Scheme

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

Net Assets Statement

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

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

GLOSSARY OF FINANCIAL TERMS

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

GLOSSARY OF FINANCIAL TERMS

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

West Sussex Pension Fund

Statement of Accounts 2019/20

Declaration

Under Regulation 9 of the Accounts and Audit Regulations 2015, I certify that the Statement of Accounts set out in the following pages presents a true and fair view of the West Sussex Pension Fund as at 31 March 2020.

Katharine Eberhart
The Director of Finance and Support Services

Notes: The West Sussex Pension Fund is a defined benefit scheme and the following accounts do not take account of liabilities to pay pensions and other benefits after 31 March 2020 year end. Further information relating to these liabilities and other benefits is contained in the Valuation Report. The full valuation report can be found on the West Sussex County Council website www.westsussex.gov.uk/pensions

The Local Government Pension Fund Scheme
Pension Fund Account

2018/2019 £000		Notes	2019/2020 £000
	Dealings with members, employers and others directly involved in the scheme		
130,312	Contributions received	7	138,083
4,317	Transfers in from other Pension Funds	8	17,562
134,629			**155,645**
(113,811)	Benefits Paid	9	(114,575)
(11,375)	Payments to and on account of leavers	10	(15,861)
(125,186)			**(130,436)**
9,443	**Net additions/(withdrawals) from dealings with members**		**25,209**
(17,835)	Management Expenses	11	(17,075)
(8,392)	**Net additions/(withdrawals) including Fund management expenses**		**8,134**
	Returns on investments		
61,375	Investment income	12	72,914
(1,211)	Taxes on income	13A	(638)
5	Other income		2
218,068	Profit and (losses) on disposal of investments and changes in the market value of investments	14A	(153,114)
278,237	**Net return on investments**		**(80,836)**
269,845	**Net increase in net assets available for benefits during the year**		**(72,702)**
4,104,276	**Add opening net assets of the scheme**		**4,374,121**
4,374,121	**Closing net assets of the scheme**		**4,301,419**

Net Asset Statement

At 31 March 2019 £000		Notes	At 31 March 2020 £000
4,322,996	Investment assets	14	4,195,984
(9,660)	Investment liabilities	14	(16,730)
4,313,336	**Net investment assets / (liabilities)**		**4,179,254**
72,266	Current assets	21	131,328
(11,481)	Current liabilities	22	(9,163)
4,374,121	**Net assets of the scheme available to fund benefits at the end of the reporting period**		**4,301,419**

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

Notes to the Accounts

NOTE 1: DESCRIPTION OF THE FUND

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

a. General

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

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

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

b. Membership

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

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

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

Membership details are set out below:

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

c. Funding

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

- Active members in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020.
- Employers in accordance with the rate calculated by the Fund actuary at the triennial valuation exercise, or on admission between valuations. The employer contribution rates range from 0% to 40.3% of pensionable pay for the financial year ending 31 March 2020.

d. Benefits

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

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

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

NOTE 2: BASIS OF PREPARATION

The accounts have been prepared in accordance with the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, which is based upon International Financial Reporting Standards (IFRS), as amended for UK public sector and Guidance on Investment Valuations issued by the Pensions Research Accountants Group (PRAG).

The accounts summarise the transactions and net assets of the Fund. They do not take account of future liabilities to pay pensions and other benefits after 31 March 2020 reporting period. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) basis, is disclosed at Note 20.

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

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

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

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

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue recognition

a. Contribution income

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

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

b. Transfers to and from other Schemes

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

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

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

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

c. Investment income

i. Interest income is recognised as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii. Stock lending income is recognised as it accrues.

iii. Dividend income is recorded on the date that the shares are quoted as ex-dividend. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as a current financial asset.

iv. Private equity income is recognised on the date paid. Any amount not received at the end of the reporting period is disclosed in the Net Asset Statement as a current financial asset.

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

vi. Changes in the value of investments (including investment properties) are recognised as income or expense and comprise all realised and unrealised profit or loss during the year.

Fund Account - Expense items

d. Benefits payable

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

e. Taxation

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

f. Management expenses

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

i. Administrative expenses are accounted for on an accruals basis representing the annual charge relating to the pensions and payroll administration and relevant staff costs. Associated management, accommodation and other overheads are also apportioned to this activity.

ii. Oversight and governance expenses are accounted for on an accruals basis representing the Fund's external advisors, audit and actuary fees and relevant staff costs. Associated management, accommodation and other overheads are also apportioned to this activity.

iii. Investment management expenses (including transaction costs) are accounted for on an accruals basis. Fees of the external managers and custodian are agreed in the respective mandates governing their appointment and are mainly based on the market value of the investments under management.

iv. The Fund has negotiated that an element of Baillie Gifford's fee is performance related. Baillie Gifford's performance related fees were £4.2m in 2019/20 (£5.7m in 2018/19).

v. The cost of the County Council’s in-house treasury management team is charged to the Fund based on a proportion of time spent by officers on treasury management. Associated management, accommodation and other overheads are also apportioned to this activity.

Net Asset Statement

g. Financial assets

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

h. Freehold and leasehold properties

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

i. Foreign currency transactions and balances

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

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

j. Cash and cash equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of change in value.

k. Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Asset Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in fair value of the liabilities are recognised by the Fund.

l. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. The Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Asset Statement. See Note 20.

m Additional voluntary contributions

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

n. Contingent assets and contingent liabilities

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

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

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

NOTE 4: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Pension Fund liability

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

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

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

Directly held property

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

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

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	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 2020 would result in an approximate 10% increase to employer liability (£448m). A one year increase in member life expectancy at year ended 31 March 2020 would result in an approximate increase in employer liability of between 3% and 5% (£134m and £224m). A 0.5% increase in the salary increase rate at year ended 31 March 2020 would result in an approximate increase in employer liability of 1% (£24m). A 0.5% increase in the pension increase rate at year ended 31 March 2020 would result in an approximate 10% increase in employer liability (£421m).
Private equity	Private equity investments are valued at fair value in accordance with industry guidelines, based on the fund manager valuations as at the end of the reporting period. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. This takes into account observable and non-observable pricing inputs including public market developments (industry sector and peers), private market transactions, company specific considerations, public indices and cashflows	The total private equity investment in the financial statements is £91.1m. There is a risk that this investment may be under or overstated in the accounts.

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

NOTE 6: EVENTS AFTER THE BALANCE SHEET DATE

There have been no notable events occurring after the balance sheet

NOTE 7: CONTRIBUTIONS RECEIVED

By Category

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

By Authority

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

NOTE 8: TRANSFERS IN FROM OTHER PENSION FUNDS

By Category

2018/19 £000		2019/20 £000
4,317	Individual transfers	17,562
-	Bulk transfers	-
4,317		**17,562**

NOTE 9: BENEFITS PAID

By Category

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

By Authority

2018/19 £000		2019/20 £000
51,697	Administering authority	51,901
52,995	Scheduled bodies	53,319
9,119	Admitted bodies	9,355
113,811		**114,575**

NOTE 10: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

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

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

NOTE 11: MANAGEMENT EXPENSES

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

NOTE 11a: INVESTMENT MANAGEMENT EXPENSES

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

NOTE 12: INVESTMENT INCOME

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

NOTE 12a: PROPERTY INCOME

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

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

NOTE 13: OTHER FUND ACCOUNT DISCLOSURES

2018/19 £000		2019/20 £000
24	Pension Advisory Board	26
117	ACCESS pool	108
141		**134**

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

NOTE 13a: TAXES ON INCOME

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

NOTE 13b: EXTERNAL AUDIT COSTS

2018/19 £000		2019/20 £000
37	Payable in respect of external audit	23
37		**23**

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

NOTE 14: INVESTMENTS

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

NOTE 14a: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

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

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

NOTE 14b: ANALYSIS OF INVESTMENTS

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

NOTE 14c: INVESTMENTS ANALYSED BY FUND MANAGER

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

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

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

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

NOTE 14d: STOCK LENDING

The Fund's Investment Strategy Statement (ISS) sets out the parameters for the Fund's stock-lending programme. As at 31 March 2020, the value of quoted equities on loan was £203.4m (31 March 2019: £302.6m).

Counter-party risk is managed through holding collateral at the Fund's custodian bank. At year end the Fund held collateral (via the custodian) at fair value of £263.6m (31 March 2019: £328.5m).

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

NOTE 14e: DIRECT PROPERTY HOLDINGS

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

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

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

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

NOTE 15: ANALYSIS OF DERIVATIVES

The Fund does not invest directly in derivatives.

NOTE 16: FAIR VALUE - BASIS OF VALUATION

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised.

a. Market quoted investments (Level 1)
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

b. Quoted bonds (Level 1)
Bonds are recorded at net market value based on their current yield.

c. Pooled investment vehicles (Level 2)
Pooled investment vehicles are valued at closing bid price at the closing date. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

d. Freehold and leasehold properties (Level 3)
Freehold and leasehold properties are included on the basis of fair value. A full independent valuation of the Fund's direct property portfolio was carried out by Savills (UK) Ltd, Chartered Surveyors, in accordance with the RICS Valuation – Professional Standards (January 2020) Global and UK Edition, issued by the Royal Institution of Chartered Surveyors. The properties have been valued at the reporting date on the basis of fair value as required by the International Financial Reporting Standards (IFRS). The definition of fair value is set out in IFRS 13 and is adopted by the International Accounting Standards Board as follows: "The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.". The RICS Red Book considers that fair value is consistent with the concept of market value, the definition of which is set out in Valuation Practice Statement (VPS) 4 1.2 of the Red Book as follows: "The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

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

Significant changes in rental growth, vacancy levels or the discount rate could affect valuations, as could more general changes to market prices (see note 5).

e. Private equity (Level 3)

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

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

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

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

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

- The valuation of Pantheon's portfolio is taken from the estimated 31 March 2020 fund-of-fund reports.

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

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

Sensitivity of assets valued at Level 3

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

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

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

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

NOTE 16a: FAIR VALUE HIERARCHY

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

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

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

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

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

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

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

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

Values at 31 March 2020	Quoted market price 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	2,099,784	1,584,546	91,154	3,775,484
Non-financial assets at fair value through profit and loss			366,125	366,125
Net investment assets	**2,099,784**	**1,584,546**	**457,279**	**4,141,609**

Values at 31 March 2019	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	2,282,655	1,468,720	110,727	3,862,102
Non-financial assets at fair value through profit and loss			376,950	376,950
Net investment assets	**2,282,655**	**1,468,720**	**487,677**	**4,239,052**

NOTE 16b: TRANSFER BETWEEN LEVELS 1 AND 2

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

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

	Market Value 1 April 2019 £000	Transfers into / (out of) Level 3 £000	Net purchases / (sales) during the year £000	Unrealised gains / (losses) £000	Realised gains / (losses) £000	Market Value 31 March 2020 £000
Private equity	110,727	-	(29,269)	(11,161)	20,820	91,117
Property	376,950	-	2,256	(13,081)	-	366,125
Equity	-	37	-	-	-	37
	487,677	**37**	**(27,013)**	**(24,242)**	**20,820**	**457,279**

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

NOTE 17: FINANCIAL INSTRUMENTS

NOTE 17a: CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

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

NOTE 17b: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

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

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

NOTE 18: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND OTHER ASSETS

Risk and risk management

The primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund, and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through diversification by assets and fund managers, to reduce exposure to market risk (price risk, currency risk and interest rate risk). In addition, the Fund manages its liquidity risk to ensure there are sufficient resources to meet the forecast cash requirement. The Pensions Panel reviews the Fund's funding strategy, in consultation with the actuary and investment adviser, based on the Fund's funding position and performance objective and taking into consideration factors including interest rates, inflation, liquidity and collateral. Prudent assumptions are used both in the strategy modelling work and when setting employer contribution rates. Performance is monitored by the Pensions Panel.

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

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

a. Market risk

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

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

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

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

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

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

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

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

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

	Current year			
	Value at 31 March 2020	**Change**	**Value on Increase**	**Value on Decrease**
	£000	**%**	**£000**	**£000**
Asset type				
UK equities	294,079	27.50%	374,951	213,208
Overseas equities	1,690,377	28.00%	2,163,682	1,217,071
Bonds	115,365	9.10%	125,863	104,867
Bond funds	1,557,485	9.41%	1,704,044	1,410,925
Cash	43,551	0.30%	43,682	43,420
Property	366,125	14.20%	418,115	314,135
Private equity	91,117	28.40%	116,994	65,240
Currency fund	27,062	10.00%	29,768	24,356
Total	**4,185,161**		**4,977,099**	**3,393,222**

	Previous year			
	Value at 31 March 2019	**Change**	**Value on Increase**	**Value on Decrease**
	£000	**%**	**£000**	**£000**
Asset type				
UK equities	441,531	16.60%	514,825	368,217
Overseas equities	1,723,122	16.90%	2,014,330	1,431,915
Bonds	118,002	9.10%	128,740	107,264
Bond funds	1,436,253	10.53%	1,587,490	1,285,015
Cash	69,405	0.50%	69,752	69,058
Property	376,950	14.30%	430,854	323,046
Private equity	110,727	28.30%	142,063	79,391
Currency fund	32,468	10.00%	35,715	29,221
Total	**4,308,458**		**4,923,769**	**3,693,127**

Interest rate risk is monitored by the investment managers and the County Council's treasury management team.

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk - sensitivity analysis

The Fund recognises that interest rates vary and can affect both income and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

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

	Current year		
Assets exposed to interest rate risk	**Value at 31 March 2020**	**Change in year in net assets available to pay benefits**	
		+100 BPS	**-100 BPS**
	£000	**£000**	**£000**
Asset type			
Cash and cash equivalents	43,551	436	(436)
Cash balances	119,088	1,191	(1,191)
Bonds	115,365	1,154	(1,154)
Total	**278,004**	**2,781**	**(2,781)**

	Previous year		
Assets exposed to interest rate risk	**Value at 31 March 2019**	**Change in year in net assets available to pay benefits**	
		+100 BPS	**-100 BPS**
	£000	**£000**	**£000**
Asset type			
Cash and cash equivalents	69,405	694	(694)
Cash balances	53,604	536	(536)
Bonds	118,002	1,180	(1,180)
Total	**241,011**	**2,410**	**(2,410)**

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 2020**	**Change**	**Value on Increase**	**Value on Decrease**
	£000	**%**	**£000**	**£000**
Asset type				
Overseas equities	1,690,377	10.00	1,859,414	1,521,339
Overseas bonds	301,502	10.00	331,652	271,352
Overseas private equity	91,117	10.00	100,228	82,005
Total	**2,082,996**		**2,291,295**	**1,874,696**

	Previous year			
Assets exposed to currency risk	**Value at 31 March 2019**	**Change**	**Value on Increase**	**Value on Decrease**
	£000	**%**	**£000**	**£000**
Asset type				
Overseas equities	1,723,122	10.00	1,895,434	1,550,810
Overseas bonds	661,801	10.00	727,981	595,621
Overseas private equity	110,727	10.00	121,800	99,654
Total	**2,495,650**		**2,745,215**	**2,246,085**

b. Credit risk

Credit risk is the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. Credit risk is related to the potential return of any investment, the most obvious being that the yields on bonds are strongly correlated to the perceived credit risk. Therefore, the risk of loss is implicit in the carrying value of the Fund's financial assets and liabilities.

The Fund is exposed to credit risk. However, this risk is minimised by selecting high quality counterparties, brokers and financial institutions.

Deposits are made only with banks and financial institutions that are rated independently and meet the Fund's credit criteria. The Fund has also set out in its Treasury Management Policy the limits of exposure to any one financial institution.

The Fund has not had any experience of default or uncollectable deposits. The fund managers held £43.6m in cash (31 March 2019: £69.4m) and cash internally managed by WSCC at 31 March 2020 was £119.1m (31 March 2019: £53.6m). This was held by institutions with the following credit ratings :

	Nominal amount 31 March 2019	**Nominal amount 31 March 2020**
	£000	**£000**
AAA rated counterparties	42,200	
AA- rated counterparties	-	-
A rated counterparties	80,809	162,639
TOTAL	**123,009**	**162,639**

The Fund's total exposure to credit risk cannot be assessed generally as the risks of default will be specific to each financial institution. At 31 March 2020, there was no evidence that such risks were likely to materialise.

c. Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations when they fall due, without incurring unacceptable losses or risking damage to the Fund's reputation. Cash is required to pay benefits, fund acquisitions and settle various other commitments. The Fund maintains a working cash balance held in instant access money market and bank accounts. A cash flow forecast is maintained to ensure sufficient funds are available. The Fund manages liquidity risk by:

- giving careful consideration to the anticipated income and expenditure required for the administration of the Fund and the payment of benefits and by maintaining in-house managed cash balances sufficient to meet day-to-day cash flows.
- keeping a significant proportion of the Fund's assets in highly liquid investments such as actively traded equities, bonds and unit trusts.

The Fund is currently cash flow positive.

The Fund’s strategic allocation to property and private equity, which are relatively illiquid, is limited to 15% of the total portfolio. As the Fund is not mature, i.e. it does not need to sell assets in order to pay benefits, it is considered appropriate to hold such investments to increase diversification, minimise risk and improve long-term investment performance.

Under the regulations, the Fund is authorised to borrow in its own right to fund cash flow deficits on a short term basis.

d. Refinancing risk
The key risk is that the Fund is bound to replenish its investments at a time of unfavourable interest rates. The Fund does not hold any financial instruments that have a refinancing risk as part of its treasury management or investment strategies.

e. Counterparty risk
The Fund's global custodian, Northern Trust has responsibility for safeguarding the assets of the Fund. Its duties include maintaining a repository of underlying information on the Fund's assets and arranging settlement of transactions, income collection and cash management. The Fund monitors Northern Trust's performance and is in regular contact with the custodian. Monthly reconciliations are performed between the custodian's and the investment managers' records.

The Fund has appointed a number of segregated and pooled fund managers to manage portions of the Fund. An Investment Management Agreement is in place for each relationship. All appointments meet the requirements set out in the LGPS (Management and Investment of Funds) Regulations 2016. Reports on manager performance are monitored by the Pensions Panel on a quarterly basis. The Fund makes use of a third party performance measurement service. In addition to presenting to the Pensions Panel, managers also meet with Fund officers and advisers regularly to review activity and results.

NOTE 19: FUNDING ARRANGEMENTS - ACTUARIAL STATEMENT

Description of funding policy

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purposes of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 and the next valuation will take place as at 31 March 2022.

The key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will help ensure that sufficient funds are available to meet all members’/dependants’ benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The Funding Strategy Statement (FSS) sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £4,374 million, were sufficient to meet 112% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2019 valuation was £455 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2022 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal actuarial assumptions and method used to value the liabilities

Method:
The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions:
A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

	31 March 2019 %
Discount rate	3.1
Salary increase assumption	2.8
Benefit increase assumption (CPI)	2.3

Demographic assumptions

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's

	Males	Females
Current Pensioners	22.2 years	24.2 years
Future Pensioners	23.3 years	25.9 years

Copies of the 2016 valuation report and FSS are available on the Funds website or on request from West Sussex County Council.

Experience over the period since March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The FSS will also be reviewed at that time.

NOTE 20: ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund's liabilities on an IAS 19 basis, using the same base data as the funding valuation. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (Note 19). The actuary has also valued ill health and death benefits in line with IAS 19.

31 March 2019 £m		31 March 2020 £m
(2,442)	Active members	(1,617)
(1,012)	Deferred pensioners	(1,084)
(1,507)	Pensioners	(1,670)
(4,961)	Present value of promised retirement benefits	**(4,371)**
4,374	Fair value of scheme assets (bid value)	4,301
(587)	Net liability	**(70)**

As noted above, the liabilities above are calculated on an IAS 19 basis and will therefore differ from the results of the 2019 triennial funding valuation (Note 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the aggregate liability appears to be a reasonable estimate of the actuarial present value of benefit promises.

No allowance has been made for unfunded benefits.

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

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

IAS 19 Assumptions used

The assumptions used are those adopted for the administering authority's IAS 19 report and are different as at 31 March 2020 and 31 March 2019.

The Fund actuary estimates that the impact of the change in financial assumptions to 31 March 2020 is to decrease the actuarial present value by £463m. The Fund actuary estimates the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £225m.

	31 March 2019	31 March 2020
	% p.a.	% p.a.
Inflation / pensions increase rate	2.5	1.9
Salary increase rate	3.2	2.3
Discount rate	2.4	2.3

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.50% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.2 years	24.2 years
Future pensioners *	23.3 years	25.9 years

* Future pensioners are assumed to be currently aged 45 at the latest formal valuation

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.
An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

NOTE 21: CURRENT ASSETS

31 March 2019 £000		31 March 2020 £000
	Debtors:	
2,473	Contributions due - members	2,835
8,730	Contributions due - employers	5,969
1,290	Prepayments	1,404
1,238	Other debtors	1,573
4,931	Taxation	459
18,662		12,240
53,604	Cash balances	119,088
72,266		**131,328**

Analysis of debtors

31 March 2019 £000		31 March 2020 £000
6,443	Central government bodies	4,078
6,954	Other local authorities	3,844
2,512	Educational establishments	1,486
2,753	Other entities and individuals	2,832
18,662		**12,240**

NOTE 22: CURRENT LIABILITIES

31 March 2019 £000		31 March 2020 £000
-	Contributions	-
1,215	Benefits payable	1,095
10,266	Other current liabilities	8,068
11,481		**9,163**

Analysis of creditors

31 March 2019 £000		31 March 2020 £000
1,021	Central government bodies	1,032
184	Other local authorities	663
1,239	Educational establishments	-
9,037	Other entities and individuals	7,468
11,481		**9,163**

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

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS

Market Value £000		Market Value £000
2,139	Standard Life	2,108
403	Utmost (previously Equitable Life)	429
2,542		**2,537**

AVC Contributions of £444,912 were paid directly to Standard Life during the year (2018/19: £349,873). The Equitable Life contributions ceased in 2001. AVCs are separately invested and are therefore not included in the Pension Fund accounts in accordance with regulations 4(1)(b) of the Local Government Pension Scheme (Management and Investment of funds) regulations 2016.

A policy holder meeting on 1 November 2019 voted in favour of the proposed Part VII transfer of Equitable Life's business to Utmost Life. The High Court gave its approval on 4 December and the transfer took place on 1 January 2020.

NOTE 24: RELATED PARTY TRANSACTIONS

West Sussex County Council

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

During the reporting period, the Council incurred costs of £0.6m (2018/19: £1.1m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £59.9m to the Fund in 2019/20 (2018/19: £57.5m). All monies owing to and due from the Fund have been accounted for in the year.

