
Lewes District Council
Statement of Accounts 2013/14

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Introduction

Welcome to Lewes District Council's Statement of Accounts for 2013/14.

The main purpose of this document is to present the Council's formal Statement of Accounts which consists of the Core Financial Statements, the Supplementary Financial Statements and the Explanatory Notes which accompany these.

The Key Accounting Standards and Statements

The Council has followed the Chartered Institute of Public Finance and Accountancy's Code of Practice on Local Authority Accounting in the UK 2013/14 (the 'Code') in putting together the Statement of Accounts for 2013/14. The accounts present a true and fair view of Lewes District Council's financial position for the financial year ended 31 March 2014. The Council's accounting policies are outlined in this document and have been fairly and consistently applied. Proper and up to date accounting records have been kept and all reasonable steps to prevent and detect fraud and other irregularities have been taken.

The Director of Finance is the statutory officer responsible for the proper administration of the Council's financial affairs. He is required by law to confirm that the Council's system of internal control can be relied on to produce an accurate Statement of Accounts. His statement of assurance for 2013/14 appears on page 103 of this document.

The Core Financial Statements

An explanation of the purpose of each of our Core Financial Statements is given below:

Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'Usable Reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use) and 'Unusable Reserves' (i.e. those that hold unrealised gains and losses or timing differences). The 'Surplus or (deficit) on the provision of services' line shows the true economic cost of providing Council services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes and to the Housing Revenue Account Balance for rents setting purposes. The 'Net increase or decrease before transfers to earmarked reserves' line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Introduction

Comprehensive Income and Expenditure Statement

This Statement shows the accounting cost of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with statutory regulations but this may be different from the accounting cost because, for example, councils do not have to pay for depreciation out of council tax. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet

This Statement shows the value, as at the Balance Sheet date, of the assets and liabilities recognised by the Council. The net assets of the Council (i.e. assets less liabilities) are matched by the reserves held. Reserves are divided into two categories, 'usable reserves' and 'unusable reserves' (see definitions of these under Movement in Reserves Statement above).

Cash Flow Statement

This Statement shows the changes in cash and cash equivalents of the Council during the reporting period. It shows how the Council generates and uses cash 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 Council are funded by way of taxation and grant income or from fees and charges. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to supporting the Council'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 Council.

Supplementary Financial Statements

In addition to the Core Financial Statements the Council is legally required to maintain the following financial statements separately from other funds and accounts.

Housing Revenue Account (HRA) - This Account shows the economic cost of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and other charges. Councils charge rents to cover expenditure in accordance with statutory regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

Collection Fund - This Fund shows the transactions that have arisen because Lewes District Council is a 'billing authority'. This means that the Council is responsible for collecting council tax and non-domestic rates and paying over the appropriate shares to Local Authorities (East Sussex County Council, East Sussex Fire Authority, Sussex Police and Crime Commissioner and Lewes District Council) and to Central Government. The transactions within this fund are not included within the Comprehensive Income and Expenditure Statement because they do not relate to the delivery of day to day operational services. However Fund balances at the end of the reporting period are included on the Council's Balance Sheet.

Explanatory Foreword

This section explains the Council's financial performance for the year ended 31 March 2014 when set against budgets approved for the setting of council tax and housing rents. It explains the major variations in spending plans for both revenue – the General Fund and the Housing Revenue Account – and for capital. It also provides information on the Council's financial health at 31 March 2014 as evidenced by asset values, balances, borrowing and reserves.

The Council's General Fund Revenue Account (for the provision of day to day services and the setting of council tax)

The table below compares the budget set in February 2013 with actual performance and shows the variances:

	Budget £000	Actual £000	Variance £000
Central Services	1,256	1,007	(249)
Cultural and Related Services	2,452	2,483	31
Environmental and Regulatory Services	4,507	4,353	(154)
Highways and Transport Services	(384)	(278)	106
Housing (General Fund) Services	1,719	1,526	(193)
Planning Services	1,249	1,395	146
Corporate and Democratic Core	1,801	2,660	859
Non-Distributed Costs	(25)	123	148
Cost of Services	12,575	13,269	694
Other Operating Income and Expenditure	2,892	2,892	0
Financing and Investment Income and Expenditure	(845)	(905)	(60)
Contribution to Service Priorities	500	0	(500)
Net transfers to Reserves	1,284	1,400	116
Net Expenditure	16,406	16,656	250
Government Grants	(4,566)	(4,591)	(25)
Retained Business Rates	(2,109)	(2,480)	(371)
Council Tax	(9,247)	(9,247)	0
Total Funding	(15,922)	(16,318)	(396)
Deficit for the year	484	338	(146)

Explanatory Foreword

The major variances for the year are as follows:

Cost of staff severance arrangements	£000
Cost of IT modernisation programme	456
Savings in benefit payments together with an increase in subsidy income	393
Other net variances	(161)
Cost of Services	6
Increase in the net amount transferred to reserves	694
Contribution to Service Priorities - released to support Programme Nexus	116
- released to support the working balance	(247)
Increase in income from Government Grants and users of services	(253)
Retained Business Rates -additional Government Grant to compensate for reduced income in the Collection Fund	(85)
Net variances (improvements) for the year	(371)
	(146)

The table below reconciles the General Fund Revenue Account, kept for setting a budget and council tax and for internal reporting, with the statutory reporting requirements set out in the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement:

General Fund Revenue Account - deficit for year (page 3)	£'000
	338

Statutory Reporting Summary

(Surplus) on the provision of services reported in the CIES (page 10)	(7,535)
Less (Surplus) in respect of the Housing Revenue Account included above (page 92)	9,163
Deficit on provision of General Fund services (page 8)	<u>1,628</u>
Adjustments between accounting basis and financing basis under regulations (page 8)	(1,872)
Net transfer to reserves (page 8)	582
General Fund Revenue Account - deficit for year (page 8)	<u>338</u>

Since less was taken from the General Fund working balance than was estimated (£0.338million compared with £0.484 million) the balance at 31 March 2014 stands at £2.341 million.

Explanatory Foreword

The Council's Housing Revenue Account (for the provision of day to day services to tenants of the Council's own stock of houses and flats and the setting of rents and service charges)

This table compares the budget set in February 2013 with actual performance and shows the variances:

	Budget £000	Actual £000	Variance £000
Operating Income	(16,236)	(15,887)	349
Operating Expenditure	10,577	11,304	727
Corporate and Democratic Core (share of whole Council costs)	659	815	156
Capital Financing and Interest Charges	4,223	4,507	284
(Surplus)/Deficit for the year	(777)	739	1,516

The major variances are:

Operating Income – technical accounting adjustment which has switched £0.293 million into 2014/15	£000
Operating Expenditure – increase in depreciation charge due to component accounting	373
Corporate and Democratic Core – share of whole council restructuring costs	686
Capital Financing and Interest Charges – increase in capital expenditure financed from revenue	156
Other minor variances	334
Total variances	(33)
	1,516

The table below reconciles the Housing Revenue Account, kept for setting a budget, rents and service charges and for internal reporting, with the statutory reporting requirements set out in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement:

Housing Revenue Account - deficit for year	£'000
Statutory Reporting Summary	739
(Surplus) on the provision of services reported in the CIES (page 10)	(7,535)
Less Deficit in respect of the General Fund Revenue Account included above (page 8)	1,628
(Surplus) on provision of Housing Revenue Account services (page 92)	9,163
Adjustments between accounting basis and financing basis under regulations (page 8)	(9,902)
Housing Revenue Account - deficit for year (page 8)	739

After withdrawing £0.739 million to finance the deficit for the year the balance at 31 March 2014 stands at £2.728 million.

Explanatory Foreword

The Council's Capital Programme (for the acquisition and enhancement of long term assets like property, plant and equipment)

Total capital expenditure managed through the 2013/14 Capital Programme was £10.504 million as listed below:

	£million
Housing Revenue Account Investment Programme	5.436
General Fund Housing Investment Programme	0.704
General Fund Other Services Investment Programme	4.364
Total Capital Expenditure	10.504

The largest items of expenditure were £1.786 million for the introduction of food waste recycling, £1.372 million for the refurbishment of Southover House as the Council's main administrative and customer centre in Lewes and £1.224 million for the replacement and renewal of heating systems in the Council's stock of housing revenue account houses and flats.

Capital expenditure was paid for from:

Major Repairs Reserve: money set aside from the Housing Revenue Account	£million
Capital receipts: money from the sale of Council property	3.351
Grants and Contributions: from external partners, like the Government and property developers	0.516
Revenue Financing: contributions from the General Fund and Housing Revenue Account	2.520
Total Capital Financing	2.339
8.726	

Unfinanced – supported by Lewes District Council pending future sale of council assets

1,778
10,504

The Council chose to leave some projects unfinanced (i.e. supported by internal borrowing). The main project amongst these was the refurbishment of the Southover House office building, where the cost is planned to be met from receipts generated from the sale of surplus office buildings.

Explanatory Foreword

The Council's financial health

The Balance Sheet on pages 11 and 12 shows a net increase of £5.979 million for the year.

Key movements in the year have been:

Property asset values	increase from revaluation of housing dwellings to reflect social housing market value	£000
Investment property	increase from revaluation to reflect market value	12,481
Working capital	net decrease in short term assets less short term liabilities	640
Long term borrowing	no new external borrowing was taken during the year	(733)
Pensions	increase in the liability assessed by the actuary of the cost of pensions payable in future	0
Other	net increase from other smaller movements	(6,844)
Net assets		435
		5,979
General Fund Balance	planned reduction as detailed on page 3	(338)
General Fund Reserves	net increase as detailed on pages 43 to 47	582
Housing Revenue Balance	reduction as detailed on page 5	(739)
Capital Receipts Reserve	net increase as detailed on pages 38 and 39	1,064
Major Repairs Reserve	net increase as detailed on pages 38 and 39	1,036
Capital Grants Applied	net decrease as detailed on pages 38 and 39	(1,619)
Revaluation Reserve	net gains from increases in property asset values (page 65)	3,866
Capital Adjustment Account	net increase in difference between capital financing and capital charges (page 66)	8,860
Pension Reserve	increase in the liability assessed by the actuary of the cost of pensions payable in future	(6,844)
Other	net increase from other smaller movements	111
Total Reserves		5,979

This year on year improvement in the Council's financial health means that it is well positioned to face the financial challenges that lie ahead over the medium term as Government financial support is withdrawn and the Council becomes increasingly reliant on generating its own sources of both revenue and capital income.

Movement in Reserves Statement

	General Fund Balance	General Fund Reserves	Earmarked Reserves	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Lewes District Council Total Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2013	2,679	10,052	3,467	2,216	388	1,935	20,737	118,860	139,597	
Movement in Reserves during 2013/14										
Surplus or (deficit) on the provision of services (page 10)	(1,628)	0	9,163	0	0	0	7,535	0	7,535	
Other comprehensive income and expenditure (page 10)	0	0	0	0	0	0	0	(1,556)	(1,556)	
Total comprehensive income and expenditure	(1,628)	0	9,163	0	0	0	7,535	(1,556)	5,979	
Adjustments between accounting basis and funding basis under regulations (Note 8 pages 37 to 39)	1,872	0	(9,902)	1,064	1,036	(1,619)	(7,549)	7,549	0	
Net increase or decrease before transfers to earmarked reserves	244	0	(739)	1,064	1,036	(1,619)	(14)	5,993	5,979	
Transfers to or from earmarked reserves (Note 9 pages 43 to 47)	(582)	582	0	0	0	0	0	0	0	
Increase or (decrease)	(338)	582	(739)	1,064	1,036	(1,619)	(14)	5,993	5,979	
Balance at 31 March 2014	2,341	10,634	2,728	3,280	1,424	316	20,723	124,853	145,576	

Movement in Reserves Statement

	Balance General Fund	Reserves General Fund	Earmarked General Fund	Account (HRA) Housing Revenue	Reserve Capital Receipts	Reserve Major Repairs	Unapplied Capital Grants	Reserves Total Usable	Reserves Unusable	Reserves Council Total	Lewes District
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Prior year comparison - restated											
Balance at 1 April 2012	2,063	9,281	2,738	2,098	573	583	17,336	125,531	142,867		
Movement in Reserves during 2012/13											
Surplus or (deficit) on the provision of services (page 10)	781	0	(1,509)	0	0	0	(728)	0	(728)		
Other comprehensive income and expenditure (page 10)	0	0	0	0	0	0	0	(2,542)	(2,542)		
Total comprehensive income and expenditure	781	0	(1,509)	0	0	0	(728)	(2,542)	(3,270)		
Adjustments between accounting basis and funding basis under regulations (Note 8 pages 40 to 42)	606	0	2,238	118	(185)	1,352	4,129	(4,129)	0		
Net increase or decrease before transfers to earmarked reserves	1,387	0	729	118	(185)	1,352	3,401	(6,671)	(3,270)		
Transfers to or from earmarked reserves (Note 9 pages 43 to 47)	(771)	771	0	0	0	0	0	0	0		
Increase or (decrease)	616	771	729	118	(185)	1,352	3,401	(6,671)	(3,270)		
Balance at 31 March 2013	2,679	10,052	3,467	2,216	388	1,935	20,737	118,860	139,597		

Comprehensive Income and Expenditure Statement

	restated 2012/13			2013/14		
	Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
9,886	8,908	978	Central services to the public	1,683	635	1,048
3,888	676	3,212	Cultural and related services	3,773	518	3,255
7,172	2,287	4,885	Environmental and regulatory services	7,961	2,540	5,421
2,135	774	1,361	Planning services	2,528	820	1,708
710	906	(196)	Highways and transport services	671	918	(247)
10,624	15,329	(4,705)	Local authority housing (Housing Revenue Account)	11,304	15,887	(4,583)
0	0	0	Local authority housing exceptional item – reversal of prior year impairments	(7,706)	0	(7,706)
38,524	36,495	2,029	Other housing services	39,171	36,837	2,334
2,837	170	2,667	Corporate and democratic core	3,250	116	3,134
182	0	182	Non distributed costs - other	167	0	167
75,958	65,545	10,413	Cost of Services	62,802	58,271	4,531
7,044	353	6,691	Other operating expenditure (Note 10)	5,015	1,144	3,871
2,789	1,907	882	Financing and investment income and expenditure (Note 11)	2,917	1,928	989
0	17,258	(17,258)	Taxation and non-specific grant income (Note 12)	7,275	24,201	(16,926)
85,791	85,063	728	(Surplus) or deficit on the provision of services	78,009	85,544	(7,535)
		164	(Surplus) or deficit on revaluation of property, plant and equipment assets			(4,244)
		2,378	Remeasurement of net defined benefit liability			5,800
		2,542	Other comprehensive income and expenditure			1,556
		3,270	Total comprehensive income and expenditure			(5,979)

Balance Sheet

31 March 2013		31 March 2014
£000		£000
199,569	Property, Plant and Equipment	212,050
3,137	Heritage Assets	3,087
3,608	Investment Property	4,248
328	Intangible Assets	402
344	Long Term Investments	1
91	Long Term Debtors	481
207,077	Long Term Assets	220,269
7,090	Short Term Investments	5,006
124	Inventories	90
3,280	Short Term Debtors	3,732
5,644	Cash and Cash Equivalents	5,886
16,138	Short Term Assets	14,714
(233)	Short Term Borrowing	(234)
(5,583)	Short Term Creditors	(4,519)
(41)	Provisions	(417)
(125)	Capital Grants Receipts in Advance	(121)
(5,982)	Short Term Liabilities	(5,291)
(1,132)	Long Term Creditors	(1,193)
(56,673)	Long Term Borrowing	(56,673)
(16,978)	Defined Pension Scheme Liability	(23,822)
(16)	Other Long Term Liabilities	0
(2,837)	Capital Grants Receipts in Advance	(2,428)
(77,636)	Long Term Liabilities	(84,116)
139,597	Net Assets	145,576

Balance Sheet

	31 March 2013		31 March 2014
	£000		£000
General Fund Balance	2,679		2,341
Earmarked General Fund Reserves	10,052		10,634
Housing Revenue Account Balance	3,467		2,728
Capital Receipts Reserve	2,216		3,280
Major Repairs Reserve	388		1,424
Capital Grants Unapplied	1,935		316
Usable Reserves	20,737	Note 22	20,723
Revaluation Reserve	10,437		14,303
Capital Adjustment Account	125,443		134,303
Financial Instruments Adjustment Account	24		20
Pension Reserve	(16,978)		(23,822)
Deferred Capital Receipts	0		390
Collection Fund Adjustment Account	95		(199)
Accumulated Absences Account	(161)		(142)
Unusable Reserves	118,860	Note 23	124,853
Reserves	139,597		145,576

Certificate of the Responsible Financial Officer

In compliance with Part 3 regulation 8(2) of The Accounts and Audit (England) Regulations 2011 I certify that the Statement of Accounts for the financial year 2013/14 presents a true and fair view of the financial position of Lewes District Council at 31 March 2014 and of its income and expenditure for that year.