Part of the Pension Fund cash holdings are invested in the money market by the Treasury Management operations at West Sussex County Council, in line with the Fund's Treasury Management Policy. During the year to 31 March 2020, the Fund had a daily average investment balance of £107.7m held in Sterling (31 March 2019: £50.0m) earning interest of £0.68m (2018/19: £0.31m) in these funds at a rate of return of 0.63% (2018/19: 0.62%). Additionally, the Fund has earned interest of £0.02m on investments held in foreign currency (2018/19: £0.13m).

Governance

One member of the Pensions Panel is in receipt of pension benefits from the West Sussex Pension Fund.

Each member of the Pensions Panel is required to declare their interests at each meeting.

NOTE 24a: KEY MANAGEMENT PERSONNEL

The Director of Finance and Support Services (formerly Director of Finance, Performance and Procurement) and S151 officer has responsibility for the proper financial administration of the Fund under the Local Government Act 1972. This Officer is employed by the Administering Authority but spent a proportion of time on the financial management of the Fund. The total Pension Fund expense relating to Key Management Personnel is set out below:

31 March 2019 £000		31 March 2020 £000
16	Total apportioned remuneration	16

NOTE 25: CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

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

Estimates provided to members indicate that at year-end there are potential liabilities of £0.7m in respect of members who have enquired about transferring benefits out of the scheme and on whom the Fund is awaiting a final decision.

Outstanding commitments in private equity at 31 March 2020 totalled £24.9m (31 March 2019 £27.6m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over the period of investment.

NOTE 26: CONTINGENT ASSETS

There were no contingent assets at the period end.

Unrestricted

Regulation, Audit and Accounts Committee

20 November 2020

Annual Governance Statement 2019/20

Report by Director of Law and Assurance

Electoral division: Not applicable

Summary

The report advises of the requirements for the Annual Governance Statement 2018/19. It includes a draft Statement for approval at Appendix a. This also covers the significant governance issues raised in 2018/19. Progress on previous actions is found in appendix b.

Recommendations

That the draft Statement and Action Plan be recommended for adoption through the signatures of the Leader of the Council and the Chief Executive.

Proposal

1 Background and context

1.1 The Accounts and Audit Regulations require the publication of an Annual Governance Statement (AGS). This statement has been produced in line with guidance issued in 2016 by CIPFA / SOLACE on best practice for developing and maintaining a locally adopted Code of Governance. A Corporate Code of Governance was approved by the Governance Committee at a meeting on 12 September 2016.

1.2 Corporate Governance is the process by which the County Council ensures and gives assurance that it is doing the right things, in the right way, in a timely and accountable manner. It comprises the systems, processes, culture and values by which the County Council operates and through which it accounts to its communities.

2 Proposal details

2.1 The draft AGS for the County Council for 2019/20 outlines:

- the scope of governance responsibilities
- the purpose of the governance framework
- a description of the governance framework
- arrangements for review of the effectiveness of the governance framework
- Governance issues that need to be addressed.

2.2 Information is gathered from a number of sources, internal and external. The draft Statement was discussed with senior officers and auditors. The Executive Leadership Team considered the draft AGS and actions. It is now presented to this Committee for consideration alongside the approval of accounts. The later timescale is due to the effects of the public health emergency. If the Committee is satisfied, it is asked to recommend the adoption of the Statement through the signatures of the Leader of the Council and the Chief Executive.

2.3 Updates on the main Governance issues identified in last year's Action Plan are attached at Appendix b. The Committee is asked to note the closed actions and to agree that the outstanding actions be transferred to the 2019/20 action plan.

3 Other options considered (and reasons for not proposing)

3.1 Not applicable. It is not suggested that any outstanding actions from the previous year be removed from the action plan.

4 Consultation, engagement and advice

4.1 The external auditor was consulted on the draft Annual Governance Statement and the auditor's comments have been taken into account in the final version.

5 Finance

5.1 Not applicable.

6 Risk implications and mitigations

Risk	Mitigating Action (in place or planned)
There are risks from services failing to deliver the action plan	Individual directorates, the Executive Leadership Team and this Committee, monitor these risks.
There are reputational risks from a failure to adopt a comprehensive AGS and action plan	This plan is ready for approval and has the commitment of the senior leadership team who will be responsible collectively for its implementation.

7 Policy alignment and compliance

7.1 The Statement is aligned with the Code of Corporate Governance.

Tony Kershaw
Director of Law and Assurance

Contact Officer: Charles Gauntlett, Senior Advisor, phone 033 022 22524, charles.gauntlett@westsussex.gov.uk

Appendices
Appendix A - Annual Governance Statement 2019/20
Appendix B - Action Plan Update

Background papers
None

Annual Governance Statement 2019/20

Executive Summary

The Annual Governance Statement (AGS) explains 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 2019 to 31 March 2020.

During this period a report commissioned by the Department for Education was published which raised significant issues for the Council's governance arrangements and broader culture. Action to address them is covered in the Statement. The actions are on-going arising mainly from a significant review of governance started in early 2020 referred to as the 'Good Governance project.

The year closed with the commencement of the continuing national public health emergency and the initial impact of this event on the Council's governance is also addressed. It is for these reasons that the final text of the AGS will be presented for approval later than usual in the administrative year.

A summary of assurance is given for each of the seven principles on which the Statement is based. At the end of the narrative on each principle are the actions to address the issues identified within the year which will further strengthen the governance arrangements for the County Council.

The Purpose of the Governance Assurance Framework

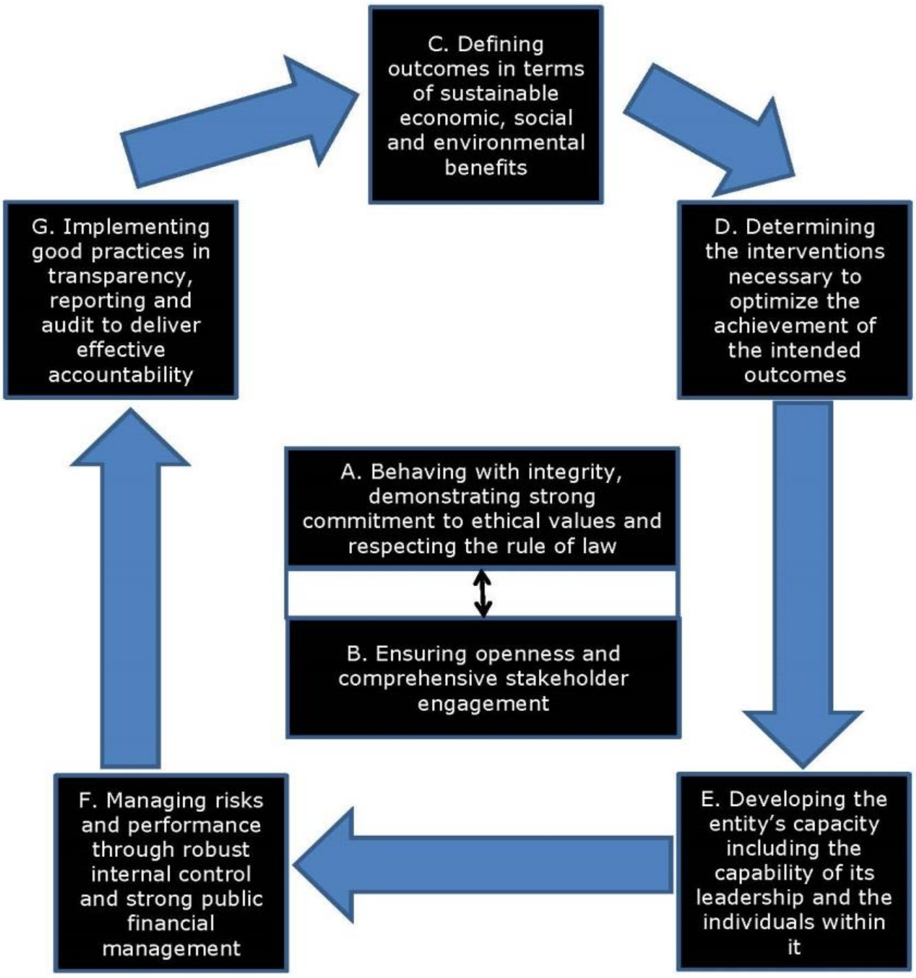
1. The County Council must ensure it functions in accordance with the law and proper standards and that public money is safeguarded, correctly accounted for and used economically and efficiently. It must show how it can offer assurance as to the proper governance of its affairs (including as pensions administrator), the effective exercise of its responsibilities 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) Framework: Delivering Good Governance in Local Government. It meets the requirements of the Accounts and Audit Regulations 2015.

3. The governance framework comprises the rules, procedures, systems and processes by which the Council is managed and controlled. The quality of the framework underpins trust in public services. The Annual Statement shows how the Council uses the framework to give assurance to members, partners, stakeholders and residents and provides an opportunity for the County Council to examine the framework to assure itself that the arrangements for its governance are robust.

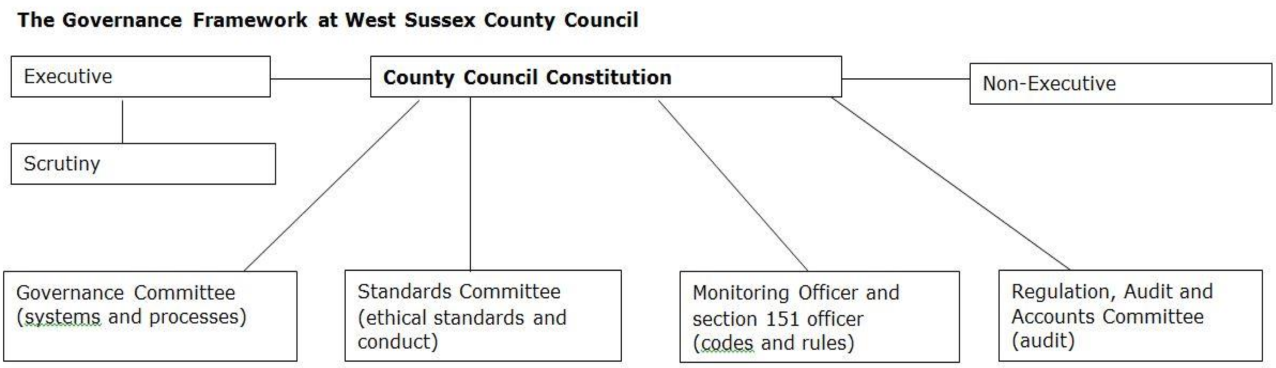
The Governance Assurance Framework Principles

4. There are seven principles and sub-principles of Corporate Governance adopted by the Governance Committee set out below. Assurance for how they are met is provided in the text below each principle in the report. Further work to be done is highlighted and also set out in the appendix.



The County Council's Governance Framework

5. The framework covers the allocation of functions, the rules for how they are carried out and the mechanisms for tracking that this happens correctly. The relationship of responsibilities is shown here:



Section A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
Assured (in part) The County Council has high standards for sound governance as set out in law, 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. Certain elements of these arrangements require further action to provide assurance that they continue to be implemented fully and correctly. In this and in other sections of the Statement the governance issues raised by the Children's Commissioner's report are addressed. Where relevant, actions identified in the Council's 'Good Governance' project are set out.

6. The **Governance Committee** oversees the democratic arrangements of the County Council and reviews and advises the County Council on the Constitution. The Responsibility for Functions (including the Scheme of Delegation) and Standing Orders require members and officers to ensure that all decisions are compliant with internal policies and procedures as well as with law and regulation. These give authority and certainty to the allocation of responsibilities as set out in the Constitution.

7. Part 5 of the Constitution contains the Code of Conduct for members. A parallel code for officers sits in the suite of Human Resources policies. The Council has also adopted policies relating to responsibilities for ethical behaviour including equality and sustainability. Decision-making is supported by advice from officers and internal guidance that should ensure compliance with these policies.

8. 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 provide oversight of propriety and lawfulness. They have a direct reporting line to the Chief Executive and are involved in all major

decision-making as part of the Executive Leadership Team and as well as being signatories to all key and other significant decisions.

9. The **codes of conduct** define the standards of behaviour for members and officers. All members undertake 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 complete the register of interests and receive quarterly reminders on the subject of personal interest declarations and it is a standing item on all formal meeting agendas for both officers and members.

10. The Council has a **whistleblowing policy** to offer a route for challenges to processes or actions within the Council where complainants need confidentiality. It has been extensively revised during 2019/20. The use and effectiveness of the policy is overseen by the Standards Committee. Its accessibility and visibility for staff are not sufficiently clear and action is being taken to refresh and ensure visibility. This has involved independent assurance and benchmarking for the Council's arrangements. This work has particular significance in light of the more critical issues raised by the Children's Commissioner's report relating to the Council's internal culture. Further work is also required to ensure that officers serving as contact points for referrals are properly skilled in dealing with concerns raised under the policy and their implications.

11. Officer interests, including gifts and hospitality, should be published on the County Council's website annually. This has not happened for some time. Mechanisms for recording officer interests, gifts and hospitality were last reviewed in June 2018 and endorsed by the Standards Committee. A system for recording is in place. It requires regular action by Directors to facilitate publication as currently this is not consistent across the organisation. Action is taken each year as part of the AGS work to reinforce the importance of this process.

12. The Council's Standing Orders on Contracts and Procurement and the Financial Regulations and Procedures provide rules for lawful and sound processes for contract and spending decisions. These are managed by the Monitoring Officer and Chief Financial Officer in consultation with the Regulation Audit and Accounts Committee and supported by a group of officer subject matter experts sitting as the Procurement Board. This provides a single process for procurement planning, compliance with due process and consistency of best practice.

13. The Officer Scheme of Delegation is held under regular review by the Chief Executive and the Monitoring Officer, with any new delegations needing the agreement of the Governance Committee. Of greatest significance for the last period has been the re-establishment of the statutory director of children's services as an executive leadership role, reporting to the Chief Executive and accountable for the full extent of Children's Services. Further work to clarify lines of responsibility and accountability will arise as part of the Good Governance project.

14. Following the appointment of a new chief executive in January 2020 an external review of governance was commissioned starting in February. This 'good governance' work provides an opportunity to review these areas of strategic governance and action which may be needed to address inconsistencies or ineffectiveness in policy or practice and as part of the Council's culture, including its arrangements for ensuring compliance. This will be used to complete the work required to address concerns raised in the Children's Commissioner's report.

Principle A (integrity and compliance)	
i. To complete the refresh of the whistleblowing procedures	Director L&A
ii. To ensure full implementation of officer interests and gifts	Director L&A
iii. To complete the external good governance review and plan the implementation of agreed proposals.	Chief Executive
iv. To review the scheme of delegation as part of the good governance review.	Director L&A

Section B: Ensuring openness and comprehensive stakeholder engagement

Assured (in part)

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. The means of ensuring compliance requires further attention.

Recent changes to improve the scope and focus of partnership working in specified areas, most significantly in relation to services for children in need and at risk of harm and the responsibilities of the Council as corporate parents for children in its care will continue to be reinforced. These respond to issues raised as part of the Children's Commissioner's report. Additional areas which will benefit from a more coherent partnership approach are set out below.

Decision-making and Scrutiny

15. The **County Council** is the ultimate decision-making body and the principal forum for political debate. All County Council meetings take place in public and are webcast. The County Council sets the strategic aims that form the Policy Framework. It also determines the Council's budget following a well-developed process of member engagement and scrutiny. The form and timing of member engagement in the budget planning process for the 20/21 budget was widely welcomed by members.

16. The **Executive** takes decisions on most matters of Council policy and service delivery. For the Cabinet, a new way of working was established in

2019/20, with most cabinet level decisions being taken collectively rather than individually. 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 **scrutiny committees**, by which the Executive is held to account through member overview and scrutiny. From April 2020 a fifth scrutiny committee dedicated to scrutiny of the Fire and Rescue Service, has been established. Scrutiny committees are politically proportionate. Chairmen and vice-chairmen are mainly from the majority group, planned to be appointed by the relevant committee by Autumn 2020. Influential scrutiny is achieved by having significant decisions or proposals previewed. Proposals may also be called in for scrutiny after a decision has been proposed in final form. All Scrutiny meetings take place in public and are webcast. Webcasts are available for up to six months of the County Council meetings and of Cabinet, Scrutiny and Planning Committee meetings. A comprehensive review of scrutiny was carried out in 19/20 informed by two external bodies – one focused specifically on Fire and Rescue in light of the recent HMI Inspection and another on the effectiveness of scrutiny for Children's Services.

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 Forward Plan has been revised to provide a clearer format in line with corporate priorities. The Forward Plan is used by Scrutiny Committees to help plan business. As decisions become more significant in terms of service changes and savings proposals there is a greater need to ensure early awareness by and engagement for all members. Further work will be done to enhance the profile of the Forward Plan so that proposals, timings and recommendations are clearly set out and scrutiny work coordinated to achieve more timely influence on outcomes.

18. Decision-making operates with a presumption of openness. Cabinet and Committees are held in public and individual executive decisions are published on a daily basis on the 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 Cabinet and committee meetings are published at least five clear working days in advance – exceptions are explained in public documents. The use of powers to exempt information from publication or allow a committee to meet in private is minimised to when necessary and only after senior officer authorisation. The Cabinet now meets on a monthly basis to take collective decisions in public.

19. Decisions and agendas are held on the website for six years. The content management system, Modern.Gov, is the principal method of publishing the Forward Plan, decisions, agendas and minutes. Members and staff now have portable devices which can easily access Modern.gov information. The Constitution also prescribes the rules and constraints around urgent decisions (including those not notified in the Forward Plan) and the form and content of decision reports. This system is not conducive to openness and transparency and its use is kept to a minimum and reported to the next County Council meeting.

20. **Communication to the public** is via the Council's website, in public meetings and through social media. The Council's website was last revised in April 2015 and a drive for 'digital by design' (i.e. online services for residents) is being pursued as part of plans for service transformation and re-design to support residents' needs. Public consultation on proposals is addressed below. The extent of progress in the digitization of customer and resident engagement with the Council will need to be monitored.

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. 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 Executives Board). A particular council partnership to manage and deliver the retained business rate pool has specific joint governance arrangements for which joint scrutiny will need to be better defined and planned in future.

22. Regular meetings with other partners, most notably the NHS Clinical Commissioning Group, are held at various levels and between Members and officers 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 terms of reference and membership of the **Health and Wellbeing Board,** the principal forum for health and social care liaison and partnership, have been revised to enhance its role. In addition, a Joint Health and Wellbeing Strategy was developed to set out the Board's vision and this is being promoted and disseminated within the Council and through various corporate and partnership initiatives.

23. In the area of **Children's Services** the partnership arrangements were noted last year as inadequate and the areas of focus for partnership working largely limited to operational practice. As part of the action arising from the Ofsted Report and subsequent Children's Commissioner Report reviews of children's services are receiving a more effective focus on partnership and joint working. Significant work has been identified and plans for improvement implemented are brought to an independent Improvement Board chaired by the Children's Commissioner. A comprehensive improvement plan is in place for delivery. This is now extended to areas of strategic and service planning to support work on improvement for areas of children's services considered inadequate and work is also underway for the establishment of an independent children's trust to deliver children's services in accordance with the Direction from the Department for Education issued in November 2019.

24. **County Local Committees** are an important forum for local decisions and for elected members to discuss local matters with residents and stakeholders. The eleven CLCs have executive decision-making powers delegated to them – mostly around highways matters and allocation of grant funding. Some minor changes were implemented following a review in the last year. As locally based evening public meetings, meeting three times a year, they are an important forum for community engagement.

25. 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 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.

Consultation and engagement in West Sussex

26. The County Council is committed to working 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 and change. This requires sound arrangements for engagement and consultation. A regular survey is carried out to inform the County Council of residents' priorities at a relatively high level, more focused engagement being through service led consultation.

27. 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 or decisions. The Council uses various methods to seek people's views: questionnaires, public events, workshops, focus groups, satisfaction surveys, and feedback forms.

28. **Consultation and Engagement Quality Assurance** is a set of processes to ensure services are supported to plan and implement projects which are robust and produce reliable valid data upon which decisions can be made. It includes methodological and ethical requirements and, before projects go live, services must seek advice to ensure they have assurance for consultation and engagement.

Formal consultation

29. 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, and the Council's Statement of Community Involvement. Individual services are required to maintain open channels of communications with relevant stakeholder groups and representative bodies where relevant to service planning.

30. All formal public consultations are made accessible online using the 'Have Your say' consultation hub software. They are also published on the County Council's News and Press Release webpages. The Council ensures

compliance with the public sector equality duty when processing and securing formal key decisions although consistency and appropriateness of use requires further attention to ensure consistent compliance.

31. 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.

32. Action was taken to increase the effectiveness of public engagement and communication including the need to raise awareness of the need to comply with new online accessibility legislation. Work has been started to improve both understanding of, and compliance with, the public sector equality duty. Further work will be undertaken during the coming year.

33. The County Council has a **Petitions Scheme** describing how petitions from residents are dealt with by the County Council. These enable a petitioner to speak with a cabinet member or at 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.

Governance Review and issues for Assurance

34. In light of the recommendations from the Children's Commissioner's report of November 2019 and subsequent discussions with the Ministry of Housing Communities and Local Government a review of the Council's governance, leadership and culture was undertaken. This has taken stock of a number of areas of concern raised by the Commissioner and which have implications for the County Council's improvement plans in critical areas of service, including those raised in the inspection report from Her Majesty's Inspectorate of Constabularies and Fire and Rescue Services (HMICFRS). The review will also review the recommendations from and action arising from the 2018 Peer Review.

35. Actions on these matters are covered in the relevant sections of this Statement with additional commentary as necessary to explain the detail of the area of improvement required.

Principle B (openness and engagement)		
i.	Implement actions arising from the Governance Review	Chief Executive
ii.	Implement actions from Improvement Plan for FRS	Chief Fire Officer
iii.	Implement actions from the Children First Improvement Plan	Executive Director of Children's Services
iv.	Children's Improvement Board to enhance partnership engagement	Executive Director Children (DCS)
v.	Identify and implement actions related to planning for a Children's Trust	Chief Executive & DCS
vi.	Complete work on equality impact assessment in decision making	DLA
vii.	Complete engagement, promotion and training linked to revised whistleblowing policy.	DLA

viii.	Implement final proposals and actions from review of scrutiny and learning from good governance review	DLA

SECTION C: Defining outcomes in terms of sustainable economic, social and environmental benefits
Assured (in part) The County Council has settled arrangements to define outcomes and monitor performance against agreed measures. In setting policies and strategies, the County Council takes a long term view of outcomes, taking into account sustainable economic, social and environmental aims and has effective, comprehensive performance monitoring in place. The West Sussex Plan was prepared and adopted during 2017/18 to the period 2021/22 and reports progress to the Full Council meeting on an annual basis in the form of an Annual Report. The completion of the work for 2020 has been delayed due to the public health emergency from March 2020. This will be renewed as part of the work up to the Autumn of 2020to re-set the Council's priorities in light of the impact of the emergency. Renewal of emphasis on environmental targets for sustainability will be required in addition to a review of the content and effective use of the Council's social value policy.