Signed

John Magness CPFA
Director of Finance

Date

.....September 2014

Cash Flow Statement

restated		2013/14
2012/13		£000
£000		
(728)	Net surplus or (deficit) on the provision of services	2013/14
(1,655)	Cash flows from interest paid	£000
103	Cash flows from interest received	7,535
18,306	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 24)	(1,765)
(3,152)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 25)	98
<u>12,874</u>	Net cash flows from operating activities	<u>4,819</u>
(4,569)	Investing activities (Note 26)	(5,209)
(1,399)	Financing activities (Note 27)	632
<u>6,906</u>	Net increase or (decrease) in cash and cash equivalents	<u>242</u>
(1,262)	Cash and cash equivalents at the beginning of the reporting period.	5,644
<u>5,644</u>	Cash and cash equivalents at the end of the reporting period (Note 19)	<u>5,886</u>

Explanatory Notes to the Core Financial Statements

Note 1. CHANGES TO ACCOUNTING POLICIES AND TO PRIOR PERIOD FIGURES

IAS19: Change to Accounting Standard

There have been several significant changes in relation to the international accounting standard IAS19 Employee Benefits.

This has resulted in changes to accounting treatment for financial years starting on or after 1 January 2013.

The main changes are as follows:

- expected return on assets - this is in relation to the return on pension scheme assets such as those held by the East Sussex County Council Pension Fund. Advance credit for anticipated outperformance of return seeking assets (such as equities) is no longer permitted by IAS19. This has been replaced with an equivalent figure calculated using a discount rate as opposed to using a figure calculated using expected return on assets assumptions.
- asset disclosures - IAS19 requires a much more detailed breakdown analysis of the pension fund assets. The values of the assets, broken down into different classes that distinguish between the nature and risk, now need to be disclosed. A further breakdown is also needed showing those assets which have a quoted market price and those which do not. The disclosure included in the Council's 2012/13 published financial statements only showed the main categories of equities, bonds, property and cash as required. As a result of the change some of the categories are broken down further.
- disclosure presentation - in order to be consistent with the new requirements of IAS19 the disclosures in relation to the Council's defined benefit pension scheme have changed from those published in 2012/13 (see Note 39). By making these changes to the accounting standard it is intended that the presentation of the information is easier for users of the accounts to understand.

These changes impact on the Council's published 2012/13 core financial statements as follows:

- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement
- Cash Flow Statement

There is no impact on the Balance Sheet.

The restated core financial statements for 2012/13 are set out in the tables below:

Explanatory Notes to the Core Financial Statements

2012/13 Comprehensive Income and Expenditure Statement

	Published Net Expenditure £000	IAS19 Pensions Restatement £000	Restated Net Expenditure £000
Central services to the public	978	0	978
Cultural and related services	3,212	0	3,212
Environmental and regulatory services	4,885	0	4,885
Planning services	1,361	0	1,361
Highways and transport services	(196)	0	(196)
Local authority housing (Housing Revenue Account)	(4,705)	0	(4,705)
Other housing services	2,029	0	2,029
Corporate and democratic core	2,667	0	2,667
Non distributed costs	182	0	182
Cost of Services	10,413	0	10,413
Other operating expenditure	6,691	0	6,691
Financing and investment income and expenditure	176	706	882
Taxation and non-specific grant income	(17,258)	0	(17,258)
Deficit on the provision of services	22	706	728
Deficit on revaluation of property, plant and equipment assets	164	0	164
Actuarial losses on pension assets and liabilities	3,084	(706)	2,378
Other comprehensive income and expenditure	3,248	(706)	2,542
Total comprehensive income and expenditure	3,270	0	3,270

NB The Housing Revenue Account Income and Expenditure Statement and the Movement on the HRA Statement on pages 92 and 93 have been restated with the HRA share of £706,000 which amounted to £117,000.

Explanatory Notes to the Core Financial Statements

Published 2012/13 Movement in Reserves Statement

	General Fund	Farmarked Reserves	Account	Housing Revenue	Reserve	Receipts	Capital Reserve	Repairs	Major	Unapplied	Grants	Capital Reserves	Usable Total	Unusable Reserves	Total Reserves
Balance at 1 April 2012	2,063	9,281	2,738	2,098	573	583	17,336	125,531	142,867						
Surplus/(deficit) on provision of services	1,370	0	(1,392)	0	0	0	(22)	0	(22)					(3,248)	(3,248)
Other comprehensive income & expend	0	0	0	0	0	0	0	0	0					(3,248)	(3,248)
Total comprehensive income and expenditure	1,370	0	(1,392)	0	0	0	(22)	0	(22)					(3,248)	(3,270)
Adjustments between accounting basis and funding basis under regulations	17	0	2,121	118	(185)	1,352	3,423	(3,423)	0						
Net increase or decrease before transfers to earmarked reserves	1,387	0	729	118	(185)	1,352	3,401	(6,671)	(3,270)						
Transfer (to)/from earmarked reserves	(771)	771	0	0	0	0	0	0	0					0	0
Increase or (decrease)	616	771	729	118	(185)	1,352	3,401	(6,671)	(3,270)						
Balance at 31 March 2013	2,679	10,052	3,467	2,216	388	1,935	20,737	118,860	139,597						

RESTATEMENT

Balance at 1 April 2012	2,063	9,281	2,738	2,098	573	583	17,336	125,531	142,867						
Surplus/(deficit) on provision of services	781	0	(1,509)	0	0	0	(728)	0	(728)					(2,542)	(2,542)
Other comprehensive income & expend	0	0	0	0	0	0	0	0	0					(2,542)	(2,542)
Total comprehensive income and expenditure	781	0	(1,509)	0	0	0	(728)	(2,542)	(3,270)						
Adjustments between accounting basis and funding basis under regulations	606	0	2,238	118	(185)	1,352	4,129	(4,129)	0						
Net increase or decrease before transfers to earmarked reserves	1,387	0	729	118	(185)	1,352	3,401	(6,671)	(3,270)						
Transfer (to)/from earmarked reserves	(771)	771	0	0	0	0	0	0	0					0	0
Increase or (decrease)	616	771	729	118	(185)	1,352	3,401	(6,671)	(3,270)						
Balance at 31 March 2013	2,679	10,052	3,467	2,216	388	1,935	20,737	118,860	139,597						

Explanatory Notes to the Core Financial Statements

2012/13 Cash Flow Statement

	Published 2012/13 £000	IAS19 Pensions Restatement £000	Restated 2012/13 £000
Net (deficit) on the provision of services			
Cash flows from interest paid	(22)	(706)	(728)
Cash flows from interest received	(1,655)	0	(1,655)
Adjustments to net deficit on the provision of services for non-cash movements	103	0	103
Adjustments for items included in the net deficit on the provision of services that are investing and financing activities	17,600	706	18,306
Net cash flows from operating activities	(3,152)	0	(3,152)
Investing activities			
Financing activities	12,874	0	12,874
Net increase in cash and cash equivalents	(4,569)	0	(4,569)
Cash and cash equivalents at the beginning of the reporting period	(1,399)	0	(1,399)
Cash and cash equivalents at the end of the reporting period	6,906	0	6,906
	(1,262)	0	(1,262)
	5,644	0	5,644

Note 2. ACCOUNTING POLICIES

1) General Principles

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014.

The Accounts and Audit (England) Regulations 2011 require the Council to prepare an annual Statement of Accounts in accordance with proper accounting practices. Proper accounting practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 'Code') and the Service Reporting Code of Practice 2013/14 (SeRCOP), 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.

Explanatory Notes to the Core Financial Statements

2) Accruals of Income and Expenditure

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

- Income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser, and it is probable that economic benefits/service potential associated with the transaction will flow to the Council.
- Income from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that the economic benefits or service potential of the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, and where amounts are significant, 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 and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded on the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash on the Balance Sheet date and which are subject to an insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and which form an integral part of the Council's cash management.

4) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are charged with the following amounts to record the cost of holding non-current assets during the year:

Explanatory Notes to the Core Financial Statements

- 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 fixed assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis in accordance with statutory guidelines, locally 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to Housing Revenue Account activity).

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by a contribution in the General Fund Balance (the Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

5) 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, honoraria and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. 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 at the year-end because the difference between these and the wage and salary rates applicable in the following accounting year when the employee takes the benefit, will not be material. The accrual is charged to the 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 Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits, and are charged on an accruals basis to the relevant service line in the Cost of Services section of the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Explanatory Notes to the Core Financial Statements

When termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are members of the Local Government Pensions Scheme (LGPS), administered by East Sussex County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The Local Government Pensions Scheme is accounted for as a defined benefits scheme:

- The liabilities of the East Sussex County Council pension fund attributable to the Council are included on 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 future earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.3%. This is consistent with accounting requirements that the discount rate used to place a value on the liabilities should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds and that the currency and term of the corporate bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations. In arriving at the discount rate the scheme actuary has adopted an approach whereby a corporate bond yield curve is constructed based on the constituents of the iBoxx £ Corporates AA index and using the UBS delta curve fitting methodology which is then adjusted to recognise the average weighted duration of the Council's benefit obligation.
- The assets of the East Sussex County Council pension fund attributable to the Council are included in the balance sheet at their fair value:
 - quoted securities – current bid value
 - unquoted securities – professional estimate
 - unlisted securities – current bid value
 - property – market value
- The change in the net pensions liability is analysed into the following components:

Explanatory Notes to the Core Financial Statements

- 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 or decrease in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – charged or credited 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 (i.e. net interest expense for the Council) – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability - charged to the Pension 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 actuary has updated his assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
 - Contributions paid to the East Sussex County Council 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 Balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers 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 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 able to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Explanatory Notes to the Core Financial Statements

6) Events after the Balance Sheet date

Events after the Balance Sheet Date are those events, both favourable and unfavourable, that occur between the end of the financial year and the date when the Statement of Accounts is authorised for issue.

Two types of events can be identified:

- Adjusting events - 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 where they have a material effect
- Non-adjusting 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.

7) Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council 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 Council has, this means that the amount presented on the Balance Sheet is the outstanding principal repayable (plus the accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. For the Council's Lender's Option Borrower's Option (LOBO) loan agreement, which has provision for stepped interest rates, interest charged to the Comprehensive Income and Expenditure Statement is the amount payable based on rates expected to prevail over the full term of the loan, presuming no exercise of options.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or

Explanatory Notes to the Core Financial Statements

exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate. Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net change required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
 - available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments
- (NB the Council does not hold any available-for-sale assets).

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented on the Balance Sheet is the outstanding principal receivable (plus the accrued interest), and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year according to the loan agreement.

However, the Council has made a number of loans to employees (e.g. travel season tickets, car loans) which have been advanced at less than the market interest rate. These are defined as soft loans and the Code requires the difference between the market interest rate and the actual interest rate to be credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement and added to the amortised cost of the loan on the Balance Sheet. However, the Council does not treat these as soft loans and therefore, in a departure from the Code, only credits the actual loan interest receivable to Financing and Investment Income and Expenditure, and makes no adjustment to the cost of the loan held on the Balance Sheet. The impact of this differing accounting treatment is not material to the Financial Statements.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment

Explanatory Notes to the Core Financial Statements

loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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.

8) Government Grants and Other Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments, and
- the grants and 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 on the Balance Sheet as creditors. When conditions are satisfied the grant or contribution is credited to the relevant service line (for attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (for non-ringfenced revenue grants and all capital grants and contributions) 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 in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account (CAA). Amounts in the Capital Grants Unapplied Reserve are transferred to CAA once they have been applied to fund capital expenditure.

Explanatory Notes to the Core Financial Statements

9) Heritage Assets

Tangible heritage assets

The Council's heritage assets are held within three categories:

- land and buildings
- civic regalia
- works of art and museum exhibits

Land and buildings comprises three properties: Southover Grange built in the 16th century, Market Tower built in the 18th century and Newhaven Fort built in the 19th century. These assets are recognised, measured, impaired and depreciated in accordance with the Council's accounting policies on Property, Plant and Equipment.

Civic regalia is a static collection comprising the Chair's chain of office and several smaller badges of civic office. These items are carried on the Balance Sheet at insurance valuation which is reviewed annually. Since these items are deemed to have indeterminate lives no depreciation is charged.

Works of art and museum exhibits comprises artefacts held at Newhaven Fort and miscellaneous aesthetic items held at separate locations. These items are carried on the Balance Sheet at insurance valuation which is reviewed annually. Since these items are deemed to have indeterminate lives no depreciation is charged. The Council's collection of works of art and exhibits is relatively static and acquisitions and donations are rare. Where they do occur acquisitions are initially recognised at cost and donations are recognised at insurance valuation.

Carrying amounts of heritage assets are reviewed where there is evidence of impairment, e.g. where an item has suffered physical deterioration or breakage, and any impairment is recognised and measured in accordance with the general policies on impairment.

10) Intangible Assets

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

Intangible assets are measured at amortised cost, because fair value cannot be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive

Explanatory Notes to the Core Financial Statements

Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not statutorily permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance 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.

11) Inventories

Inventories are included on the Balance Sheet at the lower of cost and net realisable value.

12) Investment property

Investment properties are those properties 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, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation (and on disposal) are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement and result in a gain for the General Fund Balance. 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 Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) to the Capital Receipts Reserve.

13) 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.

Explanatory Notes to the Core Financial Statements

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement 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.

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 (charged 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 Council at the end of the lease period).

The Council is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

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. if there is a rent-free period at the commencement of the lease).

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the

Explanatory Notes to the Core Financial Statements

Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset on the Balance Sheet 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. A gain, representing the Council's net investment in the lease, is 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), matched by a lease debtor (long-term debtor) on the Balance Sheet.

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)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the relevant service 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).

14) Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of CIPFA's SeRCOP.

Explanatory Notes to the Core Financial Statements

The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – e.g. costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – e.g. costs relating to discretionary benefits awarded to employees retiring early.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Cost of Services.

15) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

Changes to 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 Council's financial position or financial performance. When 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 applied.

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

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.

16) Property, Plant and Equipment

Definition and Categories

Assets that have physical substance and are held for use in the provision of 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 asset will flow to the Council and the cost of the asset can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver

Explanatory Notes to the Core Financial Statements

future economic benefits or service potential (i.e. repairs and maintenance) is charged to the Comprehensive Income and Expenditure Account as an expense when it is incurred. Assets valued at less than £10,000 are not included on the Balance Sheet, provided that the total excluded has no material impact.

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 Council does not capitalise borrowing costs incurred whilst assets are under construction.

Donated assets are measured initially at fair value.

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

- infrastructure and assets under construction – depreciated historical cost
- community assets – historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included on the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains, unless the gains arise from the reversal of a loss previously charged to a service in which case the gain will be credited to the Comprehensive Income and Expenditure Statement.

Where decreases in value are identified, they are accounted for by:

- 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(s) in the Comprehensive Income and Expenditure Statement.

Explanatory Notes to the Core Financial Statements

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation.

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 by:

- 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(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) 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 by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land, Community Assets).

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- Vehicles, plant, furniture and equipment - straight-line allocation over the useful life of the asset as estimated by a suitably qualified officer
- Infrastructure - straight line allocation over 20 years

Where an item of Property, Plant and Equipment has major components with a significant cost in relation to the total cost of the asset, and with different estimated useful lives, the components are depreciated separately. This is limited to assets valued at over £1 million which have individual components valued at over £250,000. In the case of Council Dwellings, individual components are aggregated for depreciation purposes due to the nature, scale and materiality of this class of asset.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on

Explanatory Notes to the Core Financial Statements

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.

Disposals

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continued use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before its reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is charged to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains to fair value are recognised only up to the amount of any losses previously recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset on the Balance Sheet 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 (CAA).

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement (MIRS).

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the CAA from the General Fund Balance in the MIRS.

17) Provisions, Contingent Liabilities and Contingent Assets

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.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the

Explanatory Notes to the Core Financial Statements

expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried on 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 line.

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 Council settles the obligation.

Contingent Liabilities

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

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 on the Balance Sheet but disclosed in a note to the Financial Statements.

Contingent Assets

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

Contingent assets are not recognised on the Balance Sheet but disclosed in a note to the Financial Statements where it is probable that there will be an inflow of economic benefits or service potential.