36. 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 and is subject of an Annual Report to full Council in July each year although delayed this year and replaced with an initial scoping framework to re-set priorities. The Plan was developed by the Cabinet with the engagement of elected members and staff at all levels. Measures and targets were developed in liaison with the Performance and Finance Scrutiny Committee and are published on-line.

37. The West Sussex Plan is implemented through the Directorate Business Planning process and arrangements for regular reports to Cabinet Members, scrutiny committees and the Executive Leadership Team. Performance monitoring is undertaken principally through the report called the Total Performance Monitor. West Sussex Plan key performance indicators are published online on a regularly basis.

38. **Total Performance Monitor** - Detail of its use and the data monitoring and analysis undertaken by the Council are shown in section D. Active monitoring of performance is undertaken through regular reviews of business plans and with all staff through the individual staff appraisal process. The appraisal arrangements link to performance and regular reviews of business plans. Cabinet Members review monthly the Total Performance Monitor and it is scrutinised quarterly by the Performance

and Finance Scrutiny Committee in addition to being available for review by the service focused overview and scrutiny committees. (See also paragraphs 46-47). A further refresh of the TPM will be undertaken as an output of the good governance review. Performance management will be an area of critical focus from the good governance review.

39. A review of how well the Council's performance is overseen by members, both executive and scrutiny will be undertaken so as to ensure members have the tools, skills and support to undertake effective performance monitoring and the verification of performance reports and other sources of assurance in the context of agreed priorities.

40. The County Council is committed to championing the economy of the area. One of its priorities is to ensure West Sussex is a prosperous place, and for the county to continue to thrive the Council aims to support businesses. The **Economic Growth Plan,** agreed in June 2018, sets out the County Council's priorities in driving economic growth to support a prosperous place. The Plan covers the period 2018 to 2023 but, in determining which activities and investments to prioritise over the period, a longer-term view of opportunities and challenges is taken. This has become an area of particular focus in relation to the re-setting of priorities in light of the public health emergency and a new **Economic Strategy** is in development in response to the impact assessment of the emergency.

41. Partners and stakeholders contributed to the development of the Economic Growth Plan, including the district and borough councils, the Coast to Capital Local Enterprise Partnership, the South Downs National Park Authority, further and higher education institutions, and business representative organisations. This has been covered in the rapid work undertaken to develop the new strategy. Working with these partners is crucial in the Council's determination to support the business community and ensure growth for the West Sussex economy and requires further attention to the partnership areas of focus referenced in Section B above.

42. The County Council's **Sustainability Strategy** was adopted in December 2015 as the Council's commitment 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 way to ensure value for money.

43. Following the County Council's Notice of Motion on climate change adopted in April 2019, the Cabinet Member agreed to work to prepare an environment and **climate change strategy** and core principles were formulated to underpin the delivery of the plan. This is on schedule for member engagement and scrutiny for approval during 2020.

44. The priority of embedding sustainability within the County Council is critical for the achievement of the West Sussex Plan objectives. This was reviewed for effectiveness during 2019 and the emerging strategy and identified principles will continue to deliver on this process.

45. The Council has a **Social Value Policy** which identifies and explains the benefits of ensuring that policies, business plans and service decisions and procurements consider and address their impact upon local communities, the local economy, the lives of residents and the places of the County. The policy was first developed in 2015 but was never fully finalised or adopted into procurement practice or processes. The policy is currently undertaking a refresh which should be completed this year.

Principle C (defining outcomes and benefits)	
1. Review of process for setting or varying West Sussex Plan priorities	Chief Executive
2. Review of member engagement for performance management arrangements	DLA & Chief Financial Officer
3. Review of Total Performance Monitor content and processes	Chief Financial Officer
4. Completion of governance for climate change strategy	Director of Environment & Waste
5. Develop actions from the new Economic Strategy	Executive Director Place

SECTION D: Determining the interventions necessary to optimise the achievement of the intended outcomes

Assured (in part)

Sections D and E should be read together with particular reference to the governance challenges raised by the various reviews and external service inspection reports during 2018/19.

Interventions for improvement in relation to Children's Services and the Fire and Rescue Service have been a particular focus aligned with the challenge to address capacity and capability in these service areas and in other critical areas of the County Council.

The County Council takes decisions on interventions based on the West Sussex Plan setting outcomes for services and actions and targets for achieving them within budget constraints. In areas identified for improvement systems for governance, oversight and scrutiny of interventions will be given particular focus. These include the Improvement Plan for Children's Services and also for the Fire and Rescue Service. Proposed interventions are recorded through Directorate Business Plans for timely outcome delivery. These are overseen by the Improvement Boards (for Children's and Fire and Rescue).

46. All Directorates are expected to prepare and monitor Business Plans which set out the actions required to meet the outcomes set in the West Sussex Plan and the targets measures and milestones used to monitor their delivery. These are reviewed on an annual basis.

47. 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. The Cabinet reviews the performance dashboard as part of the Total Performance Monitor on a monthly basis and the TPM is scrutinised by the P&F Scrutiny Committee.

48. The **Total Performance Monitor** provides an overview of performance against the agreed priorities within the West Sussex Plan and tracks financial performance to ensure intended outcomes are kept in focus and expenditure controlled. The TPM focuses on the delivery of:

- West Sussex Plan and Performance Measures
- Medium Financial Term Strategy and in-year budget
- Culture and Workforce
- Service and Corporate Improvement
- Corporate Risk Management

49. A review of the levels of member satisfaction with the Monitor will be undertaken at the next opportunity and following a review of the mechanisms and objectives the Monitor covers.

50. Executive (member or officer) **decision reports** provide the public record of all significant decisions to implement service plans and spend. They are required to show the intended outcomes, the rationale for the proposal, implications for Council resources, other options considered, advice received and consultation undertaken and how risks are managed. Work was undertaken in 2019 following the output from the Children's Commissioner's report's comments on corporate governance and to take account of regulations on public web-based accessibility. This should provide a simpler format for authors and readers alike. The good governance review has highlighted the need to provide clarity and improved transparency for the processes involved.

51. 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 subject matter expertise as well as overseeing arrangements for the delivery of priorities at an officer level prior to member consideration. They comprise a board to oversee capital programme planning and one for strategic procurement.

52. Additional action will be taken to clarify the governance of these Boards and their fit within the Scheme of Delegation and how they interact so as to provide greater understanding of their purpose and output for both officers and members and to ensure their effectiveness in delivering corporate aims in a timely and transparent way. This is consequent on the recently commissioned governance review.

53. Ofsted carried out an inspection of Children's Services in early 2019. Its report was issued in May 2019 and gave an inadequate rating to the

overall effectiveness of the Service. The Department for Education issued a statutory Direction to the County Council in relation to the service and appointed a Commissioner to report on the County Council's capacity and capability to improve. The Commissioner's report was published on 17 December 2019 and expressed concerns both about children's services and the County Council's corporate capacity to improve. The County Council has accepted the findings and is striving to improve services in liaison with the Commissioner and the Improvement Board he chairs. Changes were made to political and executive leadership in October 2019 as direct and timely response to these criticisms .

54. The County Council receives an update at each meeting during the implementation of the improvement plan. New chairs of the Children and Young People's Services Scrutiny Committee and the Corporate Parenting Panel have been appointed, with the latter also undergoing a change of membership and approach to its work to ensure greater partner and stakeholder involvement. Across a range of related Council governance arrangements there will need to be a renewed focus on listening to the voice of the child, engagement with corporate parenting responsibilities and undertaking robust scrutiny and performance management.

55. In November 2018 an inspection of the Council's Fire and Rescue Service was undertaken by Her Majesty's Inspector of Constabulary and Fire and Rescue Services. The report was published on 20th June 2019 and rates the service as requiring improvement in areas of service effectiveness and efficiency and as inadequate in relation to supporting its people. An Improvement Board chaired by the Chief Fire Officer has been established and an Improvement Plan and Resource Plan has been approved. An inspection in February 2020 has found that the County Council is making encouraging progress to address the weaknesses identified in the 2018 inspection. Regular member updates and scrutiny on improvement activity are taking place.

Principle D (interventions for outcomes)	
i. Children's Improvement Plan implementation	DCS
ii Fire and Rescue Improvement Plan implementation	CFO
iii Review of Total Performance Framework form and process	D of F&SS
iv Review of Officer executive Boards	DLA
v Review of capital governance arrangements	DLA & Dof F&SS

SECTION E: Developing the entity's capacity, including the capability of its leadership and the individuals within it
Assured (in part) There have been actions taken in 2019/20 in areas related to service improvement in Fire and Rescue Service and Children's Services and the overall assurance for corporate capability and capacity to improve. This has included the appointment of a new Chief Executive in a joint arrangement with East Sussex County Council. Officers and members 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. 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. Recent reviews of the aims and form of delivery have been implemented. Additional work is required to implement requirements to improve the internal culture of the Council and to enable the Council's executive leaders to promote a positive and supportive culture and to provide the means of enhancing or reinforcing good leadership skills. A system is in place to ensure that all elected members have an understanding of their roles and responsibilities when appointed or elected to particular positions within the Council. Members are expected to be able to fulfil the expectations and demands of their roles as local member and 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. Areas of focus for review are identified. Significant training and support has been given to members to help them to focus on the strategic nature of their roles.

56. 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. Changes can be made at each Council meeting. All terms of reference are published. There is a system for reviewing and refreshing all constitutional terms of reference for committees and boards which transact Council business.

57. **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 attendance and feedback recorded.

58. 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. It reviews the impact of member development work and identifies areas for improvement. Its reports and proposals are published as part of the Governance Committee's business. It has recently reported the strategy for member development to the Committee.

59. 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 is provided for members in specialist roles, including new members of the Executive and of Planning Committee, Pensions Panel and the Staff Appeals Panel.

60. 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, Planning Committee, Rights of Way Committee and the Pensions Panel and Staff Appeals Panel. Disclosure and Barring Checks were carried out on all members after the May 2017 election. Enhanced DBS checks are carried out for members in adults and children's services related roles. Training on adults and children's safeguarding is being provided for all members, with an online training module also available. Training was also provided to ensure awareness of data protection responsibilities.

61. In 2019/20, support and advice has been provided to members to ensure more measurable impact of service performance oversight and purposeful scrutiny. This has been in light of the work planned to address improvements in Children's Services and in Fire and Rescue Services. The work on addressing the role of elected members as corporate parents for children looked after by the Council has also been an area of particular focus. Further attention to these needs will be given in light of the output from the good governance review expected in the early summer 2020.

Officers

62. 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 and Support Services as Chief Financial Officer. Other critical statutory and leadership roles and their responsibilities are described in the Council's scheme of delegation. These include the Executive Director of Children, Young People and Learning and the Executive Director of Adults' Services. All Directors and Executive Directors are required formally each year to give assurance as to their compliance and that of their Service with a range of requirements and expectations of them as senior leaders within the Council. These Statements of Assurance are integrated with the operation of this Annual

Governance Statement and incorporate action plans for areas of intervention referred to in this Statement.

63. There have also been changes to post holders in some of the more significant posts during the year (notably the Chief Executive, the Chief Fire Officer, the newly created Executive Director of Children, Young People and Learning, with a permanent postholder starting in April 2020) and changes to the scope of the functions of the Executive Director Adults and Health. The Monitoring Officer and Chief Financial Officer have a place on the Executive Leadership Team, which comprises the three executive directors in addition to the Chief Executive, Director of HR and Organisational Change and the Chief Fire Officer. The Director of Public Health who reports to the Chief Executive regularly attends ELT to ensure public health is embedded across the County Council and its partnerships.

64. 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.

65. Personal development priorities are agreed through an appraisal process. There is an established programme of induction training for new staff. Training is available increasingly through an online learning system. Leadership training and skill development was last reviewed in 2018 but implementation has been paused pending the output from the Children's Commissioner's Report and the good governance review. A Leadership Programme was delivered to all senior managers about three years ago. Leadership skills and development for senior officers will be examined as part of the work of the good governance review.

66. Issues of capacity and service resilience to ensure service effectiveness are covered through workforce planning as part of directorate business planning. Areas of particular risk are identified. Specific attention has been required over recent years to manage challenges in adults' and children's social care where both recruitment and retention have been problematic with expected adverse impact on service quality and consistency. Action to address these issues has seen improved retention during 2019/20. A broader workforce strategy is now in development after some disruption to the leadership of the HR and Organisational Change service.

Principle E (capacity and leadership)	
i leadership skill development	D of HR & OC
ii workforce strategy	D of HR &OC
iii member skills development following good governance review and scrutiny review	DLA
iv Plans for member skills and knowledge in preparation for post May 2021 election	DLA

SECTION F: Managing risks and performance through robust internal control and strong public financial management
Assured (in part) Risk management is robust overall but specific actions are required to better align risk management with business planning and the corporate challenges facing the County Council. 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. Health and Safety is the focus of a recent and ongoing review to ensure improved systems and compliance.

67. 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 and have formal and well published arrangements for member and officer oversight and transparency.

68. 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, supervision, and a structure of delegation and accountability. External audit of the Council's accounts is robust and unqualified assurance was given in 2018/19. An opinion on 2019/20 has not yet been given, but a qualification on a value for money conclusion is likely on an 'except for' basis, relating to arrangements for informed decision-making. This relates in part to the governance matters referred to in paragraphs 53-55 above. 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. A full review of Financial Regulations and Procedures was undertaken in 2018 and a new version of Financial Regulations was approved by the Regulation Audit and Accounts Committee in July 2018.

69. 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).

70. The officer scheme of delegation is critical for the effectiveness of controls of 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. Areas of action for greater clarity and assurance in relation to officer delegations are identified elsewhere in this report.

71. 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 2019/20, 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.

72. The **Risk Management Strategy** is set out in the Constitution (Part 4 section 2) and describes the allocation of responsibilities between officers and elected members. It also summarises the system the Council has for identifying, managing and categorising corporate risk. The operation of the scheme and concerns arising are reported quarterly to the Regulation, Audit and Accounts Committee as part of the system for reporting on the effectiveness of risk management arrangements. That Committee is responsible for reviewing the effectiveness of the Council's risk management arrangements. This also forms part of the Total Performance Monitor reported to Cabinet and the Executive Leadership Team and scrutinised by the P&F Scrutiny Committee.

73. 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 (see paragraph 49 above).

74. Risk management is undertaken through robust directorate systems including the business planning process. 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 the risk strategy.

75. The area of Health and Safety management and the corporate assurance arrangements for good Health and Safety policy and practice has been the subject of a significant review in the context of sound risk management.

Principle F (risk and performance)	
i Finalise review and plans for corporate risk register oversight and monitoring	D of F&SS
ii Refresh compliance and consistency in scheme of onward delegation from Directors	DLA

iii Finalise internal governance and arrangements for assurance in relation to Health and Safety	D of HR & OD

SECTION 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. The County Council has effective open data reporting arrangements to ensure the accessibility of significant spend, contractual and other data relevant to financial performance. Enhanced internal governance reinforces tasks to address any issues relating to transparency and compliance within the improvement plans for Children's Services and the Fire and Rescue Service.

76. 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, 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 prescribed criteria. A summary of these is published and the rationale for non-disclosure made available.

77. The County Council has several separate bodies of which it is a part, which in 2019/20 included the LEP Joint Committee, the Local Government Pension Scheme ACCESS Joint Committee and the Sussex Police and Crime Panel. Each of these bodies abide by the Nolan principles and publish their agendas and minutes in an accessible place, which are linked from the County Council's website. This will also be ensured with any new Joint Committees, such as the recently established Waste Management Joint Committee with Mid Sussex District Council.

Review and Audit

78. The Regulation, Audit and Accounts Committee undertakes the functions of an audit committee. This includes review of the findings of Internal Audit. The Committee meets regularly and in public and holds officers to account for the timely implementation of audit recommendations.

79. Internal Audit provides an annual assurance opinion based on their delivery of a risk based internal audit plan. This includes adherence to established policies, procedures, laws and regulations. These are reported to the Regulation, Audit and Accounts Committee.

80. The Head of Internal Audit reports to the Director of Finance and Support Services. He also has direct access to the Chief Executive, Executive Directors and other directors and has well-established reporting lines to members through the Regulation, Audit and Accounts Committee and quarterly to the Executive Leadership Team. Internal Audit is provided through an arrangement with Hampshire County Council, giving greater independence, resilience and capacity for this function.

81. 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 report 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.

82. The Internal Audit annual report highlights specifically those areas where a limited assurance review has been issued, which link to areas identified in this Statement. Those for 2019/20 will be finalised and added to the final version once considered by the Regulation Audit and Accounts Committee.

83. Any commonality with internal audit findings will be added to the final version. An overall 'limited' opinion was issued by Internal Audit in 2019/20.

Principle G (transparency audit and accountability)
i. Internal audit recommendations for governance

Main Governance Issues for action or to note

84. 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. Of particular note for the report are the various actions identified to address governance issues related to the findings of the Ofsted report on Children's Services and the HMI report into the Fire and Rescue Service. The Children's Commissioner's report of November 2019 contains comments critical of aspects of the Council's governance which have been noted and relevant actions described in this report. To avoid duplication the findings of these reports are not noted in this statement except where their implications could affect the overall effectiveness of the authority's governance procedures. The main governance issues identified are summarised at the end of each section as set out above.

85. An action plan is attached at part of the Annex (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.

Public Health Emergency

86. In March 2020, a national public health emergency was declared by the Government in response to the global coronavirus pandemic. The County Council was prepared through its Resilience and Emergencies planning. Services were quickly refocused to prioritise preserving life and essential services and the implementation of additional service and interventions in response to the national priorities. This response was led through a resilience command chain with the Executive Leadership Team and external partners providing strong strategic oversight at gold level, with directors managing tactical planning at silver level and bronze level service continuity and delivery groups.

87. The incident is ongoing into 2020/21 and the County Council will continue to prioritise its emergency response whilst it works on recovery and plans for service continuity. This disruption to normal corporate business and the service, resource, staffing and financial consequences will be assessed as part of corporate planning and will influence the commitments made in this Statement, which will be kept under review. The emergency has caused delay to the preparation of this Statement and has also led to a review of the approach to Statements of Assurance from individual Directors which would usually sit behind this Statement. Those are being revised to align with current priority activity and the emergence of ‘reset and reboot’ plans as part of the Council’s response to the emergency and its ‘good governance’ project to refocus corporate priorities and plans.

88. Assurance for use of resources has been provided through staff working remotely through the County Council’s secure IT network and use of virtual meetings through an end to end encrypted network. Guidance has been issued to managers on working with remote teams so that regular communication is in place. The Employee Support Programme has been advertised regularly to staff via a variety of channels to help to promote good staff welfare during this period of remote working.

Paul Marshall Leader of the Council November 2020

Becky Shaw Chief Executive November 2020

Annexe - Sources of Assurance and Actions

Key:
CIPFA = The Chartered Institute of Public Financing & Accounting
FSS = Finance and Support Services
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	Governance Committee and Director L&A	A single source for rules and procedure for lawful sound business and meeting management.	Complete revision to simplify in 2018 approved. No action. Review within Good Governance
Codes of Conduct	Constitution	Standards Committee & Director L&A	Defines standards of behaviour and how to enforce	Part of the Constitution review agreed in July 2018. No action. Review within Good Governance
Whistleblowing Policy	Constitution	Standards Committee & Director L&A	Defines process to report breaches of rules or standards confidentially	Fully revised for approval by Governance Committee June 2020. Action to promote and monitor.
Anti-fraud and corruption strategy	Constitution	RAAC & Director F&SS	Statutory obligations recorded and enforced	November 2015. Reviewed every 3 to 5 years. Need to identify time and plan for next review.*
Anti-bribery policy	Constitution	Director L&A	Statutory obligations recorded and enforced	November 2015. Reviewed every 3 to 5 years. Need to identify time and plan for next review.*
Register of Member Interests	Website	Director L&A	Statutory list of interests.	Entries updated on an on-going basis. Quarterly reminders to members to review. No action.
Register of Officer Interests	Website	Director L&A	Record of financial and conflicting business interests	New system from March 2017. Publication arrangements to be further reviewed in 2020* to ensure compliance.
Corporate Complaints Policy	Website	Chief Executive & Standards Committee	Describes mechanism for handling all complaints.	Complete system review completed 2017/18. A new annual report on complaints for Standards Committee in Summer 2020*
Staff Discipline policy	Intranet	Director HR&OC	Defines rules of conduct and procedures to manage	New HR policies to achieve single framework established in 2019. Action to reinforce due.*
Data Protection Policy	Intranet	Director L&A	Defines rules and procedures to protect data.	Revised for the new law 2018. Review of practice and training to mitigate risk ongoing*.

Freedom of Information policy	Intranet	Director L&A Director of Communities	Defines rules and procedures	January 2018. No action planned
Data Security & Accepted Use Policy	Intranet	Director F&SS	Defines rules and procedures	September 2014 Mandatory refresher training 2019. No action planned
Standing Orders on Procurement and Contracts	Constitution	Director L&A and RAAC	To prescribe the rules for all contracts and procurement activity	Full revision in 2018 approved. No action planned
Procurement Board (officers)	Intranet	Director F&SS	To manage and plan strategic procurement	Procurement Pipeline in place. Contract management capacity for review and action***.** Action to clarify internal governance between officer boards within Good Governance *****.

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	Governance Committee & Director L&A	To fully define who takes what decisions and how and how recorded.	December 2019**.** Action required to clarify officer onward delegations and in context of senior officer boards within Good Governance*****.
Forward Plan	Web site	Director L&A	Describes planned key decisions for next 4 months	Revised format 2019 to for clarity.
Protocol on decision making	Constitution	Director L&A	Describes arrangements for sound decisions.	Reviewed with Constitution July 2018. No action planned
Scrutiny Committee business planning	Scrutiny Committee reports	Performance and Finance Scrutiny Committee, Scrutiny Manager	Records planned scrutiny work.	Continuous with annual work programme published. Revised 2019 Further review in Good Governance*****.
Openness and access to meetings/ decisions.	Constitution and Website	Director L&A	Describes rules and process for ensuring transparency of business.	Constitution revised 2018. Web casting of meetings extended increased 2019. Public cabinet meetings from December 2019.
Connections, consultations & community liaison forums	Intranet, Website & Press releases	Head of Commun ications & Engagement	Communication to public	Connections under review. No action planned
Consultation Q&A system	Intranet	Chief Executive	Provide system and guidance for service consultation	Review in 2015. Review of Statement of Community Involvement in 2018. No action planned
Partnership meetings, briefings and liaison	Held by relevant directorate	Relevant Director	Communication to partners	Continuous review and proposal to track external engagement plans better. Partner engagement review within Good Governance*****.
Equality Policy	Website And decision making protocol	Chief Executive.	Source of guidance for ensuring compliance with	Policy partly reviewed 2018. Further and fuller review required*****. Action required to ensure consistency in

		Relevant Director (for decisions) Director of HR (for staff)	public sector equality duty	application of equality impact assessments*
Health and Wellbeing Board arrangements	Constitution	Director of PH	Forum for strategic joint business and service oversight	Complete review of Board 2018 – 19 & new H&W strategy from April 2019.
West Sussex Compact and Partnership Principles	Website	Director of Communities	Communication to partners	Partnership principles refreshed in 2018. Established partnership working with district and borough councils. No action planned.

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 & Chief Executive	Describes the measure and targets for key corporate & service aims	The County Council agreed current Plan in October 2017. Annual Reports to Council.
Social Value Policy	Website	Director of F&SS	Sets aims for social economic and community benefits of council business	Full review in procurement activity completed 2019.
Sustainability Strategy	Council website here	Director of E&PP	Sets Council's commitment to Sustainability	The Strategy approved 2015. The Action Plan reviewed annually. Climate Change strategy due for adoption July 2020*

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	Chief Executive & Cabinet an Director F&SS	Reviews financial and operational performance	A Task and Finish Group reviewed 2018. No action planned
Executive Decisions process	Website	Director of L&A	To record rationale, legality and financial compliance of decisions.	Format revised 2018. New publication system by Modern.gov 2018. Review within Good Governance.
Business Plans	Share Point	All Directors	Record of actions and objectives for delivery of West Sussex Plan	Annual. Action planned to achieve better coordination of plans between Directorates*. Review within Good Governance as performance management
Executive Officer Boards	Intranet	Executive Leadership Team	Manage strategic business delegated to officers	Action planned to clarify scope of officer delegations and ensure more transparency*
Capital Programme Governance	Constitution	Executive Director Place and Director F&SS	Provide sound systems for capital programme	Revision February 2019. Further review on planned programme re-set 2020*.

Service Improvement plans governance and assurance	Records of decisions and Improvement Board agendas.	Executive Director CS & CFO	Provide plan and assurance for delivery of improvements from external inspection.	Arrangements for monitoring and scrutinising effectiveness of plans ongoing

Sources of Assurance for Principle E: Leadership Capability

Source of assurance	**Where found**	**Who is responsible**	**Role**	**last reviewed/action planned**
Scheme of delegation	Constitution	Governance Committee Chief Executive Director L&A	Formal allocation of key roles and functions, including Statutory and senior officers	April 2019 with minor revisions in December 2019. Actions identified above for clarity for officer boards*****. Good Governance to review scheme clarity*****.
Budget, including medium term financial strategy	Council agenda	County Council Executive Director Resource Services & Director F&SS	To agree a sound budget and financial strategy.	February 2020 Review of arrangement for Member engagement for next budget planning process***** in 2020.
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). Reports regularly and uses member feedback. No action planned
Human Resources policies	Intranet	Director HR&OC	Describe all officer duties, rules and requirements.	Review planned within Good Governance as culture and leadership areas.
Workforce Planning arrangements	HR policies and Directorate plans	Relevant Director	Provides rationale and scheme for ensuring resilience and capacity.	Particular focus on service improvement plans. Wider strategy un development*****.
Staff role profiles	Intranet	Heads of Service	Describe all officer roles	Updated as roles change.
Member Induction Programme	Intranet	Member Development Group Director L&A	To determine the content of the programme	Plans in 2020, for induction programme for post May 2021.
Specialist Member training	Committee business programme	Director L&A	Non-executive committees and appeals panel	Completed after 2017 election Focus on new development strategy by MDG.
Officer Appraisal System	Intranet	Director HR&OC & all Directors for delivery	To manage performance and development	Review undertaken 2015. Review within Good Governance.
Performance Management Policy	Intranet	Director HR&OC	clear system for addressing poor performance	As above*****.

Sources of Assurance for Principle F: Risk and Performance

Source of assurance	**Where found**	**Who is responsible**	**Role**	**last reviewed/action planned**
Governance Statement	RAAC agenda	RAAC Director L&A	Captures all sources of governance assurance	Annual (this document)

Assurance mapping	N/A	Director L&A Director F&SS	Internal checklist for service governance	New checklist 2016/17. Refreshed for 2017/18
Local Code of Corporate Governance	Governance agenda	Governance Committee Director L&A	To confirm the corporate governance principles in place	Aim as output from Good Governance.
Risk Management Strategy	Constitution	Chief Executive	Strategic aims and objectives for corporate risk management	Approved by RAAC 2018. No action planned
Risk Management systems	RAAC agenda	Director F&SS	Operational systems for meeting RM strategy aims	Last review 2018. Action since for systems for risk management to be more consistent.
Health and Safety Policy	Intranet	Director of HR &OC	Provides rules, procedures and systems for assurance in relation to health and safety at work and in relation to property risk.	Internal review 2018 has led to revised governance. Needs testing for effectiveness*****.
Audit Function	Constitution	RAAC Director F&SS	To manage and ensure the effectiveness of Audit.	Annual internal quality review. External review is required every five years. Internal Audit service re-procured 2018
Total Performance Monitor	P&FSC papers on website	Chief Executive & Director F&SS	Reviews financial and operational performance	A Task and Finish Group reviewed 2018**.** No action planned
Treasury Management Strategy	Council agenda	Director F&SS	For sound strategy to limit risks to borrowings and investments.	December 2017. No action planned
Financial Regulations and Procedures	Constitution	Director of F&SS RAAC	To prescribe the rules for all financial transactions	New version agreed by RAAC July 2018. No action planned
Resilience and Emergency arrangements	Intranet	Chief Fire Officer	To provide safe systems and procedures to manage local and civil emergencies	Action plan implemented. Will review post Covid.

Sources of Assurance for Principle G: Audit and Transparency

Source of assurance	**Where found**	**Who is responsible**	**Role**	**last reviewed/action planned***
Audit Function	Constitution	RAAC Director F&SS	To manage and ensure the effectiveness of Audit.	Annual internal quality review (due 2019*****) External review is required every five years (due March 2020)
External Audit of Accounts	Audit Report	RAAC and Director of F&SS	To give external assurance to the quality of the Council's accounts and accounting practice	Full assurance given to 18/19 accounts.

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Principle A – Integrity and compliance

2018-19 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)	Update November 2020
A refresh of the Whistleblowing policy	Not applicable	Director of Law and Assurance	To review, seek Standards Committee approval and ensure greater corporate awareness	New policy drafted after internal and external consultation. Approved by Governance Committee July 2020.
To review and act on effectiveness of Data Protection processes	CR7	Director of Law and Assurance	To analyse data on policy and systems effectiveness and address risks or areas of weakness	Staff handbook to guide and instruct settled and promoted to all staff. New on-line learning tool rolled out. Risks assessed continually against breach data by dedicated DP team.
Review of effectiveness of system for recording officer interests	CR7	Director of Law and Assurance	To take action to ensure compliance in recording and publication	All Directors and Executive Directors advised of expectations and deadline for return of data with a view to publication of records. Refreshed October 2020.
To plan review of anti-fraud corruption and bribery policies	CR7	Director of Law and Assurance	Work with internal audit to ensure up to date policies	Contact made with Internal Audit for timetable for action as part of 2020 audit plan.
To clarify areas of overlap or conflict within the scheme of delegation	LA7	Director of Law and Assurance	To ensure all Directors have up to date arrangements in place and to ensure corporate clarity of systems and expectations	Subject to on-going review in light of further senior leadership changes. Adults and Children’s remain outstanding.

Principle B – Openness and Stakeholders

2018-19 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)	Update November 2020
To settle arrangements for member engagement in budget planning to align with resource and service priorities	Not applicable	Director of Law and Assurance and Director of Finance and Support Services	Ensure timely plans and arrangements for member engagement for budget plans for 2020 budget decisions.	Completed – scrutiny and member engagement for revenue and capital budget planning in place and aligned to Council decisions February 2020.
To promote greater openness in executive decisions and Forward Plan	CR61	Director of Law and Assurance	Refresh of Forward Plan and corporate awareness	Completed - Forward Plan format reviewed, executive decision-making governance changed and cabinet meetings governance approved by Council December 2019.
Review of County Local Committees to consider their effectiveness and purpose, format and engagement and review of grant funding arrangements	Not applicable	Director of Law and Assurance	Oversee member review and report to Governance Committee.	Completed. Output from review approved by Council December 2019.
To complete roll out of Modern.gov systems for democratic processes.	Not applicable	Director of Law and Assurance	Align with IT systems and ensure full effectiveness of system.	Action to escalate additional capabilities of system once new IT systems rolled out fully.
Digitisation of customer and resident engagement	Not applicable	Director of Communities	Implement plans from Transformation project	Right Service Right Place is current Customer Programme of change and a number of customer journeys were identified to be digitalised. New e-form platform 'Firmstep' and now built and delivered 23 E-forms. Customer Experience

2018-19 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)	Update November 2020
				have also identified over 230 forms that need to be created using the new platform and work begun. Launched new payments system with ability to pay via the internet and over the phone and chip and pin capability for our Registration service. The solution will offer contactless chip and pin, paperless direct debit, recurring card payments and an automated telephone payment (from first half of 2020).
Development of Joint Health and Wellbeing Strategy for promotion and dissemination through the Council.	Not applicable	Director of Public Health	Implement commitments in revised H&W Strategy	Following the launch of the West Sussex Joint Health and Wellbeing Strategy 2019-24 in April 2019, Health and Wellbeing Champions have been developing and progressing implementation of the prioritised goals for Year 1. Full progress reported to the West Sussex Health and Wellbeing Board in April 2020. To date, the following progress has been achieved: **System Leaders** • Collaborative Working Agreement between the HWB, Safeguarding Adults' Board, Safeguarding Children's Partnership and Safer West Sussex Partnership – launched on 24 October 2019

2018-19 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)	Update November 2020
				• Strengthening place-based approach; holding public meetings in District and Borough councils • "Making Every Contact Count" (MECC) Workforce Programme **Starting Well** • Approach to mental and emotional wellbeing, including self-harm, in educational settings • Championing Children First Approach • Developing a whole system approach to Children's Healthy Weight **Living and Working Well** • Extending West Sussex Wellbeing Programme Partnership with District and Borough councils • Cross Council approach to Healthy Public Planning Policy • Development of Workplace Wellbeing Framework • Implementing West Sussex Tobacco Control Strategy **Ageing Well** • Developing a West Sussex approach to loneliness and social isolation • Developing a co-production approach with the voluntary sector

2018-19 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)	Update November 2020
				• Falls Prevention Programme • Ageing Well Campaign launched 1st October 2019
Promote greater partnership working (Children's and Adults Services)	Not applicable	Executive Director of Children, Young People and Learning	Corporate Parenting Panel and Improvement Board commitments and as set by the Improvement Plan NB These are areas within the scope of the responsibilities of the Commissioner appointed by the Dept. for Education (DfE) following the November 2019 Commissioner's report.	▪ Corporate Parenting Panel – revised Constitution agreed at County Council, December 2019, further strengthening role and broadening membership; ▪ Strengthening linkages with Health & Wellbeing Board and Safeguarding Children Partnership (LSCP); ▪ Improvement Board overseeing Practice Improvement Plan and mobilising partnership being revised following appointment of Children's Commissioner who is to chair; ▪ Domestic Abuse Partnership Board and Multi-Agency Risk Assessment Conference steering group set up; ▪ Improvement Plan includes provisions to work more closely with partners on topics such as: Neglect, Private Fostering, Corporate Parenting issues, Health Assessments, Care Leavers' needs, especially accommodation; ▪ All of the ten recommendations contained in the published Commissioner's report regarding corporate and service governance have

2018-19 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)	Update November 2020
				either been implemented in full, or plans are in place to take them forward. ▪ The County Council has responded with transparency to the Commissioner's report, with a Cabinet discussion in public on 14 January 2020; the new Leader and Cabinet Member are strongly committed to the service improvement agenda, and an open and inclusive leadership style.
Consultation Q&A system effectiveness review	Not applicable	Head of Communications and Engagement	Review to be undertaken in 2019	Completed - There was a full review of the Research Governance and Consultation Quality Assurance (QA) system in 2019. Key findings were very positive overall and several actions taken. We will continue to monitor the QA process.
Compliance for consistent and appropriate key decision-making.	CR7	Director of Law and Assurance	Refresh of systems and dissemination to Corporate Leadership Team	Changes to governance approved by Council (Principle A). Will monitor for compliance over new few months.
To refresh the use and application of the Equality Policy	Not applicable	Director of Law and Assurance	Review guidance and systems to ensure compliance and consistency	Further guidance to be provided to Directors. Action underway to align with actions from Internal Audit report on Equality Impact assessment effectiveness.

Principle C – Sustainability

2018-19 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)	Update November 2020
Review of West Sussex Plan targets and measures 2017-22	Not applicable	Chief Executive		Action subject to review in light of changes to corporate priorities – and paused pending appointment of Chief Executive.
To complete the revision of the Council's Social Value Policy and its use.	Not applicable	Director of Finance and Support Services	Prepare and implement revised policy	Completed - The Procurement & Contract Management team has developed a more enhanced approach to Social Value, including a new Framework to apply social Value throughout the Procurement lifecycle. It is aligned to the National TOMS Framework, including its measures and objectives and we have created a detailed set of KPIs that can be used across the three themes of Social Value - Social, Economic and Environmental.
To refresh the Sustainability Policy	Not applicable	Director of Environment and Public Protection	Prepare and implement revised policy	The WSCC Sustainability Strategy and accompanying Action Plan finished in 2019. Replacement plan with focus on the natural environment and climate change with a stronger understanding of the social, health and economic benefits of a high quality natural and healthy environment. Forward Plan entry February 2020, with scrutiny in March 2020 and Cabinet approval around April 2020. Delayed but now implemented and approved

2018-19 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)	Update November 2020
Greater focus on reviews of directorate business plans	Not applicable	All Directors		Action subject to changes to corporate priorities – and paused so as to be led by newly appointed Chief Executive with the Corporate Leadership Team (Directors) Part of ongoing re-set and re-boot – for further action.
Review the resources to ensure effective of scrutiny by Select Committees	Not applicable	Director of Law and Assurance	Oversee member led review of scrutiny and ensure effectiveness in relation to specific service improvement plans.	Completed. Output from Member TFG and external health check and additional changes endorsed by Council December 2019. Ongoing within Good Governance plans.

Principle D – Optimising Interventions

2018-19 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)	Update November 2020
To review governance of executive officer boards	Not applicable	Director of Law and Assurance	Carry out and implement review and ensure transparency	Delayed for inclusion in good governance plans and 'streamlined decision making' activity.
To ensure effectiveness of capital programme governance	Not applicable	Executive Director Place Services	Carry out and implement review and ensure transparency	In-house review of Programme and Project maturity undertaken. Key findings related to weakness in senior-level ownership of the process and a lack of consistency in implementation. Action Plan to introduce Portfolio Management understanding and practices, enhanced Programme and Project maturity and more efficient and

2018-19 Annual Governance Statement - Issue	**Risk Register (Ref)**	**Responsible Officer**	**Action(s)**	**Update November 2020**
				transparent governance drafted for consideration of new Director Assets and Property and Capital and Assets Board. The action plan is now being taken forward as part of good governance.
Verification of data input into the performance Dashboard	Not applicable	Head of Performance	Carry out and implement review and ensure transparency	To be considered as part of a review of corporate performance measures by the Leader and Chief Executive in 2020.
To ensure governance, resources and systems are available to support the improvement plan for Children's Services as required.	CR61	Executive Director of Children, Young People and Learning	Oversee review as part of improvement plan NB These are areas within the scope of the responsibilities of the Commissioner appointed by the Dept. for Education (DfE) following the Commissioner's report of November 2019.	• Improvement Board, now chaired by the Commissioner for Children's Services to oversee the Improvement Plan, with an Improvement Partnership Board alongside; • Completed appointment of senior improvement leads and a team to support improvement programme; • Improving rigour of scrutiny by Scrutiny Committee including regularly receiving direct testimony from children, front-line staff and partners; • Strengthened the role and membership of the Corporate Parenting Panel; • Strengthening corporate parenting role of all WSCC members; • Children's voice to be integrated into all activities; • Improvement Plan agreed by Ofsted; • New practice standards being developed for partnership;

2018-19 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)	Update November 2020
				• Created Children First Strategic Approach to give a new focus, with partners, on the entirety of work with children, young people and families (March 2020); • Director of Children's Services confirmed as Executive Director of Children, Young People and Learning, with responsibility for both social care and education outcomes; • Appointment of Hampshire County Council as Partner in Practice provides additional assurance that service improvements sustained during 2020; • Findings of first Ofsted Monitoring Visit (December 2019) provided encouragement that service improvement is taking root and has a clear understanding of where further improvement is needed; • Comprehensive staff training and engagement programmes rolled out, to address quality, performance and cultural issues.
To ensure governance, resources and systems are available to support the improvement plan	CR60	Chief Fire Officer	Oversee review as part of improvement plan	HMICFRS Resource plan now in implementation phase and HMIC Improvement Board continuing monthly now chaired by the CFO. FRS Programme Office now responsible for the

2018-19 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)	Update November 2020
for Fire and Rescue Services as required.				programmatic approach to support the delivery outcomes

Principle E - Developing the entity's capacity, including the capability of its leadership and the individuals within it

2018-19 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)	Update November 2020
Training and development for senior leaders	Not applicable	Director of HR and OC	Carry out and implement review	Plan to commission development programme for leaders in WSCC. In addition, there will be top team development for ELT. Delayed by changes to leadership team in 2019.
To ensure recruitment and retention processes support capacity challenges in social care staffing	CR11	Executive Director of Children, Young People and Learning	Carry out and implement review	A financial support for recruitment and retention scheme for Children's Social Workers May 2019. The scheme links to the Council's revised Policy 'Financial Support for Recruitment and Retention- Policy and Provisions'; and has been successful in helping to significantly reduce the 'vacancy gap'. Employment terms are now competitive authority, and a new recruitment drive for permanent staff has been launched. The development of an accurate establishment list and record of employees and/or agency workers. Adults services has an approved resource plan to tackle its

2018-19 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)	Update November 2020
				immediate challenges and a restructure of the service is planned. At this stage there are no plans for a recruitment and retention scheme within Adults Services', though the need will be kept under review.
To review capacity in relation to risk management tasks in Fire and Rescue	Not applicable	Chief Fire Officer	Carry out and implement review	Post review determines a dedicated SLT member remains as responsible officer for the oversight of FRS Risk management tasks. To be reviewed again upon completion of FC20 project and HMI improvements

Principle F – Risk and Performance Management

2018-19 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)	Update November 2020
To complete a review of the Council's Health and Safety governance and assurance	CR50	Director of HR&OC	Carry out and implement review	Completed in part. Revised governance and senior leadership of H&S responsibility and accountability completed. Full governance arrangements and links to risk management for completion.
To ensure Resilience and Emergency arrangements are sound	Not applicable	Chief Fire Officer	Carry out and implement review	RET remain a direct line report to a Principal Officer, providing direct oversight and performance leadership. Current arrangements to be reviewed to ensure continued arrangements are sound during

2018-19 Annual Governance Statement - Issue	Risk Register (Ref)	Responsible Officer	Action(s)	Update November 2020
				the FRS Structure review. On hold pending ongoing public health emergency activity.

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Key decision: Not applicable
Unrestricted

Report to Regulation, Audit and Accounts Committee

20 November 2020

Treasury Management Compliance Report – Second Quarter 2020/21

Report by Director of Finance and Support Services

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 second quarter of 2020/21 the Council complied with all of the relevant statutory and regulatory requirements related to its treasury management activities. The Director of Finance and Support Services confirms that there were no breaches of the approved TMSS (including the Annual Investment Strategy) during the period.

Recommendation

The Committee is asked to review and comment on the Treasury Management Compliance Report.

Proposal

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

2.1 Throughout the second quarter of 2020/21 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. Additionally, no counterparty that the Council held investments with during the quarter was negatively impacted by credit rating updates as published by Fitch, Moody's and Standard & Poor's, credit default swap/equity price trends and general media alerts.

2.2 Borrowing: At 30 September 2020 the Council's Public Works Loan Board (PWLB) long-term borrowing for capital purposes totalled £478.3m (no change from 30 June 2020). During the second quarter of 2020/21:

(a) No new external borrowing for capital purposes was undertaken during the period.

(b) No external debt rescheduling was undertaken during the period.

(c) Excluding money held on behalf of the Chichester Harbour Conservancy (and its associated charities) no short-term borrowing was undertaken for cash flow purposes. The Council's policy of funding daily cash flow shortages from balances held in the Council's instant access bank accounts and short-term Money Market Funds was maintained throughout the period.

2.3 Investment: The average level of Council funds available for treasury investment during 2020/21 (to 30 September) was £380.7m. Actual levels of investments, including cash balances held in the Council's main Lloyds business bank accounts, amounted to £401.1m at 30 September 2020 (£340.7m as at 30 June 2020). Increased cash balances available for investment during the quarter were a consequence of delayed progress on the 2020/21 Capital Programme (including additional Capital grants received the period) and 2020/21 Revenue & Emergency Covid-19 funding received ahead of spend committed throughout the remainder of 2020/21.

2.4 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. This is particularly applicable at this time due to the need to ensure the Covid-19 funding is readily accessible as needed. As a consequence, the disposition of bank unsecured/other investments at 30 September 2020 as compared with 30 June 2020, is detailed below:

Counterparty Type	Jun-20 £m	Jun-20 %	Sep-20 £m	Sep-20 %
Banks Unsecured (Deposits)	40.0	11.7	84.5	21.1
Short-Term Money Market Funds	98.7	29.0	49.9	12.4
Total Bank Unsecured	**138.7**	**40.7**	**134.4**	**33.5**
Bank Secured (greater than 1 year)	10.0	2.9	10.0	2.5
Non-Bank (less than 1 year)	139.5	41.0	179.5	44.8
Non-Bank (greater than 1 year)	15.0	4.4	15.0	3.7
Internal Investments	**303.2**	**89.0**	**338.9**	**84.5**
Externally Managed - Bond Funds *(i)*	0.0	0.0	24.9	6.2
Externally Managed - Multi Asset	14.9	4.4	14.9	3.7
Externally Managed – Property	22.6	6.6	22.4	5.6
TOTAL INVESTMENTS	**340.7**	**100.0**	**401.1**	**100.0**

(i) Ultra-Short Dated Bond Funds (Enhanced Cash)

2.5 During the second quarter of 2020/21 the Council continued to prioritise the monitoring of its cash flow positions, to ensure that there were enough funds to meet all financial obligations (including those relating to Covid-19) as they arose. However with short-term Money Market Fund rates falling towards 0%, the Council took the opportunity to transfer investments from such liquidity funds into marginally higher yielding short term deposits and loans ranging between three and twelve month durations; this included transferring £24.9m into the Federated (externally managed) enhanced cash fund. The resulting maturity profile of the Council's investment portfolio ensures that forecast cash flows remain sufficient throughout the remainder of 2020/21. The full breakdown of the Council's investment portfolio at 30 September 2020 is shown in **Appendix A**.