18) Reserves

The 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 to score 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 Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

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19) Revenue Expenditure Funded From Capital Under Statute

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 Council 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.

20) Value Added Tax (VAT)

VAT payable is fully recoverable from Her Majesty's Revenue and Customs (HMRC) and is excluded from expenditure. VAT receivable is paid over to HMRC and is excluded from income.

Note 3. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT BEEN ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 has introduced several changes in accounting policies and disclosure requirements which will be required from 1 April 2014.

The changes introduced from 1 April 2014 are:

- amendments to IAS1 Presentation of Financial Statements
- amendments to IAS32 Financial Instruments Presentation
- a number of new and revised standards (IFRS10, 11 and 12 and IAS27 and 28) have been issued which address accounting for consolidation, involvements in joint arrangements and disclosure of involvements in other entities. .

If these had been in place from 1 April 2013 there would have been no material impact on the 2013/14 Statement of Accounts.

Note 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 2, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Financial Statements are:

Explanatory Notes to the Core Financial Statements

- the Council has reviewed its interests with external bodies as required by the Code and has concluded that it does not have any interests in subsidiaries, associated companies or joint ventures that would require the production of Group Accounts.
- there is a high level of uncertainty about future levels of funding for local government. However, the Council has in place a medium term financial strategy which forecasts annual reductions in funding up to 2020 together with plans to manage the impact on its spending requirement. The strategy will be reviewed and updated as future levels of funding become certain.

Note 5. 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 Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items on the Council's Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

- **Pension Liability:** 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 are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The effects on the net pension liability of changes in individual assumptions can be measured. For instance a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £9.2 million. The effects of other changes in individual assumptions made by the actuary are set out within the sensitivity analysis section of Note 39.
- **Impairment of Doubtful Debts:** the Council has included in its accounts an allowance for the impairment of doubtful debts of £0.93 million at 31 March 2014 based on an assessment of future recoverability. However if collection rates were to deteriorate an increase in the amount of the impairment would be required.
- **Property, Plant and Equipment:** assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. Reductions in funding may make it difficult for the Council to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amounts of the assets falls. It is estimated that the annual depreciation charge for buildings would increase in these circumstances.

Explanatory Notes to the Core Financial Statements

- **Provisions:** the Council has made a provision of £0.4 million for its share of any successful appeals made by businesses against non-domestic rates charged in 2013/14 and earlier years. This is a best estimate based on the Valuation Office Agency list of ratings appeals and an analysis of successful appeals to date. If this estimate proves to be too low an increase in the amount of the provision would be required.

Note 6. MATERIAL ITEMS OF INCOME AND EXPENSE

There are no material items of income and expenditure that are not disclosed elsewhere within the Statement of Accounts.

Note 7. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts were authorised for issue by the Director of Finance on September 2014. Events taking place after this date are not reflected in the Financial Statements or notes.

Explanatory Notes to the Core Financial Statements

Note 8. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Council in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

	Movement in Usable Reserves					
	Balance General Fund	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Unapplied Capital Grants	Reserves Unusable Movement in
	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis and funding basis under regulations						
2013/14						
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation of non-current assets	1,713	4,383				(6,096)
Charges for impairment/(reversals) of non-current assets		(7,706)				7,706
Movements in the fair value of Investment Properties	(640)					640
Amortisation of Intangible Assets	164	4				(168)
Reversal of transfer to the Major Repairs Reserve equal to the depreciation and amortisation amounts charged to the HRA						
Capital grants and contributions applied	(335)	(214)				549
Revenue expenditure funded from capital under statute	737					(737)
Amounts of non-current assets written off on disposal or sale as part of the gain to the Comprehensive Income and Expenditure Statement	109	1,062				(1,171)
Amounts of non-current assets written off on derecognition of components to the Comprehensive Income and Expenditure Statement		1,778				(1,778)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(175)					175
Voluntary provision for the financing of capital investment		(1,185)				1,185
Capital expenditure charged against the General Fund and HRA balances	(822)	(1,517)				2,339

Explanatory Notes to the Core Financial Statements

Adjustments between accounting basis and funding basis under regulations (continued)	Movement in Usable Reserves					
	Balance General Fund	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Reserves Unusable
2013/14						
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	£000	£000	£000	£000	£000	£000
Application of grants to capital financing transferred to the Capital Adjustment Account	(352)				352	
					(1,971)	1,971
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain on disposal to the Comprehensive Income and Expenditure Statement	(2)	(1,948)	1,950			
Use of the Capital Receipts Reserve to finance new capital expenditure		25	(516)			516
Contribution from the Capital Receipts Reserve to finance the administrative costs of non-current asset disposals			(25)			
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	345		(345)			
Adjustments primarily involving the Major Repairs Reserve:						
Transfer to the Major Repairs Reserve equal to the depreciation and amortisation amounts charged to HRA		(4,387)		4,387		
Use of the Major Repairs Reserve to finance new capital expenditure				(3,351)		3,351
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sales proceeds credited as part of the gain on disposal to the Comprehensive Income and Expenditure Statement		(390)				390

Explanatory Notes to the Core Financial Statements

	Movement in Usable Reserves					
	Balance General Fund	Account (HRA) Housing Revenue	Reserve Capital Receipts	Reserve Major Repairs	Unapplied Capital Grants	Reserves Unusable Movement in
	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis and funding basis under regulations (continued)						
2013/14						
Adjustments primarily involving the Financial Instruments						
Adjustment Account:						
Amortisation of premiums and discounts	1	3				(4)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	2,478	562				(3,040)
Employer's pensions contributions payable in the year	(1,624)	(372)				1,996
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rating income calculated in accordance with statutory requirements	294					(294)
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in accordance with statutory requirements	(19)					19
TOTAL ADJUSTMENTS FOR 2013/14	1,872	(9,902)	1,064	1,036	(1,619)	(7,549)

Explanatory Notes to the Core Financial Statements

	Movement in Usable Reserves					
	Balance General Fund	Housing Revenue Account (HRA)	Reserve Capital Receipts	Reserve Major Repairs	Unapplied Capital Grants	Reserves Unusable Movement in
	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis and funding basis under regulations (continued)						
2012/13 comparative figures - restated						
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation of non-current assets	1,577					(1,577)
Charges for impairment/(reversals) of non-current assets	442	459				(901)
Movements in the fair value of Investment Properties	(591)					591
Amortisation of Intangible Assets	150					(150)
Reversal of transfer to the Major Repairs Reserve equal to the depreciation and amortisation amounts charged to the HRA		3,709				(3,709)
Capital grants and contributions applied	(367)					367
Revenue expenditure funded from capital under statute	820					(820)
Amounts of non-current assets written off on disposal or sale as part of the gain to the Comprehensive Income and Expenditure Statement	145	598				(743)
Amounts of non-current assets written off on derecognition of components to the Comprehensive Income and Expenditure Statement		3,905				(3,905)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(154)					154
Voluntary provision for the financing of capital investment		(584)				584
Capital expenditure charged against the General Fund and HRA balances	(286)	(1,189)				1,475

Explanatory Notes to the Core Financial Statements

	Movement in Usable Reserves					
	Balance General Fund	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis and funding basis under regulations (continued)						
2012/13 comparative figures - restated						
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(1,902)				1,902	
Application of grants to capital financing transferred to the Capital Adjustment Account					(550)	550
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain on disposal to the Comprehensive Income and Expenditure Statement	(85)	(1,026)	1,111			
Use of the Capital Receipts Reserve to finance new capital expenditure		14	(695)			695
Contribution from the Capital Receipts Reserve to finance the administrative costs of non-current asset disposals			(14)			
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	284		(284)			
Adjustment primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA		(3,709)		3,709		
Use of the Major Repairs Reserve to finance new capital expenditure				(3,894)		3,894

Explanatory Notes to the Core Financial Statements

	Movement in Usable Reserves					
	General Fund	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis and funding basis under regulations (continued)						
2012/13 comparative figures - restated						
Adjustment primarily involving the Financial Instruments Adjustment Account:						
Amortisation of premiums and discounts	1	(68)				67
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	2,136	467				(2,603)
Employer's pensions contributions payable in the year	(1,594)	(338)				1,932
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(14)					14
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in accordance with statutory requirements	44					(44)
TOTAL ADJUSTMENTS FOR 2012/13	606	2,238	118	(185)	1,352	(4,129)

Explanatory Notes to the Core Financial Statements

Note 9. TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts transferred from the General Fund Balance to earmarked reserves to provide financing for future expenditure plans and the amounts transferred out from earmarked reserves to meet General Fund expenditure in 2013/14.

Earmarked General Fund Reserve (purpose of reserve)	Balance	Transfers	Transfers	Balance at	Transfers	Transfers	Balance at
	at 1 April 2012 £000	Out 2012/13 £000	In 2012/13 £000	31 March 2013 £000	Out 2013/14 £000	In 2013/14 £000	31 March 2014 £000
Budget Carry Forward (Where a project or service, which was to have been funded from a revenue budget, has not been completed at the year end, the unspent budget can, if required, be carried forward to fund that project or service in the following year)	124	(124)	84	84	(25)	15	74
Building Control Charging Scheme (Regulations require defined elements of building control to break-even over time. A trading account is prepared to cover these items, with the annual surplus/(deficit) added to or funded from this reserve)	95	0	5	100	(19)	0	81
Change Management and Spending Power (To support the Council's flexible retirement policy and assist with the budget realignment exercise, and to support Programme Nexus)	1,920	(668)	477	1,729	(952)	1,619	2,396
Clean and Green (Balance of non-recurring funding set aside originally for clean & green initiatives)	55	(29)	0	26	0	0	26

Explanatory Notes to the Core Financial Statements

Transfers to/from earmarked reserves (continued)	Balance	Transfers	Transfers	Balance at	Transfers	Transfers	Balance at
	at 1 April 2012 £000	Out 2012/13 £000	In 2012/13 £000	31 March 2013 £000	Out 2013/14 £000	In 2013/14 £000	31 March 2014 £000
Concessionary Travel (Closed in 2012/13)	47	(47)	0	0	0	0	0
Corporate Building Repairs (To support the repairs programme for Council buildings)	157	(35)	50	172	(32)	50	190
Housing Benefits Standards and Improvements (To support improvements to the quality of the Benefits service)	500	(12)	111	599	(55)	320	864
Housing Development (Closed in 2012/13)	195	(195)	0	0	0	0	0
Insurance (Meets the excess element of insurance claims and earmarks resources for the settlement of any liability arising from an insolvent run-off of Municipal Mutual Insurance not covered by a Provision)	150	(51)	35	134	(9)	41	166
IT Replacement Equipment (To support the IT replacement programme – merged with the Revenue Equalisation and Asset Maintenance reserve in 2013/14)	63	0	61	124	(186)	62	0

Explanatory Notes to the Core Financial Statements

Transfers to/from earmarked reserves (continued)	Balance	Transfers	Transfers	Balance at	Transfers	Transfers	Balance at
	at 1 April 2012 £000	Out 2012/13 £000	In 2012/13 £000	31 March 2013 £000	Out 2013/14 £000	In 2013/14 £000	31 March 2014 £000
Leisure Buildings Repairs <i>(To support works to Council operated parks, leisure and open space facilities)</i>	126	(63)	50	113	(63)	50	100
Leisure Trust <i>(To support future legal obligations under the operational arrangement with Wave Leisure Trust)</i>	207	(48)	50	209	(1)	50	258
All Weather Pitch <i>(Supports future replacement)</i>	81	0	20	101	0	20	121
Leisure Trust Buildings Maintenance <i>(To support the Council's maintenance obligations set out in the legal agreement with Wave Leisure Trust)</i>	129	(3)	80	206	(88)	80	198
Newhaven Enterprise Centre <i>(To support the future replacement of equipment, etc)</i>	53	(9)	13	57	0	14	71
Community Safety Partnership Fund <i>(To support projects where the Council is lead partner and for working with external agencies, community organisations, etc)</i>	70	(40)	24	54	(31)	14	37
Housing and Planning Delivery Grant <i>(Balance of former Government Grant available to support specific Planning service initiatives over a number of years)</i>	71	0	0	71	(30)	0	41

Explanatory Notes to the Core Financial Statements

Transfers to/from earmarked reserves (continued)	Balance at 1 April 2012		Transfers Out 2012/13		Transfers In 2012/13		Balance at 31 March 2013		Transfers Out 2013/14		Transfers In 2013/14		Balance at 31 March 2014	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Major Planning Applications <i>(To support the processing of major planning applications as and when they arise, or to fund the costs of appeals)</i>	56	0	0	0	0	56	0	56	0	0	0	0	56	56
Private Sector Leasing and Homelessness Initiatives <i>(To support repairs to properties prior to return at the end of the lease period and homelessness initiatives across the district)</i>	23	(16)	30	37	(31)	22	28	28	28	28	28	28	28	28
Recycling <i>(To support expansion of the recycling service and to smooth out any fluctuations in recycling income within the annual budget)</i>	380	(14)	0	366	(12)	0	354	354	354	354	354	354	354	354
Revenue Equalisation and Asset Maintenance <i>(To support the backlog asset maintenance needs of the Council's non-housing property as well as items of regular but not annual expenditure e.g. District elections)</i>	2,438	(334)	362	2,466	(800)	711	2,377	2,377	2,377	2,377	2,377	2,377	2,377	2,377
Southover Grange Improvements <i>(To support future improvement works)</i>	41	0	0	41	0	0	41	41	41	41	41	41	41	41
Vehicle Replacement <i>(To support the vehicle replacement programme)</i>	1,780	(50)	320	2,050	(362)	320	2,008	2,008	2,008	2,008	2,008	2,008	2,008	2,008

Explanatory Notes to the Core Financial Statements

Transfers to/from earmarked reserves (continued)	Balance at 1 April 2012		Transfers Out 2012/13		Transfers In 2012/13		Balance at 31 March 2013		Transfers Out 2013/14		Transfers In 2013/14		Balance at 31 March 2014	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Strategic Priority Fund <i>(To support existing and developing projects)</i>	0	0	0	0	501	501	501	501	(115)	£000	4	£000	390	£000
Denton Island Reclamation <i>(To support the regeneration project)</i>	75	0	0	0	0	75	75	0	0	0	0	0	75	£000
Newhaven Fort Refurbishment <i>(To support the refurbishment programme)</i>	15	0	0	0	0	15	15	0	0	0	0	0	15	£000
West Quay Development <i>(To support the regeneration programme)</i>	48	0	0	0	0	48	48	0	0	0	0	0	48	£000
Specific Maintenance Funds <i>(Comprises amounts paid to the Council by third parties for specific maintenance purposes e.g. parks and open spaces)</i>	274	(15)	21	280	(10)	18	288	18	288	18	288	18	288	£000
Revenue Grants and Contributions Unapplied <i>(Comprises amounts paid to the Council by Government departments and by third parties for specific service initiatives e.g. preventing repossessions)</i>	108	(181)	411	338	(56)	49	331	49	331	49	331	49	331	£000
Total Earmarked Reserves on the Balance Sheet	9,281	(1,934)	2,705	10,052	(2,877)	3,459	10,634	3,459	10,634	3,459	10,634	3,459	10,634	£000

Explanatory Notes to the Core Financial Statements

	Gross Expenditure	Gross Income	restated 2012/13 Net Expenditure	Gross Expenditure	Gross Income	2013/14 Net Expenditure
	£000	£000	£000	£000	£000	£000
Note 10. OTHER OPERATING EXPENDITURE						
Town and Parish Council Precepts	2,855	0	2,855	2,554	0	2,554
Grants to Town and Parish Councils	0	0	0	338	0	338
Payments to the Government Housing Capital Receipts Pool	284	0	284	345	0	345
(Gains) on the disposal of non-current assets	0	353	(353)	0	1,144	(1,144)
Loss on derecognition of components of HRA non-current assets	3,905	0	3,905	1,778	0	1,778
Total Other Operating Expenditure	7,044	353	6,691	5,015	1,144	3,871

	Interest payable and similar charges	Impairment/(Reverse impairment) of deposit	Net interest on the net defined benefit liability	Interest receivable and similar income	Income and expenditure in relation to investment properties and changes in fair value (Surplus) from Trading Operations	Total Financing and Investment Income and Expenditure
Note 11. FINANCING AND INVESTMENT INCOME AND EXPENDITURE						
Interest payable and similar charges	1,762	0	1,762	1,766	0	1,766
Impairment/(Reverse impairment) of deposit	9	0	9	(7)	0	(7)
Net interest on the net defined benefit liability	667	0	667	770	0	770
Interest receivable and similar income	0	103	(103)	0	98	(98)
Income and expenditure in relation to investment properties and changes in fair value (Surplus) from Trading Operations	46	719	(673)	27	789	(762)
	305	1,085	(780)	361	1,041	(680)
Total Financing and Investment Income and Expenditure	2,789	1,907	882	2,917	1,928	989