2.6 In demonstrating compliance with the Council's creditworthiness policy (as contained within the approved 2020/21 "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	Mar-20 £'m	Jun-20 £'m	Sep-20 £'m
AAA *(i)*	76.2	108.7	59.9
AA-	20.0	20.0	15.0
A+	15.2	15.0	44.5
A	30.0	10.0	10.0
A-	10.0	10.0	25.0
Local Authority (No Rating)	149.5	139.5	184.5
Internally Managed	**300.9**	**303.2**	**338.9**
Externally Managed (AAA)	0.0	0.0	24.9
Externally Managed (Other)	37.2	37.5	37.3
Total Investments	**338.1**	**340.7**	**401.1**

(i) Includes short-term Money Market Funds and Covered Bonds.

2.7 Furthermore, the Director of Finance and Support Services confirms that during the second quarter there were no breaches of the following additional exposure limits as approved within the 2020/21 Annual Investment Strategy, including:

(a) 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 **£15.0m** invested with Australian banks at 30 September 2020.

(b) Up to a maximum of £25m may be invested with UK Registered Social Landlords (Housing Associations): Actual **£10.0m** at 30 September 2020.

(c) Up to a maximum of £100m may be invested in negotiable instruments (bonds, certificate of deposits etc.) held in a nominated custody account: Actual **£25.0m** at 30 September 2020.

(d) Up to a maximum of £150m may be invested in short-term Money Market Funds (excluding externally managed pooled funds): Actual **£49.9m** at 30 September 2020.

(e) Up to a maximum of £100m may be invested in externally managed pooled funds; of which £60m may be invested in such funds not holding a AAA credit rating: Actual **£62.2m** total investment at 30 September 2020 (of which **£37.3m** is invested in unrated multi-asset income and property funds).

(f) Up to a maximum of £100m 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 **£62.3m** at 30 September 2020.

3 Risk implications and mitigations

3.1 Covered in main body of report.

Katharine Eberhart
Director of Finance and Support Services

Contact Officers:
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Jon Clear, Treasury Management Officer, 033 022 23378

Appendices
Appendix A - Council's investment portfolio as at 30 September 2020

Background papers
None

Investments held as at 30 September 2020

Investments held with counterparty's approved within the Council's 2020/21 Treasury Management Strategy (together with prevailing credit ratings and maximum monetary and duration limits) at 30 September 2020, are set out below:

Total Investments for period = £401.1m

Table 1: UK Banks (Unsecured) – Total £69.5m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Goldman Sachs International Bank	A+	£15m	1 Year *(i)*	05/08/20	05/02/21	184	128	0.09%	£15.0m
Handelsbanken Plc: 35-Day Notice Account	AA-	£15m	1 Year	n/a	n/a	n/a	n/a	0.05%	£15.0m
Leeds Building Society	A-	£15m	100 Days	05/08/20	05/11/20	92	36	0.06%	£15.0m
Lloyds Bank Plc: Business Account(s)	A+	£15m	1 Year	n/a	n/a	n/a	n/a	0.00%	£0.0m
Lloyds Bank Plc: 175-Day Notice Account	A+	£15m	1 Year	n/a	n/a	n/a	n/a	0.21%	£14.5m
National Westminster Bank Plc	A	£15m	1 Year	02/01/20	29/12/20	362	90	0.96%	£5.0m
National Westminster Bank Plc	A	£15m	1 Year	03/08/20	03/08/21	365	307	0.27%	£5.0m

(i) The 2020/21 Treasury Management Strategy approves investment durations up to a maximum of one year for unsecured deposits in UK Banks holding a A+ long-term credit rating. However, given Goldman Sachs International Bank's elevated CDS price (in comparison with other approved UK banks) the Council currently only considers deposits up to a maximum six month duration; in line with recommended exposure limits received from Link Asset Services.

Table 2: Non-UK Banks (Unsecured) – Total £15.0m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Australia and New Zealand Bank (Australia)	A+	£15m	1 Year	22/07/20	22/01/21	184	114	0.24%	£5.0m
Australia and New Zealand Bank (Australia)	A+	£15m	1 Year	22/07/20	22/04/21	274	204	0.28%	£5.0m
Australia and New Zealand Bank (Australia)	A+	£15m	1 Year	22/07/20	22/07/21	365	295	0.32%	£5.0m

Table 3: UK Banks (Secured) – Total £10.0m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Nationwide Building Society (Covered Bond)	AAA	£25m	10 Years	02/08/19	02/08/22	1,096	671	0.49%	£10.0m

Table 4: UK Local Authorities – Total £184.5m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Barking & Dagenham Council	n/a	£25m	20 Years	16/06/20	23/10/20	129	23	0.30%	£5.0m
Barnsley Metropolitan Borough Council	n/a	£25m	20 Years	05/11/19	05/11/21	731	401	1.45%	£5.0m
Blackpool Council	n/a	£25m	20 Years	25/09/20	24/09/21	364	359	0.30%	£5.0m
Croydon Council	n/a	£25m	20 Years	05/11/19	03/11/20	364	34	0.95%	£10.0m
Dundee City Council	n/a	£25m	20 Years	29/10/19	27/10/20	364	27	0.98%	£5.0m
Hackney Council	n/a	£25m	20 Years	27/02/20	25/02/21	364	148	0.97%	£10.0m
Haringey Council	n/a	£25m	20 Years	13/03/20	12/03/21	364	163	0.98%	£10.0m
Highland Council	n/a	£25m	20 Years	10/02/20	08/02/21	364	131	0.98%	£4.5m
Hillingdon Council	n/a	£25m	20 Years	12/06/20	01/12/20	172	62	0.35%	£5.0m
Hillingdon Council	n/a	£25m	20 Years	05/08/20	04/08/21	364	308	0.25%	£10.0m
Isle of Wight Council	n/a	£25m	20 Years	09/04/20	08/04/21	364	190	1.00%	£5.0m
Leeds City Council	n/a	£25m	20 Years	26/08/20	24/02/21	182	147	0.09%	£15.0m
North Lanarkshire Council	n/a	£25m	20 Years	09/12/19	09/11/20	336	40	0.93%	£5.0m
Plymouth City Council	n/a	£25m	20 Years	25/03/20	24/03/21	364	175	1.30%	£10.0m
Salford City Council	n/a	£25m	20 Years	13/12/19	11/12/20	364	72	0.95%	£5.0m
Southwark Council	n/a	£25m	20 Years	22/01/20	20/01/21	364	112	1.00%	£5.0m
Stockport Metropolitan Borough Council	n/a	£25m	20 Years	31/03/20	30/03/21	364	181	0.98%	£10.0m
Surrey County Council	n/a	£25m	20 Years	24/06/20	24/11/20	153	55	0.42%	£10.0m
Thurrock Council	n/a	£25m	20 Years	02/07/20	02/10/20	92	2	0.40%	£10.0m
Thurrock Council	n/a	£25m	20 Years	06/07/20	06/01/21	184	98	0.33%	£5.0m
Thurrock Council	n/a	£25m	20 Years	04/08/20	04/08/21	365	308	0.50%	£10.0m
Trafford Council	n/a	£25m	20 Years	06/08/20	08/02/21	186	131	0.95%	£10.0m
Wokingham Borough Council	n/a	£25m	20 Years	30/07/20	30/07/21	365	303	0.30%	£10.0m
Wokingham Borough Council	n/a	£25m	20 Years	25/08/20	24/08/21	364	328	0.25%	£5.0m

Table 5: UK Housing Associations (RSLs) – Total £10.0m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Metropolitan Housing Trust (MTVH Group)	A-	£15m	5 Years	05/09/19	06/09/21	732	341	1.40%	£10.0m

Table 6: Short-Term Money Market Funds – Total £49.9m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	Interest Rate	Amount
Aberdeen Standard Sterling Liquidity Fund	AAA	£25m	*Note (ii)*	n/a	n/a	n/a	n/a	0.06%	£25.0m
Blackrock Sterling Liquidity Fund	AAA	£25m	*Note (ii)*	n/a	n/a	n/a	n/a	0.01%	£24.9m

(ii) No defined maturity periods for short-term Money Market Funds; withdrawals based on cash flow liquidity requirements.

Table 7: Pooled Funds (Externally Managed) – Total £62.2m

Counterparty	Credit Rating	Monetary Limits	Duration Limits	Start Date	Maturity Date	No. of Days	Days to Maturity	2020/21 EIR(%)	Market Value
Federated Cash Plus Fund	AAA	£25m	*Note (iii)*	29/07/20	n/a	64	n/a	0.10%	£24.9m
Fidelity Multi-Asset Income Fund	n/a	£15m	*Note (iv)*	11/12/18	n/a	660	n/a	4.53%	£7.6m
Ninety-One Diversified Income Fund	n/a	£15m	*Note (iv)*	05/12/18	n/a	666	n/a	4.11%	£7.3m
CCLA (Local Authorities' Property Fund)	n/a	£15m	*Note (v)*	28/02/17	n/a	1,311	n/a	3.84%	£9.1m
Hermes Property Unit Trust (HPUT)	n/a	£15m	*Note (v)*	28/08/18	n/a	765	n/a	2.44%	£8.9m
Lothbury Property Trust (LPT)	n/a	£15m	*Note (v)*	03/09/18	n/a	759	n/a	2.26%	£4.4m

(iii) Up to one year investment horizon for externally managed ultra-short dated bond funds (enhanced cash).
(iv) Three year investment horizon for externally managed multi-asset income funds.
(v) Minimum five year investment horizon for externally managed property funds.

Key decision: Not applicable
Unrestricted

Regulation Audit & Accounts Committee

20 November 2020

Internal Audit Progress Report (October 2020)

Report by Director of Finance & Support Services /Head of Southern Internal Audit Partnership

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Summary

The purpose of this paper is to provide the Regulation Audit and Accounts Committee with an overview of internal audit activity against assurance work completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports.

Recommendations

(1) That the Committee note the Internal Audit Progress Report (October 2020) as attached

Proposal

1 Background and context

1.1 Under the Accounts and Audit (England) Regulations 2015, the Council is responsible for:

- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and

- undertaking an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.

1.2 In accordance with proper internal audit practices (Public Sector Internal Audit Standards), the Chief Internal Auditor is required to provide a written status report to the Regulation, Audit & Accounts Committee, summarising:

- The status of 'live' internal audit reports (outstanding management actions)

- an update on progress against the annual audit plan:

- a summary of internal audit performance, planning and resourcing issues; and

- a summary of significant issues that impact on the Chief Internal Auditor's annual opinion.

1.3 Appendix A summarises the activities of internal audit for the period up to 31 October 2020

2 Risk implications and mitigations

Risk	Mitigating Action (in place or planned)
Services not addressing key management actions 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 management actions 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 and Support Services

Contact Officer: Neil Pitman, Head of Southern Internal Audit Partnership, neil.pitman@hants.gov.uk

Appendices
Appendix A – Internal Audit Progress Report (October 2020)

Background papers
None

Internal Audit Progress Report (October 2020)

West Sussex County Council

west sussex county council

Southern Internal Audit Partnership

Assurance through excellence and innovation

Contents:

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 County 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 County Council that these arrangements are in place and operating effectively.

The County 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. Purpose of report

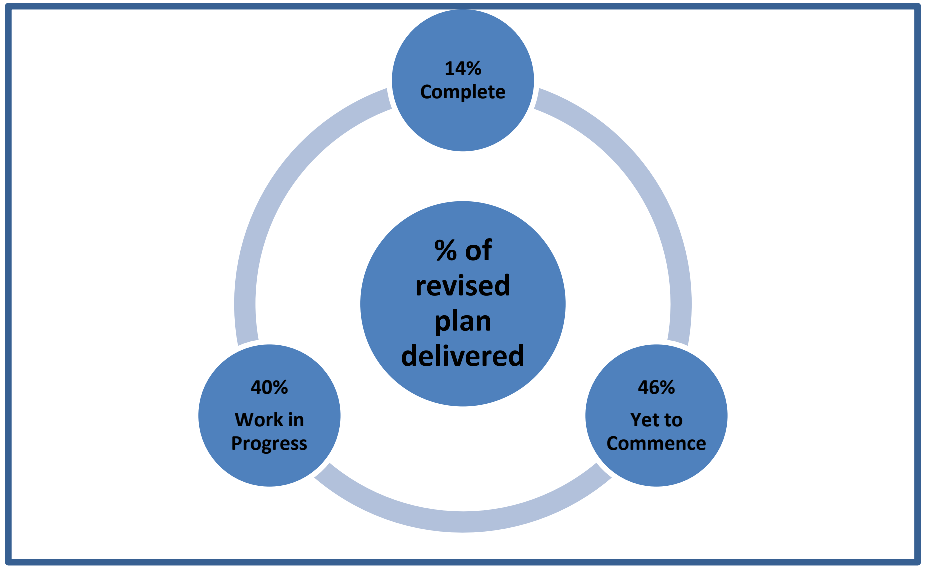
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to 'Senior Management' and 'the Board', summarising:

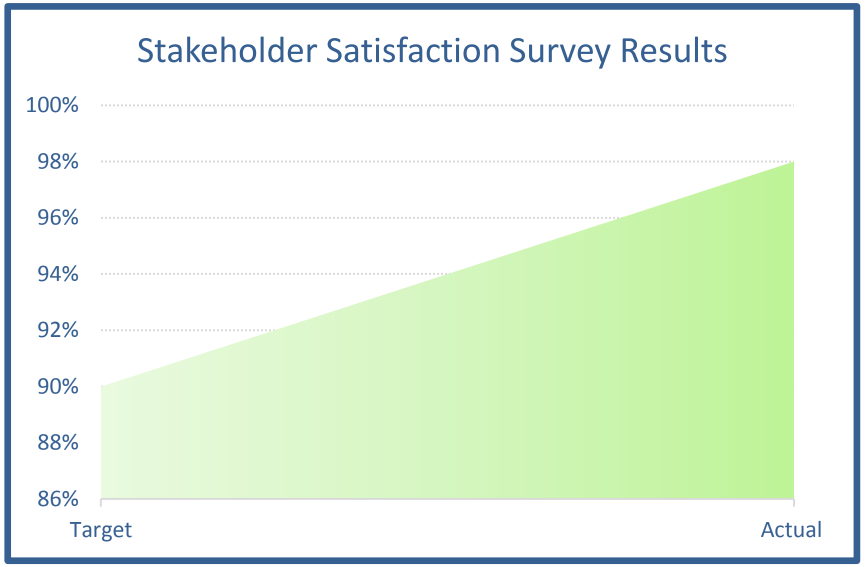
- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor's annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. Assurance opinions are categorised as follows:

Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable / Adequate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

3. Performance dashboard





Compliance with Public Sector Internal Audit Standards

An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020. The report concluded:

'The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles.

We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.'

4. Analysis of 'Live' audit reviews

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Action(s)	Not Accepted	Not Yet Due	Complete	Overdue		
								L	M	H
Governance Compliance	Feb 2019	Corp	Limited	3	0	0	2		1	
Home to School Transport	Mar 2019	DH&T	Limited	4	0	0	3	1		
Special Guardianship Orders	May 2019	DC&FS	Limited	24	0	0	22		2	
E-Income	Jun 2019	F&SS	Adequate	1	0	0	0			1
Payroll and Employment Administration	July 2019	HR&OC	Adequate	10	0	0	9	1		
MSS	July 2019	Corp	Adequate	1	0	0	0	1		
Capacity Planning and Monitoring	Aug 2019	F&SS	Adequate	3	0	0	2		1	
Access Control	Aug 2019	F&SS	Adequate	5	0	0	3		2	
Retained Firefighters	Sep 2019	CFO	Adequate	12	0	0	11		1	
IT Asset Management	Oct 2019	F&SS	Limited	4	0	0	2			2
Intentionally Homeless – Financial Control	Dec 2019	DC&FS	Limited	11	0	0	10			1
Disaster Recovery Planning	Dec 2019	F&SS	Limited	6	0	0	2		3	1
Application Review - Mosaic	Dec 2019	F&SS	Adequate	2	0	0	1		1	
External Placements	Jan 2020	DASS DC&FS	Limited	5	0	0	4			1
Civil Parking Arrangements	Jan 2020	DH&T	Adequate	9	0	0	4		1	4
Allowances	May 2020	HR&OC	Limited	13	0	1	9			3
Document Management & Retention	May 2020	DC	Adequate	8	0	0	5		3	
Accounts Payable	May 2020	F&SS	Adequate	4	0	0	0		4	
Quality Assurance Framework	Jun 2020	DASS	Limited	9	0	1	5		2	1
Fraud Proactive – Purchasing Cards	Aug 2020	F&SS	Limited	7	0	0	6		1	
Capital Programme Governance	Aug 2020	DP&A	Adequate	2	0	0	1	1		
Travel Portal	Sep 2020	F&SS	Adequate	7	0	0	6	1		

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Action(s)	Not Accepted	Not Yet Due	Complete	Overdue		
								L	M	H
Highways Asset Protection	Sep 2020	DH&T	Adequate	6	0	0	5		1	
Data Storage and Data Backup	Sep 2020	F&SS	Limited	4	0	0	2			2
Companies House – NFI (Proactive Fraud)	Sep 2020	L&A	Limited	9	0	6	3			
Investment Plan (CS)	Oct 2020	DC&FS	Adequate	6	0	3	3			
Recruitment of Interims	Oct 2020	HR&OC	Reasonable	3	0	3	0			
Special Educational Needs	Oct 2020	DC&FS	Limited	6	0	3	3			
Procurement	Oct 2020	F&SS	Adequate	3	0	1	2			
Total								**5**	**23**	**16**

Audit Sponsor

Chief Executive

Chief Fire Officer (CFO)
Director of Human Resources and Organisational Change (HR&OC)

Executive Director, Adults & Health and Statutory DASS (DASS)

Executive Director of Children, Young People and Learning

Director of Children and Family Services (DC&FS)
Director of Education and Skills (DE&S)

Executive Director Place Services

Director of Highways and Transport (DH&T)
Director of Environment and Public Protection (DE&PP)
Director of Communities (DC)

Executive Director Resource Services

Director of Law and Assurance (DL&A)
Director of Finance and Support Services (DF&SS)
Director of Property and Assets (DP&A)

5. Executive Summaries of reports published concluding a 'Limited' or 'No' assurance opinion

There has been one new report published concluding a "limited" assurance opinion, since our last progress report.

Special Educational Needs & Disabilities

Audit Sponsor	Assurance opinion	Management Actions		
Executive Director Children, Young people and Learning	Limited	Low 0	Medium 1	High 6

Summary of key observations:
This review was undertaken to ensure the SEN data available is complete and accurate to inform monitoring of core statutory requirements, including annual review, and the planning of SEND school places.

The Mosaic system did not generate the key documents required for SEN cases such as draft and final Education Health Care Plans (EHCPs). There was no monitoring information from the system to highlight individual EHCP's annual reviews, which relied on manual diarising or were prompted from the receipt of review documentation from the schools.

There was inconsistent use of Mosaic for annual reviews with poor recording to evidence that the annual review had taken place or that it had been undertaken in accordance with required timescales.

The Authority introduced a SEN place planning tool which was reliant on both Mosaic and supporting manual spreadsheets to populate SEN place planning, which was then compared to the number of children on roll within schools. The data held across all three sources had proved difficult to reconcile and there had been some challenge from schools on the accuracy of places planned for September 2020.

WSCC are required to complete a statutory return that collects data about children for whom they have responsibility in respect of SEN processes. For the purposes of EHCPs the responsible Local Authority is the one where the child resides. The reporting in place for the statutory return was set up to report all children the authority has financial responsibility for; however, this included those children where WSCC had financial responsibility, but live out of county. Such cases should be recorded on the Local Authorities return for the area in which they live not by WSCC.

From the data set that will form part of the individual return for the SEN2 statutory return from 2022, there were areas where the data was incomplete for key information (final EHCP dates, review dates, primary need categories, school / provision).

6. Planning & Resourcing

The internal audit plan for 2020-21 was approved by the County Council's Executive Leadership Team and the Regulation, Audit & Accounts Committee in July 2020.

The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the County Council. Progress against the plan is detailed within section 7.