	Council Tax Income	Non Domestic Rates income and expenditure	Non-ringfenced Government Grants	Capital Grants and Contributions	Total Taxation and Non Specific Grant Income
Note 12. TAXATION AND NON SPECIFIC GRANT INCOME					
Council Tax Income	0	10,372	(10,372)	0	(9,262)
Non Domestic Rates income and expenditure	0	3,692	(3,692)	7,275	(2,172)
Non-ringfenced Government Grants	0	924	(924)	0	(4,591)
Capital Grants and Contributions	0	2,270	(2,270)	0	(901)
Total Taxation and Non Specific Grant Income	0	17,258	(17,258)	7,275	(16,926)

Explanatory Notes to the Core Financial Statements

Note 13. PROPERTY, PLANT AND EQUIPMENT

Movement on Balances

Movements in 2013/14

	Council Dwellings	Other Land and Buildings	Furniture and Equipment	Vehicles, Plant, and Furniture	Infrastructure Assets	Community Assets	Plant and Equipment	Total Property Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation:								
At 1 April 2013	161,341	42,197	9,633	11,024	1,561	225,756		
Additions	4,975	1,904	2,462	168	16	9,525		
Revaluation increases/(decreases) recognised in Revaluation Reserve	(533)	696	0	0	0	163		
Derecognition – components written out and loss recognised in the Surplus/Deficit on Provision of Services	(1,778)	0	0	0	0	(1,778)		
Derecognition - disposals	(1,078)	0	(861)	0	0	(1,939)		
Reclassifications	0	(2,200)	2,200	0	0	0		
At 31 March 2014	162,927	42,597	13,434	11,192	1,577	231,727		

Accumulated Depreciation and Impairment:

At 1 April 2013	7,746	3,953	5,422	9,066	0	26,187		
Depreciation charge	3,892	935	993	226	0	6,046		
Depreciation written out to the Revaluation Reserve	(3,867)	(214)	0	0	0	(4,081)		
Impairment losses (reversals) recognised in Surplus/Deficit on Provision of Services	(7,706)	0	0	0	0	(7,706)		
Derecognition - disposals	(17)	0	(752)	0	0	(769)		
Reclassifications	0	(844)	844	0	0	0		
At 31 March 2014	48	3,830	6,507	9,292	0	19,677		
Net book value on Balance Sheet at 31 March 2014	162,879	38,767	6,927	1,900	1,577	212,050		

Explanatory Notes to the Core Financial Statements

Property, Plant and Equipment

Movement on Balances, continued

Comparative movements in 2012/13 - restated

Cost or Valuation:	Dwellings Council	Other Land and Buildings	Furniture and Equipment	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000
At 1 April 2012	213,400	50,561	7,491	10,824	1,538	283,814	
Elimination of accumulated depreciation on previous years revaluations	(53,326)	(6,661)	0	0	(3)	(59,990)	
Additions	6,051	651	489	201	25	7,417	
Revaluation increases/(decreases) recognised in Revaluation Reserve	(281)	190	0	0	0	(91)	
Revaluation decreases recognised in Surplus/Deficit on Provision of Services	0	(490)	0	0	0	(490)	
Derecognition – components written out and loss recognised in Surplus/Deficit on Provision of Services	(3,905)	0	0	0	0	(3,905)	
Derecognition – disposals	(598)	(194)	(67)	0	0	(859)	
Derecognition – other	0	0	(140)	0	0	(140)	
Reclassifications	0	(1,860)	1,860	(1)	1	0	
At 31 March 2013	161,341	42,197	9,633	11,024	1,561	225,756	
Accumulated Depreciation and Impairment:							
At 1 April 2012	57,882	9,306	4,697	8,839	3	80,727	
Elimination of accumulated depreciation on previous years revaluations	(53,326)	(6,661)	0	0	(3)	(59,990)	
Depreciation charge	3,249	1,090	665	227	0	5,231	
Impairment losses (reversals) recognised in Surplus/Deficit on Provision of Services	0	474	2	0	0	476	
Derecognition - disposals	(58)	(15)	(44)	0	0	(117)	
Derecognition - other	0	0	(140)	0	0	(140)	
Reclassifications	(1)	(241)	242	0	0	0	
At 31 March 2013	7,746	3,953	5,422	9,066	0	26,187	
Net book value on Balance Sheet at 31 March 2013	153,595	38,244	4,211	1,958	1,561	199,569	

Explanatory Notes to the Core Financial Statements

Depreciation

The following useful lives have been used in the calculation of depreciation:

Council Dwellings	Building main structure – 100 years Building components – 15-60 years
Other Land and Buildings	Buildings – individual asset lives determined as part of an independent valuation exercise Fixtures and fittings – 10 years
Vehicles, Plant, Furniture and Equipment	– 5-15 years
Infrastructure	– 20 years

Capital Commitments

At 31 March 2014 the Council had not entered into any significant contracts for the construction or enhancement of Property, Plant and Equipment in future years.

Effects of Changes in Estimates

In 2013/14 the Council ceased to charge staff salaries to capital projects as had been its previous practice on the basis that this relates to capitalised repair and maintenance costs and adds no value to the carrying amount of the Council's non-current assets. Instead they have been charged direct to Repairs and Maintenance within the Housing Revenue Account at a cost of £257,000.

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations of land and buildings were carried out by an independent valuer (DVS - the commercial arm of the Government's Valuation Office Agency) in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on historic cost.

Council dwellings were revalued by DVS at 1 April 2010 and are subject to annual desktop revaluation reviews at 31 March each year until the next full valuation review due at 1 April 2015. Other Land and Buildings were revalued by DVS at 1 April 2009 with the next full revaluation review due at 1 April 2014.

The significant assumptions applied in estimating the fair values of land and buildings are:

- that properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoing and that good titles can be shown

Explanatory Notes to the Core Financial Statements

- that properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and that the use and occupation are both legal
- that land and properties are not contaminated nor adversely affected by radon
- that inspection of those parts which have not been inspected would not cause the valuer to alter his opinion

	Council Dwellings £000	Other Land and Buildings £000	Furniture and Equipment £000	Vehicles, Plant, and £000	Infrastructure Assets £000	Community Assets £000	Total Property, Plant and Equipment £000
Carried at historical cost	0	1,154	6,927	1,900	1,577	11,558	
Valued at fair value as at:							
31 March 2014	162,221	7,144	0	0	0	169,365	
31 March 2013	0	4,211	0	0	0	4,211	
31 March 2012	0	7,582	0	0	0	7,582	
31 March 2011	0	941	0	0	0	941	
31 March 2010	658	17,735	0	0	0	18,393	
Net Book Value on Balance Sheet at 31 March 2014	162,879	38,767	6,927	1,900	1,577	212,050	

Explanatory Notes to the Core Financial Statements

Note 14. HERITAGE ASSETS

Reconciliation of carrying value of heritage assets held by the Council

Cost or Valuation:

At 1 April 2013

Additions

At 31 March 2014

Depreciation and Impairment:

At 1 April 2013

Depreciation charge

At 31 March 2014

Net Book Value on the Balance Sheet at 31 March 2014

	Land and Buildings £000	Civic Regalia £000	Works of Art and Museum Exhibits £000	Total Assets £000
At 1 April 2013	2,866	19	0	3,661
Additions	0	0	0	0
At 31 March 2014	2,866	19	0	3,661
At 1 April 2013	524	0	0	524
Depreciation charge	50	0	0	50
At 31 March 2014	574	0	0	574
Net Book Value on the Balance Sheet at 31 March 2014	2,292	19	776	3,087

Cost or Valuation:

At 1 April 2012

Additions

Revaluation increases recognised in Revaluation Reserve

Revaluation decreases recognised in Surplus/Deficit on Provision of Services

At 31 March 2013

Depreciation and Impairment:

At 1 April 2012

Depreciation charge

Impairment losses recognised in Surplus/Deficit on Provision of Services

At 31 March 2013

Net Book Value on the Balance Sheet at 31 March 2013

	Land and Buildings £000	Civic Regalia £000	Works of Art and Museum Exhibits £000	Total Assets £000
At 1 April 2012	2,858	19	776	3,653
Additions	8	0	0	8
Revaluation increases recognised in Revaluation Reserve	13	0	0	13
Revaluation decreases recognised in Surplus/Deficit on Provision of Services	(13)	0	0	(13)
At 31 March 2013	2,866	19	776	3,661
At 1 April 2012	466	0	0	466
Depreciation charge	50	0	0	50
Impairment losses recognised in Surplus/Deficit on Provision of Services	8	0	0	8
At 31 March 2013	524	0	0	524
Net Book Value on the Balance Sheet at 31 March 2013	2,342	19	776	3,137

Explanatory Notes to the Core Financial Statements

Land and buildings comprises three properties - Southover Grange, Market Tower and Newhaven Fort – which are included on the Balance Sheet at market value as assessed by the Council's external valuer. Depreciation is based on a straight-line allocation over the lives of the properties as estimated by the valuer, except for Market Tower which has an indeterminate life.