7. Rolling Work Programme

Audit Review	Sponsor	Scoping	Audit Outline	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
2019/20								
Crawley Schools PFI	P&A	✓	✓	✓	Feb 20			
Special Educational Needs	DE&S	✓	✓	✓	Jul 20	Oct 20	Limited	
Dual Use Agreements	P&A	✓	✓	✓	Apr 20			
2020/21								
Governance – COVID	Corporate	✓	✓					Q3
Health and Safety / Staff Welfare / Wellbeing / Performance Management	Corporate	✓	✓					Q2
Market Underwriting / Contract Management – Supply chain	Corporate	✓	✓	✓				Q2
Emergency Planning / Business Continuity / Service resilience	Corporate	✓	✓					Q2
Central Government Grants (allocation)	Corporate	✓	✓	✓				Q2
PPE Cell	Corporate	✓	✓	✓	Jul 20	Sep 20	Reasonable	
Recovery	Corporate							Q4
Health and Safety	DHR & OC							Q4
Corporate Governance	DL&A							Q3
Corporate Projects Support	Corporate	✓						Q1-4

Audit Review	Sponsor	Scoping	Audit Outline	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Risk Management	DFSS	✓	✓	✓				Q2
Annual Governance Statement	DL&A	n/a	n/a	n/a	n/a	n/a	n/a	Q1-2
Procurement (sub £100k)	DFSS	✓						Q3
Financial Resilience	DFSS	✓						Q3
Debt Recovery / Write off	DFSS / DL&A	✓						Q3
Grant Returns	DFSS	n/a	n/a	✓	n/a	n/a	n/a	5 completed to date
Pensions (Employer Contributions & relationships)	DFSS	✓	✓	✓	Nov 20			Q2
Follow up of Limited Opinion IT Audits	DFSS	✓	✓	✓	Sep 20	Oct 20	n/a	Q2
Cyber Security	DFSS							Q4
Cloud Service Provisioning	DFSS							Q3
Endpoint & Peripheral Provisioning	DFSS							Q4
Email & Document Management	DFSS							Q3
Highways Statutory Inspections	DHT&P	✓						Q3
Ash Dieback	DHT&P	✓						Q3
Home to School Transport	DHT&P							Q4
Carbon Strategy	DE&PP	✓						Q4
Children, Young People and Learning Transformation Programme (Governance)	EDCYP&L	✓	✓					Q2
Children, Young People and Learning Transformation Programme (Workstreams)	EDCYP&L							Q4
Special Guardianship Allowances	EDCYP&L	✓	✓	✓	Oct 20	Oct 20	Reasonable	
Children's – P-Cards	EDCYP&L	✓	✓	✓				Q2
School Thematic Review(s)	EDCYP&L							Q4
Children Safeguarding (QAF)	EDCYP&L							Q3
SFVS	EDCYP&L	✓	✓	✓	n/a	n/a	n/a	Q1 & Q4
School Traded Services	EDCYP&L	✓						Q3

Audit Review	Sponsor	Scoping	Audit Outline	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Think Family	EDCYP&L	✓	✓	✓	n/a	n/a	n/a	
Adults Development Plan	EDA&H							Q3-4
Approved Mental Health Professionals (AMHPs) / S75 Mental Health	EDA&H							Q4
Establishment Thematic Review(s)	EDA&H	✓						Q3
Data Quality (Adults)	EDA&H							Q4
Adults Safeguarding Quality Assurance	EDA&H	✓						Q3
S75 Governance	JSDC	✓						Q4
Multi-Disciplinary Consultant (Contract)	DP&A	✓						Q3
Management of restructures	DHR&OC	✓	✓	✓				Q2
Recruitment of Interims	DHR&OC	✓	✓	✓	Sep 20	Oct 20	Reasonable	
Health and Safety - FRS	CFO							Q3
Safe and Well Visits	CFO	✓						Q3
Retained Duty System	CFO							Q3
Programme Management Office	CFO							Q4
Premises Risk Management	CFO							Q4
Grey Book Contracts	CFO							Q4
Contract Management	DFSS							
SEND (Special Educational Needs)	EDCYP&L							
Data Quality (Children's)	EDCYP&L							
School Reviews	EDCYP&L							
Adult Commissioning	EDA&H							
Self Help in Schools	DP&A							
Compliance with HR requirements	DHR&OC							
IR35	DHR&OC							

Reviews remain within the plan for completion during 20/21, however have been identified as those with greatest potential to defer to Q1 21/22 or have other sources of assurance contributing to the overall framework of governance, risk, and control.

Annexe 1

Overdue 'High Priority' Management Actions

Quality Assurance Framework - Limited
Observation: There is a documented Quality Assurance Framework in place within Adults Services. This was created in 2013 and was last reviewed in October 2019. This review of the framework was completed in isolation to the review of the new Safeguarding Adults Board Quality Assurance Framework (published in November 2019), and therefore this missed the opportunity to bring the two assurance documents in line with each other. The Author of the QAF does not report into the Head of Safeguarding and Quality. **Observation:** Whilst there is a mechanism for feeding back learning from the QAF, the Framework does not identify how the authority will verify that this learning has been embedded within Adult's services and therefore is not closing the loop in the assurance process, providing a continuous process In comparison the WSSAB QAF identifies that a learning and review framework will be in place to enable lessons to be learnt and where there have been poor outcomes to ensure that lessons learned are applied in practice.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
Align the QAF with the Safeguarding QAF and where possible children QAF: Including identifying learning and changes in practice to be tested / evidenced based (embedding best practice)	31.07.2020	31.12.2020	1st Draft nearly completed progress delayed due to QA vacancy and Covid-19 impact.

E-Income - Adequate
Observation: Capita Pay360 replaced the legacy 'Netbanx' system for receiving payments however the old system has not been decommissioned and any payments received via Netbanx requires re-allocation by finance staff.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
Decommission Netbanx following implementation of a fix to Pay 360.	31.12.2019	31.12.2020	Zipporah are actively building a new integration to Pay360 but are unable to give a definitive timeline – revised to end of year.

Disaster Recovery Planning - Limited

Observation: Following the disaster recovery test in November 2018 a project closure report was published which documented the outcome of the conducted test and highlighted a series of lessons learnt. There is currently no formal action plan established to address the findings identified in the report to ensure effective future disaster recovery planning and testing.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
A documented action plan to address the issue of outcomes and of the closure report. In addition, any new actions resulting from the test should be reflected in an updated disaster recovery plan.	01.12.2019	30.11.2020	Final changes to documentation are anticipated to be completed by 30/11/20 (in line with changes due to backup provision replacement)

IT Asset Management - Limited

Observation: The Asset Management Data Base (AMDB) has not been effectively maintained and assurance cannot be provided that it accurately reflects the Council's estate of hardware and software. Testing of devices issued in 2018/19 found discrepancies between the AMDB records and Active Directory data highlighting weaknesses with the accuracy of recording, to whom devices have been issued, and reallocations between end users.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
Update AMDB solution to address incorrect count of equipment.	31.12.19	30.12.20	Capita have identified the vFire platform as the product to facilitate the role of AMDB (this platform is already used for helpdesk/service management). Cleanse and migration of each class of technology assets to vFire continues, this is anticipated to be completed at the end of the Win10 project (which is in it's final stages). IT Services are actively engaging Capita and County Council colleagues to achieve full reconciliation of assets. Anticipated revised target date 31/12/2020

IT Asset Management - Limited

Observation: There is no centrally managed solution to manage mobile phones. Users are required to install an application on to their device which enables the Council to track it, however, there is a risk that users who leave the Council and do not hand back their device can uninstall the application preventing the Council from tracking the device. The leavers process does not consistently ensure that all devices are returned, and reallocations are recorded.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
Capita will review existing solution and assess configuration settings for more locked down capability. Should this prove unacceptable a new solution is required that can provide the appropriate MDM controls including management to prevent user removal of the software.	31.12.19	30.12.20	IT Services have signalled an intention to move away from use of the Mobile Iron MDM solution and replace it with Microsoft Intune MDM, this will better integrate our core email, shared file storage and messaging/telephony platforms (Lync/Skype/Teams) and will provide these core functions across both traditional and mobile endpoints. Integrated MDM reporting allows tracking of assets assigned, compliance with policy and insights to patching levels and hence a better level of clarity around operational risk. The precursor to this Intune objective is completion of the Win10 project and migration of user profiles to the Azure hosted environment. It is anticipated that this task will be completed by 31/12/2020..

Data Storage and Backup- Limited

Observation: Copies of the back up policy, procedure, and/or process documents were requested, however, could not be provided.
It was explained that when the previous member of staff responsible for backups left, no hand over took place and that no documentation had been produced since that time.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
Capita to provide applicable backup documentation to WSCC Service Manager for rev	31.05.20	30.11.20	These actions remains outstanding, however this is on the basis that commissioning of the new Netbackup units will complete with a new service wrap implemented which will describe an operational model, wider support provision and accountabilities that will answer the observations previously made. Final anticipated actions closure 30/11/20
Capita to evidence business continuity position around resources as single point of failure – and actions taken to address	31.05.20	30.11.20	

External Placements - Limited

Observation: There were no commissioning strategies in place for either Adults or Children's services. An effective commissioning strategy should help identify need, allocate resources and procure provider(s) to meet service need within available means.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
Produce and publish the adults commissioning strategy aligned to the Adult Social Care Vision and Strategy 2019 – 2021. Finalise the draft Older People Market Position Statement.	31.01.20	30.11.20	The service has Market Position Statements for Lifelong Services issued November 2019 and Older People, this is currently in draft and the intention is to publish this alongside the Commissioning Strategy. Children Services have provided their Children and Young People's Sufficiency Strategy which runs to 2021.

Intentionally Homeless - Limited

Observation: Housing Plans, stating/agreeing the scope of West Sussex County Council's financial responsibility for an Intentionally Homeless Family are not routinely used by Social Workers when assessing families. This would give clear instruction to the Accommodation Team of what is required.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
Following development of a model create practice standards for Children's Social Care and Accommodation Team for IH families.	31.03.2020	31.01.2021	Required S17 policy sign off to inform the practice standards and the processes. S17 guidance has been signed off. Next action is for the completion of the IH practice guidance which is in progress.

Allowances - Limited

Observation: The Allowances and Enhancements Policy is dated January 2018. It refers to Hay and NJC spinal column point 30 and above not normally being entitled to claim overtime. Scale points changed from 01/04/2019. Scale point 30 which was the top of grade 8 is now equivalent to scale point 24; the new scale point 30 is the middle of Grade 10.

There is also guidance on The Point on 'How to submit a claim for pay' dated August 2018; the guidance includes a table showing wage types and a description of what the wage type is used for; the information in the table does not reflect exactly the information in the Allowances and Enhancements Policy. Anomalies and inconsistencies within the policies meant that it was not always possible, when carrying out testing, to conclude whether claims were appropriate.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
The Allowances & Enhancements policy to be updated with relevant changes; to include review of wage types guide	30.11.2019	30.11.2020	The allowances & enhancements policy is being updated to resolve the queries raised during the audit and will be updated by end of October and duplicate wage types removed in SAP by end of November. This will ensure documentation is consistent

Allowances - Limited			
Observation: Claims tested did not consistently meet the criteria for the wage type in the Allowances and Enhancements Policy; in some instances the claims appear to have been made inappropriately. A number of claims tested were for wage types that are not included in the Allowances and Enhancements Policy.			

Management Action	Original Due Date	Revised Due Date	Latest Service Update
Identify the issues that are as a result of updates needed to the Allowances and Enhancements Policy and make appropriate updates.	30.11.2019	30.11.2020	The required updates have been identified and the policy is being updated in accordance with the action above.
Carry out a piece of investigation work to look at: 1. Allowances with the highest financial impact; 2. Which allowances have the highest claim rate; 3. The highest risk allowances.	31.03.2020	30.11.2020	Investigation into the action has identified that some duplicated wage types which are not referenced in the current policy and which are being used in a small number of cases. These duplicate wage types are due to be removed from SAP by the end of November. The high-risk wage types have been identified as those for overtime and unsocial hours owing to the volume of claims and the different permutations for claim types. Once the policy document has been updated, the need for compliance will be re-enforced to managers in areas of high-volume claims.

Civil Parking Arrangements - Adequate

Observation: The signed agency agreements with the districts/boroughs require a monthly reconciliation of income and expenditure for the on-street parking account and the Joint Enforcement Account. The agreements state that the reconciliations should be forwarded to the County Council each month with supporting documentation so that the council can understand the figures in the reconciliation.

Discussions with four district and borough Parking Managers confirmed that although monthly statistical information for on and off-street parking and enforcement is sent, formal reconciliations of income and expenditure are not. One of the councils sends a quarterly reconciliation to the County Council, but the remaining councils only do this at year end.

Additionally, no supporting information other than the statistical reports has been sent to the County Council as required by the agency agreements.

The County Council has not enforced the requirement for monthly reconciliations, nor requested further supporting documentation.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
To raise the reconciliation issues with each DC/BC's, vary the Agency Agreements and get agreement to the variations from the DC/BC's	31.01.2020	01.04.2021	Quarterly Financial Reconciliations – were intended to go alongside the reports but some of the DCs/BCs have stated that they do not wish to change the financial arrangements we have with them mid-way through the financial year. Therefore, appropriate to start in April 2021. Some DCs/BCs did also state that they would not recognise the new arrangements until the Agency Agreements had been signed as they do impact upon their end of year income.
Supporting information (i.e. CPE Reports) will be confirmed with each DC/BC as well as the IT supplier with the first quarterly reports to follow by Spring 2020.	31.03.2020	31.12.2020	Quarterly Reports – The template for the new quarterly reports has been largely completed and some authorities are starting to send through draft versions. The expectation is that all authorities be able to submit reports for Q3 (Oct – Dec) Therefore target December as a completion date for these reports. These reports will also include compliance surveys.

The Agency Agreements have been re-drafted to ensure consistency and understanding and updated policy	31.01.2020	01.04.2021	In the final stages of drafting the variations to each Agency Agreement and resource in Legal Services have been made available to assist. Plan to have the Agreements completed (including being signed off by each DC/BC) by the end of December but the actions arising from the variations would not become effective until April 2021. (revised date for completion.)

Observation: The agency agreements require the districts and boroughs to provide WSCC with monthly statistical reports providing a variety of detailed information which is used by the Parking Strategy Team Manager at WSCC for financial modelling purposes.
Although we found there were detailed reports being sent from three of the districts/boroughs tested, we were informed by WSCC staff that one of the councils had not sent any reports to them since June 2018.

Management Action	Original Due Date	Revised Due Date	Latest Service Update
Supporting information (i.e. CPE Reports) will be confirmed with each DC/BC within this same period with the first quarterly reports to follow in Spring 2020. I am currently awaiting confirmation from the IT supplier that they can provide the necessary information.	31.03.2020	31.12.2020	Reports were expected to go live from July 1st, 2020 with the first report expected October. The go live for all reports should now be December.

Annexe 2

Overdue 'Low & Medium Priority' Management Actions

Audit Review	Report Date	Opinion	Priority	Due Date	Revise Due Date
Governance Compliance	Feb 2019	Limited	Medium	30.09.19	31.12.20
Home to School Transport	Mar 2019	Limited	Low	30.04.20	30.11.20
Special Guardianship Orders	May 2019	Limited	Medium	31.07.19	30.09.20
			Medium	30.09.19	30.09.20
Payroll and Employment Administration	July 2019	Adequate	Low	31.07.19	31.12.20
MSS	July 2019	Adequate	Low	31.07.19	31.03.21
Capacity Planning and Monitoring	Aug 2019	Adequate	Medium	31.12.19	31.03.21
Access Control	Aug 2019	Adequate	Medium	30.09.19	30.06.21
			Medium	30.09.19	30.06.21
Retained Firefighters	Sept 2019	Adequate	Medium	31.10.19	30.09.20
Disaster Recovery Planning	Dec 2019	Limited	Medium	31.01.20	30.11.20
			Medium	31.01.20	30.11.20
			Medium	31.01.20	30.11.20
Application Review - Mosaic	Dec 2019	Adequate	Medium	31.01.20	31.01.21
Civil Parking Arrangements	Jan 2020	Adequate	Medium	31.01.20	01.04.21
Accounts Payable	May 2020	Adequate	Medium	31.07.20	31.10.20
			Medium	31.07.20	31.10.20
			Medium	31.07.20	31.10.20
			Medium	31.07.20	31.10.20
Information Governance – Document Management and Retention	May 2020	Adequate	Medium	31.07.20	31.01.21
			Medium	31.07.20	30.06.21
			Medium	30.09.20	31.01.21
Quality Assurance Framework (Safeguarding)	Jun 2020	Limited	Medium	31.05.20	31.10.20
			Medium	31.08.20	31.03.21
Fraud Proactive – Purchasing Cards	Aug 2020	Limited	Medium	31.01.20	31.10.20
Capital Programme Governance	Aug 2020	Adequate	Low	30.06.20	28.02.21
Travel Portal	Sep 2020	Adequate	Low	31.05.20	30.11.20
Highways Assets (Recoverable)	Sep 2020	Adequate	Medium	01.07.20	01.11.20

Key decision: Not applicable
Unrestricted

Regulation Audit & Accounts Committee

20 November 2020

External Quality Assessment of Southern Internal Audit Partnership

Report by Director of Finance & Support Services /Head of Southern Internal Audit Partnership

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Summary

The purpose of this paper is to present the outcome of the recent external quality assessment of the Southern Internal Audit Partnership against the International Professional Practices Framework, Public Sector Internal Audit Standards and Local Government Application Note required as part of the Standards (Attribute Standard 1312 – External Assessment).

Recommendations

(1) That the Committee note the External Quality Assessment Report as attached

Proposal

1 Background and context

1.1 The Accounts and Audit (England) Regulations 2015 – S5 state:

'(1) 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.'

1.2 The Public Sector Internal Audit Standards and the Local Government Application Note together comprise 'internal auditing standards and guidance' as referenced in the Regulations.

1.3 The Public Sector Internal Audit Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit service including provision for both internal and external quality assessments.

1.4 An external quality assessment is required to be undertaken every five years by an independent assessment team from outside of the organisation. To fulfil this requirement the Institute of Internal Auditors (IIA) were commissioned to undertake the external assessment.

1.5 The external assessment was completed during 4th – 11th September 2020. The review included a thorough validation of the SIAP's self-assessment, a comprehensive review of existing policies procedures and practices, a significant number of interviews with key stakeholders across our partner and client organisations, SIAP team members, as well as an extensive customer survey.

2 Conclusion

2.1 The external assessment concluded that the Southern Internal Audit Partnership conform to all aspects of the International Professional Performance Framework, Public Sector Internal Audit Standards and Local Government Application Note.

2.2 In assessing the SIAP against the IIA's Maturity Matrix, the assessors concluded that the SIAP team are:

Excellent in their:

- Reflection of the Standards
- Focus on performance, risk and adding value
- Quality Assurance and Improvement Programme

Good in their:

- Operating with efficiency
- Coordinating and maximising assurance

2.3 Appendix A provides the external quality assessment report

3 Risk implications and mitigations

Risk	Mitigating Action (in place or planned)
Services not addressing key management actions 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 management actions 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 and Support Services

Contact Officer: Neil Pitman, Head of Southern Internal Audit Partnership, neil.pitman@hants.gov.uk

Appendices
Appendix A – External Quality Assessment Report

Background papers
None

Setting the standards together

Chartered Institute of Internal Auditors

External Quality Assessment (EQA)

Report for:

Southern Internal Audit Partnership

Southern Internal Audit Partnership
Assurance through excellence and innovation

Prepared by John Chesshire, Bethan Jones and Liz Sandwith
approved reviewers for
The Chartered Institute of Internal Auditors

14 September 2020

www.iia.org.uk/eqa

Agenda Item 9
Appendix A

Table of Contents

1 Executive Summary

Setting the standards together

1.1 Background and Scope

The internal audit service provided by Southern Internal Audit Partnership (SIAP) delivers internal audit services to one strategic Partner (Hampshire County Council), 17 key stakeholder partners (including county, district, borough and city councils, police, fire and rescue and related bodies) and 10 external clients.

The Head of Partnership (supported by the Assistant Head) and two Deputy Heads fulfil the Chief Internal Auditor (CIA) roles for their respective client portfolios. They report functionally to Audit Committees in the partner and client organisations. In addition, the Head of Partnership reports strategically to the Key Stakeholder Board.

SIAP seeks to bring together the professional discipline of internal audit across partnering organisations, pooling expertise and enabling a flexible, responsive and resilient service to our partner and client portfolio. To help achieve this, SIAP follows the IIA's Mission for internal auditing and the International Professional Practices Framework (IPPF) and the Public Sector Internal Audit Standards (PSIAS).

The Chartered Institute of Internal Auditors previously undertook an external quality assessment (EQA) of SIAP in 2015. We are delighted that SIAP commissioned us to undertake this current EQA once again.

Our review included a thorough validation of the SIAP's self-assessment, a significant number of interviews with key stakeholders across the partner and client organisations, SIAP team members, as well as an extensive customer survey.

Given the pandemic, we conducted this EQA remotely.

1.2 Key Achievements

SIAP is an established and effective internal audit service, valued by key stakeholders in its partner and client organisations.

The governance framework over SIAP is mature, with a well-established Key Stakeholder Board and Audit Committee oversight, regular meetings, reporting and performance monitoring.

A very experienced Head of Partnership leads the SIAP team, supported by three senior managers. Engagement with key stakeholders is regular and effective, with the Head of Partnership viewed as a trusted, independent and respected leader.

SIAP team members have diverse professional backgrounds, qualifications, experience and skills, making them a flexible and effective service. They can tackle a wide range of assurance, consulting and investigatory challenges. The team also contains IT audit and counter fraud specialists. The Head of Partnership could procure additional external support if needed through a budget for co-sourcing. SIAP operates a matrix management approach to team operation and deployment.

Our stakeholder survey results were also positive. Individual comments were very supportive, with very few areas for improvement identified. We also received positive responses to our questions from the key stakeholders we interviewed. Individuals particularly welcomed the SIAP team's overall professionalism, objectivity, engagement, planning and reporting. Suggested areas for improvement were minimal.

The team's Audit Charter is comprehensive, up to date and supported by an appropriate internal audit methodology. The team have developed and delivered annual risk-based audit plans for each of their clients and are moving to a more flexible quarterly

Chartered Institute of Internal Auditors approach. Key stakeholders are actively engaged in the design of these plans. The SIAP team document progress and the Head of Partnership and senior colleagues report on this at regular Audit Committee meetings.

SIAP managers actively monitor performance, the Head of Partnership measures and reports on a small number of KPIs, and a thorough, documented Quality Assurance and Improvement Programme is in place. The team make good use of MKI audit management software. They are also making progress on implementing a more data analytics-driven approach to some internal audit engagements but acknowledge that they need to undertake more work in this area.

We believe that the supporting operational SIAP team processes, documentation and associated templates are fit for purpose. SIAP managers have detailed these in a variety of key documents.

Our file reviews showed appropriate compliance with the team's methodology and evidence of appropriate scope, objectives, testing, evidence, supervision and review.

1.3 EQA Assessment Conclusion

We are pleased to report that the SIAP team meet each of the Standards, as well as the Definition, Core Principles and the Code of Ethics, which form the mandatory elements of the Public Sector Internal Audit Standards (PSIAS) and the Institute of Internal Auditors' International Professional Practices Framework (IPPF), the globally recognised standard for quality in Internal Auditing.

To summarise, we are delighted to report that the SIAP team are excellent in their:

- Reflection of the Standards
- Focus on performance, risk and adding value
- Quality Assurance and Improvement Programme

We believe that the SIAP team are good in their:

- Operating with efficiency
- Coordinating and maximising assurance

In conclusion, this is an excellent result and the Head of Partnership and SIAP team should be justifiably proud of their service, its approach, working practices and how key stakeholders' value it.

It is therefore appropriate for the function to say in reports and other literature 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'.

1.4 Conformance Opinion

The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards.

There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles.

It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles. This is summarised in the table below.

Summary of Conformance	Standards	Generally Conforms	Partially Conforms	Does not conform	Not relevant	Total
Definition of IA and Code of Ethics	Rules of conduct	12				12
Purpose	1000 - 1130	8				8
Proficiency and Due Professional Care (People)	1200 - 1230	4				4
Quality Assurance and Improvement Programme	1300 - 1322	7				7
Managing the Internal Audit Activity	2000 - 2130	12				12
Performance and Delivery	2200 - 2600	21				21
Total		**64**				**64**

As a result, we make no formal recommendations for improvement.

We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.

2 Supporting Continuous Improvement

The Chartered Institute regards conformance to the IPPF as the foundation for effective internal audit practice. However, our EQA reviews also seek feedback from key stakeholders and we benchmark each function against the diversity of professional practice seen on our EQA reviews and other interviews with heads of internal audit, summarised in an internal audit maturity matrix.

We then interpret our findings into suggestions for further development based upon the wide range of guidance published by the Chartered Institute.

It is our aim to offer advice and a degree of challenge to help internal audit activities continue their journey towards best practice and excellence.

In the following pages we present this advice in three formats:

- A SWOT analysis to recognise the accomplishments of the team and to highlight potential threats and opportunities for development. *(See 2.1)*
- A matrix describing the key criteria of effective internal audit, highlighting the level SIAP has achieved and the potential for further development, recognising that effective internal audit goes further than purely conformance with internal auditing standards. *(See 2.2)*
- A series of improvement opportunities and suggestions which the internal audit team could use as a basis for an action plan. *(See 2.3)*

2.1 SWOT Analysis

What works well (Strengths)	What could be done better (Weaknesses)
• An experienced, diverse and professional team, with a broad mix of qualifications, backgrounds and specialisms, including IT and counter fraud • The Head of Partnership is well-respected, independent, confident and knowledgeable • Move to quarterly planning demonstrates greater agility and responsiveness to a volatile, changing environment • Very positive staff and stakeholder survey results • The ‘added value’ section in the internal audit reports usefully highlights good practice and improvement opportunities • Training and Development Plan developed, particularly in response to recruitment and expansion. Well-received training sessions delivered at the start of the pandemic • SIAP governance is clearly documented (Charters, Plans, Audit Methodology and flowcharts, the QAIP etc.) and the audit methodology, including action follow up, works well • Client relationship management - effective relationships with key stakeholders, both councillors and officers • Stakeholders value the sharing of best practice and emerging issues across the sector and between organisations	• Lengthy elapsed time for some internal audit engagements

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What could deliver further value (Opportunities)	What could stand in your way (Threats)
• Virtual/remote working 'lessons learned' and implementation, coupled with a more agile-focused mindset • Progressing the implementation of enhanced data analytics would enable more comprehensive testing and reliable, insightful conclusions and reporting • MKI Upgrades likely to enhance functionality and improve the internal audit methodology and working practices, potentially including automated action tracking and reviewer sign off • Further emphasis on assurance mapping, coupled with placing reliance on assurance providers in the second line • Continue with the ongoing development of quarterly planning enabling new business areas, emerging areas of risk and changing business processes are adequately • Increasing visibility and awareness of SIAP by an appropriate presence on each partner website and/or intranet site • Increased sharing of lessons, benchmarking and good practice would demonstrate further added value • The Staff Survey highlighted some desire for improved intra-team communications and better celebration of success. Communication of successes from internal audit engagements could be motivational and help embed lessons and good practices across the wider SIAP service • Rotating managers more frequently between clients can ensure fresh perspectives and help avoid over-familiarity	• Partner and client funding cuts would threaten internal audit delivery, resourcing, resilience and the ability of the Head of SIAP to provide evidence-based annual opinions • Client data quality may limit the opportunity to benefit from enhanced data analytics • Second line functions may need to mature more fully. Unless this happens, the SIAP team will be unable to place further reliance on them, or coordinate their work more effectively, with them • Excessive staff turnover and unfilled vacancies, could threaten service delivery • A potential second wave of COVID could impact service delivery - not everything can be audited remotely - and threaten the ability of the CIA to deliver an annual opinion

Chartered Institute of Internal Auditors

2.2 Internal Audit Maturity Matrix

Assessment	IIA standards	Focus on performance, risk and adding value.	Coordination and maximising assurance	Operating with efficiency	Quality Assurance and Improvement Programme
Excellent	Outstanding reflection of the IIA standards, in terms of logic, flow and spirit. Generally Conforms in all areas.	IA alignment to the organisation's objectives, risks and change. IA has a high profile, is listened to and is respected for its assessment, advice and insight.	IA is fully independent and is recognised by all as the 3rd line. The work of assurance providers is coordinated with IA reviewing reliability of.	Assignments are project managed to time and budget using tools/techniques for delivery. IA reports are clear, concise and produced promptly.	Ongoing efforts by IA team to enhance quality through continuous improvement. QA&IP plan is shared with, and approved by, AC.
Good	The IIA Standards are fully integrated into the methodology – mainly Generally Conforms.	Clear links between IA engagement objectives to risks and critical success factors, with some acknowledgement of the value-added dimension.	Coordination is planned at a high-level around key risks. IA has established formal relationships with regular review of reliability.	Audit engagements are controlled and reviewed while in progress. Reporting is refined regularly, linking opinions to key risks.	Quality is regarded highly, includes lessons learnt, scorecard measures and customer feedback with results shared with AC.
Satisfactory	Most of the IIA Standards are found in the methodology, with scope to increase conformance from Partially to Generally Conform in some areas.	Methodology requires the purpose of IA engagements to be linked to objectives and risks. IA provides advice and is involved in change, but criteria and role require clarity.	The 3 lines model is regarded as important. Planning of coordination is active and IA has developed better working relationships with some review of reliability.	Methodology recognises the need to manage engagement efficiency and timeliness, but further consistency is needed. Reports are informative and valued.	Clear evidence of timely QA in assignments with learning points and coaching. Customer feedback is evident. Wider QA&IP may need formalising.
Needs improvement	Gaps in the methodology with a combination of Non-conformances and Partial Conformances to the IIA Standards.	Some connections to the organisation's objectives and risks, but IA engagements are mainly cyclical and prone to change at management request.	The need to coordinate assurance is recognised but progress is slow. Some informal coordination occurs but reviewing reliability may be resisted.	Multiple guides that are slightly out of date and form a consistent and coherent whole. Engagements go beyond deadline and a number are deferred.	QC not consistently embedded across the function. QA is limited / late or does not address root causes.
Poor	No reference to the IIA Standards, with significant levels of non-conformance.	No relationship between IA engagements and the organisation's objectives, risks and performance. Many audits are ad hoc.	IA performs its role in an isolated way. There is a feeling of audit overload, with confusion about what various auditors do.	Lack of a defined methodology with inconsistent results. Reports are usually late with little perceived value.	No evidence of ownership of quality by the IA team.

2.3 Improvement Opportunities

This section of the report details additional feedback and observations which, if addressed, could strengthen the impact of Internal Audit. These observations are not conformance points but support Internal Audit's ongoing development.

These suggestions do not require a response; they will not form part of any subsequent follow up if undertaken.

Opportunity A

Elapsed time on internal audit engagements - there is a long, elapsed time from start to finish for some of the engagements carried out across the partner organisations. There is no single reason for this, but SIAP economy, efficiency and effectiveness would be improved if elapsed time was reduced. The Head of Partnership and the SMT have recognised this as an area for improvement and will explore more agile ways of working and assess good practices employed across the SIAP team to help reduce this.

Suggestion: We believe that the Head of Partnership and the SMT could usefully revisit SIAP engagement delivery to better assess the root causes of delays, and pilot solutions. Potential solutions may certainly include employing a more agile 'site audit' approach and mindset on some engagements, deploying task-based teams on specific engagements (rather than solo personnel), closer engagement with the audit client to ensure availability for short duration intense engagements, or undertaking additional identical audits using the same team members across several partner organisations, to increase pace and efficiency. We support the intention to focus on improving this area.

Opportunity B

Data Analytics - the SIAP team have begun to employ data analytics in relevant assurance engagements but have been hampered by poor quality data in some areas to date. The Head of Partnership and the SMT want to expand the use of data analytics and recognise the benefits this will bring the service.

Suggestion: We believe that the Head of Partnership and the SMT should consider how best to increase and embed the use of data analytics more rapidly across SIAP to enhance the depth and breadth of assurances provided. Some leading internal audit teams have moved to a methodology position of having to justify why data analytics should <u>not</u> be employed on an engagement. The expectation is that use of data analytics is the default position for every engagement. Other internal audit teams have developed a strategy covering a roadmap to roll out and embed a data analytics capability and mindset over a three-year horizon.

Opportunity C

Audit Management Software - The SIAP team are currently awaiting further enhancements to their MKI software application.

Suggestion: We believe that team efficiency could be further enhanced if they requested an upgrade to the way in which evidencing management review of audit work occurs, perhaps through working paper 'date stamp' functionality. We found the current review process to be cumbersome and time-consuming. Additionally, *to further ongoing initiatives to automate the action tracking process, seek to enable the system to automatically email action owners at regular intervals. This would also enhance team efficiency and reduce the need for manual intervention.*

Opportunity D

Remote working and the future - what the internal audit working environment of the future will look like is unclear. The extent to which a mixed economy of office and remote working is here to stay is uncertain. However, the SIAP team have responded well to pandemic-driven changes, and a comment in the recent staff survey highlights that "in terms of flexible working, the strategy is being completed collaboratively in consultation with staff". Whatever happens, pressure on the SIAP's key stakeholders, managers and staff is likely to increase, available time will decrease and this may challenge aspects of the internal audit process and relationships.

Suggestion: We believe that the Head of Partnership and the SMT could usefully undertake a lessons learned review of what has worked well over the last six months, where improvements are required, what the key 'ways of working' learning points are and how the SIAP approach, ethos and methodology may need to adapt to ensure continued stakeholder buy-in, effective relations, the acceptance of the need for internal audit engagements and the timely implementation of any ensuing actions, in a changed and challenging environment.

Opportunity E

Coordination and reliance on other assurance providers - further emphasis on assurance mapping, coupled with placing reliance on assurance providers in the second line (where it is right to do so) may increase the effectiveness of assurances to senior management and the audit committee(s).

Suggestion: We believe that the Head of Partnership should continue to develop a robust, reliable and value-adding approach to assurance mapping and reliance, to enhance efficiency and effectiveness.

Opportunity F

Periodic Planning - the move to a more flexible and responsive quarterly planning, engagement allocation and delivery model is a welcome development and appropriate for the current volatile and changing environment.

Suggestion: We support the Head of Partnership in continuing to ensure that new business teams, innovative or revised services, emerging areas of risk and changing partner and client governance, strategies and delivery models are adequately covered in the SIAP risk assessment and reflected in these quarterly internal audit plans. This will help ensure the team remain insightful, proactive, and future-focused, providing professional assurance over new and emerging areas of organisational risk. Continued oversight of evolving areas of internal audit practice from research, networking and professional events will assist this approach.

A1 Global IIA Grading Definitions

The following rating scale has been used in this report:

Generally Conforms (GC)	The reviewer has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.
Partially Conforms (PC)	The reviewer has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.
Does Not Conform (DNC)	The reviewer has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. They may also represent significant opportunities for improvement, including actions by senior management or the board.

Often, the most difficult evaluation is the distinction between general and partial. It is a judgement call keeping in mind the definition of general conformance above. The reviewer must determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices does not reduce a "generally conforms" rating

Interviews

Stakeholder Interviews

We interviewed the following individuals as part of the review. We also sent out stakeholder surveys to 38 senior managers and Audit Committee members across the partner organisations. We are pleased to have received 19 completed survey responses from the 38 requests. We have shared the anonymised survey results with the Head of Partnership.

Stakeholders	Title / position
Cllr Nigel Dennis	Chair Regulation, Audit and Accounts Committee, West Sussex County Council
Gill Kneller	Chief Executive, Havant Borough Council and East Hampshire District Council
Cllr Margot Power	Chair Audit Committee, Winchester City Council
Katharine Eberhart	Director Finance and Support Services, West Sussex County Council
Melvyn Neate	Chair, Hampshire Joint Audit Committee
Nick Gray	Deputy Chief Executive and S151 Officer, Mole Valley District Council
Cllr Allan O'Sullivan	Chair Audit Committee, New Forest District Council
Carolyn Williamson	Director of Resources and Deputy Chief Executive (S151), Hampshire County Council
Paul Burden	Chair, Sussex Joint Audit Committee

Internal Audit team	Title / position
Neil Pitman	Head of Partnership
Karen Shaw	Deputy Head of SIAP
Nat Jerams	Assistant Head of SIAP
Ant Harvey	Deputy Head of SIAP
Abbas Alimohamed	Auditor
Chris Benn	Senior Auditor
Bev Davies	Audit Manager

Lydia Morrison	S151 Officer, Havant Borough Council and East Hampshire District Council
John Coughlan	Chief Executive, Hampshire County Council
Cllr Keith Evans	Chair Audit Committee, Hampshire County Council
Richard Croucher	Chief Finance Officer, Hampshire Constabulary and Deputy Chief Finance Officer Hampshire Fire and Rescue Authority
Pat Main	S151 Officer, Reigate and Banstead Borough Council
Bob Jackson	Chief Executive, New Forest District Council
Elaine Jackson	Acting Chief Executive, Tandridge District Council
Cllr Briggs	Chair of Governance, Audit and Finance Board, Havant Borough Council
Lisa Kirkman	Strategic Director Resources, Winchester City Council

Acknowledgement

We would like to thank the SIAP team for their time, assistance and support during this review and all those who took part in the review for their co-operation together with their open and honest views.

Feedback

Feedback from stakeholder interviews and surveys

Working with the business

"The service is very proactive and accessible. They keep me regularly informed of progress and any issues they have". Stakeholder Survey feedback.

"The SIAP team have a very good relationship with the senior management team - this makes life so much easier when issues arise". Stakeholder interview.

"The team are proactive and responsive". Stakeholder interview.

"Those being audited feel that SIAP are undertaking the audit 'with' them not 'to' them". Stakeholder interview.

Communication

"Their reports are about right – clear, straightforward and an appropriate length". Stakeholder interview.

"The team are exceptionally professional, and sensitive, and have developed confidence in the staff, which ensures the accuracy of the audit is underpinned". Stakeholder Survey feedback.

"They deliver good, professional presentations to the Executive Board". Stakeholder interview.

"It is very apparent in Audit Committee meetings that Neil is a very independent voice". Stakeholder interview.

"SIAP engagement reports are short, sharp and to the point". Stakeholder interview.

"The SIAP lead is knowledgeable, experienced and briefs the committee clearly and constructively". Stakeholder interview.

Internal audit plans and coverage

"We collectively put together the programme of internal audits and it's a really useful management tool for us". Stakeholder interview.

"If we have any cause for alarm, they are very responsive and will do deep dives where necessary". Stakeholder interview.

"We get sufficient input to internal audit plans and certainly have the opportunity to ask for work". Stakeholder interview.

"The Audit Committee is fully consulted in developing the plan and has good sight of its evolution and delivery through regular progress reports". Stakeholder interview.

Value

"We genuinely value the service." Stakeholder interview.

"I like the fact that they see what is happening in other organisations and share what other local authorities are doing." Stakeholder interview.

"The staff are all very professional, approachable and are always looking for solutions to issues they come across. This gives me confidence". Stakeholder Survey feedback.

"The SIAP team work well. I'm very happy. They represent value for money and deliver a good service." Stakeholder interview.

"I can honestly say SIAP are the best Internal Audit provider I have ever come across." Stakeholder interview.

"I am happy that the team do try to focus on providing added value at all times". Stakeholder Survey feedback.

Disclaimer: This review was undertaken in September 2020 by John Chesshire, Bethan Jones and Liz Sandwith on behalf of the Chartered Institute of Internal Auditors. This report provides management and the SIAP Audit Committees with information about Internal Audit as of that date. Future changes in environmental factors and actions taken to address recommendations may have an impact upon the operation of Internal Audit in a manner that this report cannot anticipate.

Considerable professional judgment is involved in evaluating. Accordingly, it should be recognised that others could draw different conclusions. We have not re-performed the work of Internal Audit or aimed to verify their conclusions. This report is provided on the basis that it is for your information only and that it will not be quoted or referred to, in whole or part, without the prior written consent of the Chartered Institute of Internal Auditors.

Key decision: Not applicable
Unrestricted

Report to Regulation, Audit and Accounts Committee

20 November 2020

Quarterly Review of the Corporate Risk Register

Report by Director of Finance and Support Services

Summary

This Committee has responsibility for oversight of the Council's risk management arrangements.

The risk of death or injury to a child where the council have failed in their duty has reduced in significance due to the effectiveness of mitigating actions. Also lower in severity is the risk of failing to meet the increasing demand for mental health assessments due a lack of suitably qualified and experienced Approved Mental Health Professionals (AMHP).

Corporate COVID-19 risks continue to be captured and monitored/managed by the Executive Leadership Team (ELT), with operational COVID-19 concerns managed within services/workstreams.

Risk Management Lunch 'n' Learn sessions are now being delivered as a webinar and has now been made available for staff in Districts and Boroughs. The follow-on course (Risk Management in Practice) has been designed for face-to-face delivery using a combination of instruction via PowerPoint and syndicate/group work and will involve staff working through the County Council risk management process using a generic scenario. A one-page process summary/guide has been produced to assist staff as an interim measure.

Recommendation

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

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Quarterly update

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 During the preceding quarter there have been the following changes to the corporate risk register.

- Corporate risk #61 - Death or serious injury of a child
  - Severity decreased from 25 to 15
  - To reflect progress of mitigating actions
- Corporate risk #66 - Lack of suitably qualified and experienced Approved Mental Health Professionals (AMHP)
  - Severity decreased from 20 to 15
  - To reflect progress of mitigating actions

2.2 The following table summarises risks on the corporate risk register with the current severity graded above the tolerance threshold:

Risk No	Risk	Score - Prev Qtr	Score
CR69	Children's services will fail to deliver an acceptable provision to the community	25	25
CR39a	Cyber-security	25	25
CR58	Failure of social care provisions	25	25
CR22	Financial sustainability	25	25
CR59	Benefits from transformation are not realised	20	20
CR68	COVID19 and risk to the delivery of WSCC's services	20	20
CR1	No deal Brexit	16	16
CR11	Recruit and retain staff	16	16
CR50	Insufficient health & safety governance	16	16
CR71	Mental and physical wellbeing of WSCC staff due to working from home	16	16

2.3 The corporate risk register continues to be reviewed at least monthly by ELT, with any actions promptly addressed.

2.4 The directorate risk registers have been reviewed at least quarterly by each Director and their management team, with support from the Corporate Risk Manager where required. The Corporate Risk Manager has continued to engage monthly with Executive Directorate teams to discuss corporate and other directorate/service risks, and risk governance.

2.5 Operational COVID-19 risks are considered and managed within the services, either through the production of new risks or applying the ramifications to an existing risk and its assessment. In addition, corporate COVID-19 risks are captured and controlled by the councils COVID-19 response team. The Corporate Risk Manager presents a summary of risks by themes and workstreams to ELT monthly for consideration.
The table below summarises the key corporate COVID-19 risks.

Risk
Staff Shortage in Adults Services for older people's visits
Community Hubs may not have enough staff capacity to manage an increase in demand, resulting in a failure to deliver essential food and medicine to vulnerable people
Providers are increasingly unwilling to accept new placements which may cause a reduction in external placements and in-house foster care arrangements. This will lead to children not being looked after, becoming more vulnerable and at risk of harm
Care homes are struggling to maintain an economically sustainable number of residents when experiencing deaths due to COVID-19 (>50% occupancy required). This lack of revenue creates a risk of care home closures which would then require financial intervention by WSCC to prevent this from occurring
Government have issued instructions to highlight the local authority's role within the national Test and Trace Programme (particularly regarding Local Outbreak Plans). Should the government also issue direction to apply restrictions at a local level it will have further significant resource implications for PH and their ability to manage the current requirement and ongoing threat

2.6 Capital Programme risks are reported through their respective programme board. There is ELT representation on these boards ensuring that significant concerns to the successful delivery of the programmes and/or associated projects are discussed, communicated to ELT and reflected in the corporate risk register if required. The Corporate Risk Manager has continued to carry out frequent reviews of the project and programme level risk registers.

2.7 The Risk Management Lunch 'n' Learn sessions are now being delivered as a webinar and the course content has been amended to facilitate this delivery method. This course has now been made available for staff in Districts and Boroughs. The follow-on course (Risk Management in Practice) has been designed for face-to-face delivery using a combination of instruction via PowerPoint and syndicate/group work and will involve staff working through the WSCC risk management process using a generic scenario. Due to current restrictions impacting the delivery of this method of training, the Corporate Risk Manager has produced a one-page process summary/guide to assist staff as an interim measure.

2.8 The quality and currency of information contained in the corporate and directorate risk registers will continue to be reviewed and updated. The Corporate Risk Manager is continuing to challenge whether identified actions will sufficiently address the concerns, and within a suitable timeframe.

2.9 Enduring activities the Corporate Risk Manager is undertaking to ensure continuous improvement and alignment with best practice include:

- Attendance at TMG (chairing when requested) and New Ways of Working group
- Review of SRF risks against TMG 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, CMI
- Support projects and programmes to provide assurance and support on robust governance

- Engage and support Executive Directors, Directors, service managers and their teams on capturing and communicating risk
- Attendance at/facilitating various internal boards/meetings and working groups

2.10 At this stage, there will be no additional resources required to facilitate the embedding/management of risk and future actions as current support within the organisation is sufficient. The Corporate Risk Manager is conducting risk workshops and risk training sessions in existing management meetings or during lunchtimes where possible to mitigate resource and scheduling conflicts. However, the 'Risk Management in Practice' course will take place during working hours, and participants will be responsible for ensuring their attendance doesn't significantly impact their role requirement.

2.11 The committee is asked to consider the Corporate Risk Register and provide comment as necessary.

3 Risk implications and mitigations

3.1 The subject of the report is the corporate risk register. 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.

4 Policy alignment and compliance

4.1 Equality duty and human rights assessment. 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.

Katharine Eberhart
Director of Finance and Support Services

Appendices
Appendix A - Corporate Risk Register

Background papers
None

Risk No	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	
CR68	The government has announced a second national lockdown for a 4 week period, after which the tier system will be reinstated. On exiting lockdown it is expected that West Sussex will return to it's current level of restriction (Tier 1), meaning all businesses will be allowed to open. If the number of positive cases were to increase during or post-lockdown and **local restrictions imposed as a result of movement between tiers**, there is a risk that services will be insufficiently agile/flexible or resourced to respond to government and PHE guidelines/directives.	Chief Executive	1. Failing to deliver statutory duties.	Mar-20	5	5	25	Treat	5	3	15	Review and update business continuity and degradation plans.	CLT	ongoing	Business continuity plans to be reviewed. conducted once recovery plan/framework produced.	5	4	20	Dec-20
			2. Negative reputational impact.									Regular engagement with MHCLG and ensure information and direction is discussed and implemented through the Strategic Coordinating Group (SCG-Gold) and Tactical Coordination Group (TCG-Silver).	Chief Executive	ongoing	Outcomes to inform Tactical Management Group (TMG), Strategic Management Group (SMG), and Local Health Resilience Partnership (LARP) for action/info.				
			3. Residents don't receive support required.									Develop communications when required to manage expectations of staff and residents on WSCC response position.	Head of Communications	ongoing	Collaboration and agreement on services provision messages with directorates and ELT through current COVID-19 mechanisms (TMG and SMG).				
			4. Insufficient budget/budget exceeded.									To continue to lobby government groups to influence funding decisions.	Chief Executive	Ongoing					
			5. Increase risk to life.									IA to conduct review of lessons learned from 1st wave and communicate.	Director of Finance & Support Services	Dec-20	Internal Audit have commenced the review.				
			6. Information not shared appropriately.																
CR70	There is an **increasing demand placed on the senior officers** due to the ongoing threat of COVID19 and additional burdens due to devolved responsibilities. This may lead to a continued lack of capacity to deal with directorate and organisational issues, leading to poor decision making.	Chief Executive	1. Outcomes for residents not delivered	Aug-20	4	3	12	Tolerate	4	3	12	Continue to monitor service resource impact.	ELT	ongoing	Concerns raised through ELT	4	3	12	Feb-21
			2. Residents don't receive support needed.									Provision of support to services when required.	SMG	ongoing	Support requests raised through TMG and escalated to SMG if required.				
			3. Failing to deliver statutory duties																
CR71	As part of the 'new normal' **WSCC staff will be expected to continue to work from home** (current exceptions being areas of critical business that cannot function in this way and staff unable to work in a safe environment at home). This may adversely effect the mental and physical wellbeing (and emotional resilience) of staff which will lead to an increase in absences and poor service delivery to residents.	Director of Human Resources & Org Change	1. Increase in poor physical health of staff.	Aug-20	4	4	16	Treat	4	2	8	Mental health training and support (particularly for managers).	Health and Safety Manager	ongoing	Stress Management Corporate Guidance and Employee Assistance Program.	4	4	16	Feb-21
			2. Increase in poor mental health of staff.									DSE assessments carried out and regularly reviewed.	Health and Safety Manager	ongoing	Directorates responsible for completion of staff assessments.				
			3. Increase in staff absence.									Appropriate comms to ensure officers are equipped to support staff.	Health and Safety Manager	ongoing	HSW messages being published regularly via One Voice.				
			4. Poor service delivery to residents.																
			5. Increase in number of claims and premiums.																
CR1	The impact of a **no deal Brexit** may result in service delivery issues in Council services.	Chief Executive	1. Uncertainty on staff available to deliver council services i.e. care workers.	Nov-17	4	4	16	Tolerate	4	4	16	Regular meetings to review current national and organisational status.	ELT	ongoing	Health Protection Team and Education Team to liaise weekly. Information communicated to SMG.	4	4	16	Dec-20
			2. Uncertainty on local businesses.									Brexit implications across all current corporate risks is being carried out. The Resilience and Emergency Team is engaged in planning across the South east.	Chief Executive	ongoing	Gather data to inform impact of negotiations; liaise with network to share information; work with businesses to show ongoing commitment. Directorates to collate data to be used for analysis once Brexit is fully understood. Risk re-assessed 6 monthly or in event of significant Brexit statements.				
			3. Impact of growth projections.																
			4. Supply chain uncertainty in contracts.																
			5. Potential demand on resilience teams.																

Risk No	Risk Description	Risk Owner	Risk Impact	Date Risk Raised	Initial Risk: Impact	Initial Risk: Likelihood	Initial Risk: Score	Risk Strategy	Target Risk: Impact	Target Risk: Likelihood	Target Risk: Score	Risk Control/Action	Action Owner	Action Target Date	Risk Update	Current Risk: Impact	Current Risk: Likelihood	Current Risk: Score	Next Risk Review Date
CR7	There are governance systems which inhibit effective performance and a culture of **non-compliance** and also a lack of standardisation in some **systems and processes**. Skills and knowledge of systems inadequate and excessive effort required for sound decisions and outcomes.	Director of Law & Assurance	1. Delayed decisions impede service delivery.	Dec-19	4	4	16	Treat	2	2	4	Data on areas of non-compliance used to inform Directors to enforce compliance with standards.	Director of Law & Assurance	Ongoing	Further draft AGS to July RAAC (endorsed in Mar)	4	3	12	Feb-21
			2. Service improvement effort impeded.									Regular compliance monitoring and active corporate support when non-compliance happens to establish better practice.	Director of Law & Assurance	Ongoing	Discussed as part of Audit planning. Audit plan settled				
			3. Resources misapplied - poor VFM.									Audit plan focussing reviews on key corporate support systems to identify key areas in need of improvement.	Director of Law & Assurance	Ongoing	Discussed as part of Audit planning. Awaiting activity as per audit plan				
			4. Complaints and claims.																
			5. Censure by external inspection.																
CR11	Due to recent reports into service operations and senior leadership instability, there is a risk that the Council will not be seen as an attractive place to work by current and potential employees. This will result in problems **recruiting and retaining staff** in key skills areas.	Director of Human Resources & Org Change	1. Over-reliance on interim and agency staff.	Mar-17	4	5	20	Treat	4	3	12	Provision of clear financial support for recruitment and retention policy and provisions procedures.	Head of Specialist HR Services	Dec-20	Partially Completed. Social workers recruitment and retention package in place for 2019. 2020 offer currently under review. Corporate relocation package drafted and being prepared for ELT sign off. Sustainable Social Worker Pay Model signed off by ELT Aug 2020.	4	4	16	Feb-21
			2. Lack of corporate memory.									Application of policy and provisions for various hard to fill posts.	Head of HR Bus Ptr & Org Change	Ongoing	Use of R&R package to recruit children's social workers. Relocation support for hard to fill roles awaiting sign off by ELT. Use of apprenticeships to build talent pipelines e.g. social worker, occupational therapist, management programmes.				
			3. Inadequate pace/speed of delivery.									Produce Directorate Workforce Strategies to identify skills, capacity and capability requirements.	Head of HR Bus Ptr & Org Change	Jan-21	Reward & Retention package for Children's Social Workers currently being re-written. Development of Workforce Plan being carried out as part of Children First Improvement Plan.				
			4. Low staff morale and performance.									Development of comprehensive employee value proposition.	Head of Res Org Dev & Talent	Jan-21	Part of People Framework Action Plan				
												Longer term strategies for addressing recruitment issues e.g. apprenticeships, growing our own.	Head of Res Org Dev & Talent	Ongoing	3 year plans in place for apprenticeships (currently being refreshed). LGA consultancy engaged with; recommendations received. Continuing programme of marketing and awareness raising.				

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CR22	The **financial sustainability of council services** is at risk due to uncertain funding from central government and/or failure to make the required decisions to ensure the budget is balanced. This has been compounded further with the COVID-19 crisis, and the recent Ofsted and HMIC FRS reports.	Director of Finance & Support Services	1. Insufficient government funding to deliver services.	Mar-17	4	4	16	Treat	4	3	12	Pursue additional savings options to help close the budget gap.	Director of Finance & Support Services	Ongoing	Savings are being developed as part of the budget process for 2021/22	5	5	25	Dec-20
			2. Adverse effect on reserves/balanced budget.									Monitor the use of additional funds made available to improve service delivery.	Director of Finance & Support Services	Ongoing	The utilisation of grant received from government in response to Covid-19 is reported through the Total Performance Monitor.				
			3. Reputational impact through reduction of service quality									To continue to lobby government groups to influence funding decisions.	Chief Executive	Ongoing	The Chief Executive actively participates in calls to government emphasising the need for appropriate funding for local authorities.				
			4. Increased liability of service delivery, transferred by external partners due to funding restrictions i.e. supporting homelessness.									Financial impacts arising from the Covid-19 national emergency need to be reflected and addressed within the TMP and MTFS as appropriate.	Director of Finance & Support Services	ongoing	The TMP report now reflects the impact of Covid-19 and sets out how this impacts specific services and WSCC as a whole. This is underpinned by a bespoke recording approach within SAP, which clearly accounts for the costs incurred and funding received from Government, alongside the Delta return made to MHCLG on a monthly basis. The MTFS planning framework also reflects the potential impact of Covid-19, both from the potential funding and budget pressures perspectives.				
			5. Additional unexpected service and cost pressures from savings decisions.									Financial implications will be monitored and reported separately. Government has provided additional funding to support the local response.	Katharine Eberhart	ongoing					
			6. Financial implications for both 2020/21 and the medium term arising from the national emergency circumstances associated with Covid-19.																
CR39a	As a result of staff accessing unsafe links from external sources and unauthorised/insecure website browsing, the Council's systems will be subjected to a **Cyber-Security** attack leading to a loss of data or system failure.	Director of Finance & Support Services	1. The Council suffers significant financial loss or cost.	Mar-17	4	5	20	Treat	4	4	16	Improve staff awareness of personal & business information security practices & identification of cyber-security issues. Continued actions due to evolving threats.	Head of IT	Ongoing	Role specific training delivered to children's services due to analysis of breach data received. Regular comms distributed to all staff. Included as annual refresher. Interim course to communicate essential/key information as soon as possible. Password review completed. Phishing emails sent out and responses evaluated. New awareness campaign being developed. Vendor identified and commissioned to provide services to counter cyber threat.	5	5	25	Dec-20
			2. The Council's reputation is damaged.									Maintain IG Toolkit (NHS) & Public Service Network security accreditations.	Head of IT	Ongoing	Joint submission to NHS Digital in the 2019 assessment by the Data Protection Team; to cover ensure IGTK incorporates Information Security, along with Info Governance. PSN accreditation submitted. PSN connection to be reprocured.				
			3. Resident's trust in the Council is undermined.									Conduct tests including penetration, DR and social engineering. (conducted 6 monthly)	Head of IT	Ongoing	2020 health check to be commissioned.				
			4. Partners will not share data or information with the Council.									Ensure that cyber-attack is identified early, that reporting & monitoring is effective, and recovery can be prompt.	Head of IT	Ongoing	Full audit not carried out by IA 2019. Instead a full review took place in May 2019 of progress against actions from the 2018 audit. Ethical Hacker training being carried out. Review of advanced threat management solution.				
			5. Punitive penalties are made on the Council.									Provide capacity & capability to align with National Cyber-Security centre recommendations.	Head of IT	Ongoing	Maintain watching brief for updated guidance notes. WSCC has formally joined SE Warning Advice and Reporting Point (WARP).				
												Transition to a controlled framework for process and practice.	Head of IT	Ongoing	Review of ISO27001 and ISO9001 to determine appropriateness.				

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CR39b	**Data protection responsibilities.** The Council is a Data Controller and has obligations and responsibilities arising from that role. Council needs resources, skills, knowledge, systems and procedures to ensure **obligations** are met.	Director of Law & Assurance	1. Individuals or groups come to harm.	Mar-17	4	5	20	Tolerate	3	3	9	Test the effectiveness of DPIA	Head of IT	Ongoing	To be conducted annually	3	3	9	Feb-21
			2. The Council's reputation is damaged.									Maintain IG Toolkit (NHS) & Public Service Network security accreditations.	Head of IT	Ongoing	Joint submission to NHS Digital in 2019 assessment by the Data Protection Team; to ensure IGTK incorporates Information Security, with Information Governance. PSN accreditation submitted.				
			3. Resident's trust in the Council is undermined.									Undertake Data Privacy Impact Assessments (DPIA) when systems or processes change and carry out resulting actions.	Director of Law & Assurance	Ongoing	Processes settled. Most impact assessments completed. DPIA to be conducted annually.				
			4. Partners will not share data or information with the Council.									Enable safe data sharing, including using appropriate data standards & appropriate anonymization techniques.	Head of IT	Ongoing	As part of GDPR reviews of existing arrangements.				
			5. Punitive penalties are made on the Council.									Ensure the skills and knowledge is available to support Caldicott Guardian in ASC.	Head of Data Protection	Ongoing					
												Adopt ISO27001 (Information Security Management) aligned process & practices.	Head of IT	Ongoing					
												Review IT systems implemented prior to 25 May 2018 to confirm compliance with updated regulations.	Director of Law & Assurance	Ongoing	IT to identify applicable systems and provide support in resolving any risks of non-compliance.				
CR50	WSCC are responsible for ensuring the HS&W of its staff and residents. There is a risk that if there is a **lack of H&S awareness and accountability** by directorates to capture and communicate in accordance with Council governance arrangements, it will lead to a serious health & safety incident occurring.	Director of Human Resources & Org Change	1. Increase risk of harm to employees, public and contractors.	Mar-17	4	5	20	Treat	4	2	8	Purchase, develop and introduce an interactive online H&S service led audit tool.	Health and Safety Manager	ongoing	Current inspection template to be created in Firmstep.	4	4	16	Feb-21
			2. Increase number of claims and premiums.									Conduct a training needs analysis, produce gap analysis to understand requirements and produce suitable courses as a consequence.	Health and Safety Manager	ongoing	Partially completed. Fire Warden training and H&S eLearning included in annual refresher training from 1 Feb 19. TNA produced with suite of courses required identified. Modules for induction & asbestos awareness now live.				
			3. Adverse reputational impact to Council.									Incorporate HS&W information into current performance dashboard.	Health and Safety Manager	ongoing	Dashboard to capture details on sickness, absence and H&S. H&S data currently collated relates to RIDDOR and NON-RIDDOR incidents.				
			4. Increase in staff absence.									Regular engagement with other LA's on best practice and lessons learned.	Health and Safety Manager	Ongoing					
												Develop and introduce a more comprehensive risk profile approach and front line service based audits.	Health and Safety Manager	Ongoing					

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CR58	If there were to be a **failure of social care provisions** there is a risk that both WSCC funded residents and self-funding residents are not being properly cared for; which may result in death or injury to individuals and significant reputational harm to the council.	Executive Director of Adults and Health	1. Potential that people will come to harm and Council will be unable to ensure statutory safeguarding duty.	Sep-18	5	5	25	Treat	3	3	9	Collection of market information on Firefly. Analysis of information and appropriate level of quality assurance response.	Head of Contracts & Performance	ongoing	Due to the implications of COVID19 and service resource constraints, the ability to conduct face to face quality assurance checks has reduced. There is now an increased focus on supporting/improving infection control and closer working with the CCG to ensure the right level of support to care homes is delivered.	5	5	25	Feb-21
			2. CQC action against service provider which could lead to establishment closure at short notice									Provision of regular support and communication to care homes to monitor financial sustainability during COVID-19 pandemic.	Head of Adult Operations	ongoing	Regular communication (with a COVID19 focus) with care homes to identify risk areas early. Monitoring of deaths and Covid outbreaks in care homes. This action is reviewed and discussed weekly at WSCC COVID-19 TMG.				
			3. Financial implication of cost of reprovision following closure of services.									Financial analysis of high risk provision - due diligence checks.	Head of Contracts & Performance	ongoing	Working with strategic contracts to identify key providers for more regular financial checks. Commissioning of sustainability blocks to deliver a level of financial stability.				
			4. Reduced capacity in the market as a result of failure of provision.									In the event of an incident, ensure the consistent implementation of Emergency Response Plans, including a full de-brief and lessons learned.	Head of Adult Operations	ongoing	Emergency plans in place for residential services and Domiciliary Care provision. Continue to work with RET to ensure process is robust and reflects learning from incidences.				
			5. Delayed Transfer of Care (DTOC)									Capacity Action plans for residential and non residential services to focus on long and short term actions to improve capacity to support potential contingencies.	Cx Lead	ongoing	Number of people awaiting care is captured within daily performance management information which provides an indication on capacity, whilst wider updates on the action plan are paused during COVID19 in light of other priorities.				
			6. Non-compliance with Care Act.																
			7. Reputational impact. Public perception of the council being willing to accept poor standards of care. Low public confidence in social care.																
CR59	**Benefits from transformation** are not realised within projected timescales because of a lack of robust and effective portfolio governance adversely impacting on in-year budget pressures.	Director of Finance & Support Services	1. Financial pressures through non-delivery of savings.	Nov-17	4	4	16	Treat	3	3	9	Review current programme to ensure robust project and programme plans are developed to implement changes and savings.	Director of Finance & Support Services	ongoing	Future benefits are being reviewed as part of the budget setting process.	4	5	20	Dec-20
			2. Failure to improve customer services.									Develop effective benefits tracking process.	Director of Finance & Support Services	ongoing	Process completed and approved in time for new financial year, however due to COVID-19 this process may need changing.				
			3. Inefficient and ineffective business processes.									Develop detailed programmes in collaboration with Directors to deliver required changes.	Director of Finance & Support Services	ongoing	Engagement conducted and programmes agreed in time for new financial year, however due to COVID-19 plans and governance arrangements may need changing.				
			4. Failure to deliver required cultural changes.																

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CR60	There is a risk of failing to deliver the **HMIC FRS improvement plan**, leading to an adverse affect on service delivery; which may result in failing any subsequent inspection.	Chief Fire Officer	1. Reputational damage	Apr-19	5	4	20	Treat	5	2	10	Ensure robust project and programme governance in place and monitor delivery.	Chief Fire Officer	ongoing	During the revisit, the HMIC FRS Advisory Board praised the project and programme plans, and PMO governance. They also reported tangible improvements of preventative and protective measures. Further praise was received regarding the accelerated pace of mitigating the risk to public safety.	5	3	15	Dec-20
			2. Corporate Governance Inspection																
			3. Legal implications of not delivering statutory services																
			4. Increased risk harm																
CR61	A 'serious incident' occurs resulting in the **death or serious injury of a child** where the Council is found to have failed in their duty to safeguard, prevent or protect the child from harm.	Executive Director of Children, Young People and Learning	1. The Council would have let children down and as a result our reputation and credibility would be significantly damaged.	Jun-19	5	5	25	Treat	5	2	10	Implement Practice Improvement Plan (PIP). Improvement Plans include management development and HCC intervention.	Executive Director of Children, Young People and Learning	Ongoing	Improvement activity has been embedded within the social work teams. A Leadership programme commissioned to deliver more consistent management oversight. The statutory performance around visiting and plans has improved and has been reported to the Improvement Board. Phase 1 of improvement work with HCC as our improvement partner has been completed which provides added assurance to the quality of work within the service.	5	3	15	Feb-21
			2. Subject to investigation and further legal action taken against the Council.									Provide proactive improvement support to services to assure effective safeguarding practices.	Executive Director of Children, Young People and Learning	ongoing	We commissioned and implemented dedicated improvement resource to be embedded and work with the social work teams. This has resulted in revised and improved practice guidance, policy and practice. Areas of further development have been identified and form a focus for the next phase of the improvement work.				
			3. Immediate inspection and Government intervention.																
CR65	The review of **corporate leadership, governance and culture** recommended in the Children's Commissioner's report is not fully undertaken or effectively implemented leading to a lack of necessary improvement and further service failures or external intervention.	Chief Executive	1. Service failure	Dec-19	5	4	20	Treat	3	2	6	Completion of improvement plan scoping phase.	Chief Executive	Jan-21	(See CR7)	4	3	12	Feb-21
			2. External intervention									Develop plan to stabilise senior leadership team.	Chief Executive	Jan-21	Identifying actions to reduce risk of senior leadership churn.				
			3. Poor value for money									Engage with external partners (including LGA) to scope and deliver Leadership development for Cabinet and Senior Officers.	Director of Law & Assurance	Jan-21	Scoping completed. Member Development Plan approved by Governance Committee Jun 20. Some activity already delivered.				
												Implementation of governance changes as approved by Council (17.12.19)	Director of Law & Assurance	Apr-21	Those for immediate implementation are complete. Others scheduled to meet Councils decision.				
CR66	Due to a **lack of suitably qualified and experienced Approved Mental Health Professionals (AMHP) and the increase in demand** due to COVID-19, there is a risk that the Council will not carry out their statutory role under the Mental Health Act 1983 (amended 2007) due to being unable to meet the demand for mental health assessments.	Executive Director of Adults and Health	1. Increased risk of death or serious injury.	Jan-20	5	5	25	Treat	5	2	10	Development and implementation of new AMHP model (in partnership with the CCG and Sussex Partnership Foundation Trust (SPFT)).	Head of Adult Operations	Jan-21	Mental Health specific Transformation Plan has been developed which incorporates AMHP service re-design. Dedicated Programme Manager in post. Progressing through governance process. New structure for AMHP service (Hub and Spoke model) developed and operational budget approved. Proposed to implement from 1st Jan 21.	5	3	15	Feb-21
			2. WSCC subjected to legal action on behalf of customer or through employment tribunal.									Recruitment of AMHP's to support with current demand.	Head of Adult Operations	ongoing	Funding agreed to enable interim recruitment of AMHP's until end-Dec 20.				
			3. Wider impact on health and social care system through delays in carrying out assessments.																

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CR67	The project to set up a company (known as a **Children's Trust**) to provide children's services on behalf of WSCC significantly **diverts council resources** (capacity and capability) from core service delivery, to focussing on improving the quality of children's services.	Chief Executive	1. Progress of children's services improvement is slowed or limited by splitting of resources and energy.	Feb-20	5	5	25	Tolerate	5	2	10					5	2	10	Feb-21
			2. Delivery of Council services interrupted/impacted.																
			3. Impact on Corporate improvement.																
CR69	If the council fail to make the necessary improvements to progress from the previous 'inadequate' rating, there is a risk that **children's services will fail to deliver an acceptable provision to the community.**	Executive Director of Children, Young People and Learning	1. A child is exposed to dangers which could cause harm.	Mar-20	5	5	25	Treat	5	3	15	Deliver Children First Improvement Plan.	Senior Improvement Lead	ongoing	The Children First Improvement Plan has been developed to incorporate three key pillars to ensure an improved level of service: Pillar 1 - Everyone knows 'what good looks like'; Pillar 2: Creating the right environment for good social work to flourish; Pillar 3 : Deliver an Improved Service Model. Monthly reports to Improvement Board.	5	5	25	Feb-21
			2. Significant reputational damage.									Continue to work with Hants CC as a partner in practice to improve the breadth of children's service.	Executive Director of Children, Young People and Learning	ongoing	Joint work between WSCC and HCC has resulted in the development of a comprehensive phase 2 workstream improvement action plan. Regular steering group to track and monitor progress and report into the into Improvement Board.				
			3. Reduced confidence by residents in the Councils ability to run children's services.									Implement the Children First Service transformation model	Children First Transformation Director	ongoing	Family Safeguarding model redesign being developed to ensure practice improvements are sustainable and embedded to provide a good level of service.				
			4. Legal implications through non-compliance or negligence.																

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