Civic Regalia and Works of Art and Museum Exhibits are carried on the Balance Sheet at insurance valuation which is reviewed annually. Since these items are deemed to have indeterminate lives no depreciation is charged.

Note 15. INVESTMENT PROPERTIES

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 (Note 11 p48):

	2012/13	2013/14
Rental income from investment property	£000	£000
Direct operating expenses arising from investment property	(128)	(149)
Net (gains) from fair value changes	46	27
Net (gain)	(591)	(640)
	<u>(673)</u>	<u>(762)</u>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal.

The Council has no contractual obligations to purchase, construct or develop investment property or carry out repairs, maintenance or enhancement.

Summary of the movement in the fair value of investment properties over the year:

	2012/13	2013/14
Balance Sheet fair value at 1 April	£000	£000
Additions - capitalised refurbishment expenditure	3,013	3,608
Net gains from fair value changes	4	0
	591	640
Balance Sheet fair value at 31 March	3,608	4,248

Explanatory Notes to the Core Financial Statements

Note 16. INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system (when it is accounted for along with the hardware within Property, Plant and Equipment). The intangible assets include purchased software licenses and associated costs only. The Council does not include as Intangible Assets any internally generated software like web development, the costs of which are charged to the Comprehensive Income and Expenditure Statement in the year incurred. All software is given a finite useful life, based on assessments of the period that it is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council are 7 years but where appropriate a lesser period is used. The carrying amount of intangible assets is amortised on a straight-line basis.

Amortisation of £168,000 was charged to revenue in 2013/14. £42,000 was charged direct to services within Cost of Services on the Comprehensive Income and Expenditure Statement, whereas £126,000 was charged to the Information Technology section and then absorbed as an overhead across services within the Cost of Services.

The movement on Intangible Asset balances during the year is as follows:

	2012/13 £000	2013/14 £000
Balance at 1 April		
gross carrying amounts	1,685	1,110
accumulated amortisation	(1,283)	(782)
Net carrying amount at 1 April	402	328
Additions in the year	81	242
Derecognition of gross carrying amount – assets fully consumed	(656)	0
Amortisation for the year	(155)	(168)
Derecognition of amortisation – assets fully consumed	656	0
Net carrying amount at 31 March	328	402
Balance at 31 March		
gross carrying amounts	1,110	1,352
accumulated amortisation	(782)	(950)
Net carrying amount at 31 March	328	402

Explanatory Notes to the Core Financial Statements

Note 17. FINANCIAL INSTRUMENTS

The following categories of financial instruments are carried on the Balance Sheet:

	Long-term		Short-term	
	31 March 2013	31 March 2014	31 March 2013	31 March 2014
	£000	£000	£000	£000
Investments:				
- loans and receivables	344	1	7,090	5,006
Debtors				
- loans and receivables	91	481	0	0
- financial assets carried at contract amounts	0	0	3,269	3,720
Total included in Debtors	435	482	10,359	8,726
Borrowings				
- financial liabilities at amortised cost	56,673	56,673	233	234
Other Long Term Liabilities				
- finance lease liabilities at amortised cost	16	0	0	16
Creditors				
- financial liabilities carried at contract amounts	0	0	4,847	3,676
Total included in Creditors	0	56,673	4,847	3,926

The short-term debtors line on the Balance Sheet includes non-operational debtors and allowances for non-collection of operational debtors that do not meet the definition of a financial asset (see Note 18) and which are excluded from the table above.

The short-term creditors line on the Balance Sheet includes receipts in advance and non-operational creditors that do not meet the definition of a financial liability (see Note 20) and which are excluded from the table above.

The long-term creditors line on the Balance Sheet does not meet the definition of a financial liability (see Note 34) and is excluded from the table above.

Explanatory Notes to the Core Financial Statements

Income, Expense, Gains and Losses

	Financial liabilities measured at amortised cost	Financial assets: loans and receivables	Total 2012/13	Financial liabilities measured at amortised cost	Financial assets: loans and receivables	Total 2013/14
Interest expense	£000	£000	£000	£000	£000	£000
Impairment losses	1,762	0	1,762	1,766	0	1,766
	0	9	9	0	(7)	(7)

Total expense in (Surplus) or Deficit on the Provision of Services

1,762	9	1,771	1,766	(7)	1,736
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Interest income

0	(103)	(103)	0	(98)	(98)
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Total income in (Surplus) or Deficit on the Provision of Services

0	(103)	(103)	0	(98)	(98)
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Net (gain)/loss for the year

1,762	(94)	1,668	1,766	(105)	1,661
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Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables and long-term debtors 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 will take place over the remaining term of the instruments, using the following assumptions:

- estimated fair values have been calculated using the equivalent market interest rates at 31 March 2014
- no early repayment or impairment is recognised
- fair values are based on the comparable new borrowing/deposit rate for the same financial instrument from a comparable lender. A consistent approach has been applied to assets and liabilities.
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value

Explanatory Notes to the Core Financial Statements

The fair values calculated are as follows:

	31 March 2013		31 March 2014	
	Balance Sheet £000	Fair value £000	Balance Sheet £000	Fair value £000
Financial Assets				
Long-term Investments	344	344	1	1
Long-term Debtors	91	91	481	481
Short-term Investments	7,090	7,090	5,006	5,006
Financial Liabilities				
Borrowings – market loan	5,108	7,251	5,108	6,429
Borrowings – Public Works Loan Board (PWLB)	51,798	56,069	51,799	52,228
Other Long-term Liabilities – finance leases	16	16	0	0

The fair value of the Council's borrowings is higher than the carrying amount because the interest rates payable are more than the rates available for similar loans at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2014) from a commitment to pay interest to the lender above current market rates.

The lender of the market loan was unable to provide a fair value directly so it has been calculated by discounting the contractual cash flows over the whole life of the instrument at the appropriate interest rate swap rate and adding the value of the embedded options. The Lender's options have been valued according to a proprietary model, and the Council's (Borrower's option) to repay has been valued at zero on the assumption that this option would only be available when market rates are higher than the loan rate.

The fair value on the PWLB loans has been provided directly by the PWLB and is based on the equivalent interest rates in place on 30 March 2014.

NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

- 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 payment commitments.
- market risk – the possibility that a financial loss might arise for the Council as a result of movements in interest rates.

Explanatory Notes to the Core Financial Statements

The Council's annual Treasury Management Strategy (last updated in February 2014) focuses on these risks and seeks to minimise potential adverse effects on the resources available to fund services. The Council provides written principles for overall risk management as well as written statements within its treasury management strategy covering interest rate risk, security of capital, and liquidity of investments.

Credit Risk

Credit Risk arises from deposits with banks and other financial institutions, as well as credit exposure to the Council's customers. This risk is minimised through the Council's Investment Strategy which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria in accordance with the credit ratings services provided by Fitch, Moody's and Standard and Poor. During 2013/14 deposits in banks and building societies were limited to UK banks and building societies that had minimum Fitch (or equivalent) credit ratings of 'A' long term and 'F1' short term. Deposits were allowed for periods up to 1 year with a maximum exposure limit of £3 million per institutional group.

Outstanding fixed term deposits and investments at 31 March 2014 were:

Credit rating:				
- Country				
- Long-term rating				
- Short-term rating				
Maturity period:				
- 0 to 3 months				
Total invested				
	Conwy County Borough Council	Nationwide Building Society		Total
	UK	UK		
	*	A+		
	*	F1		
	£000	£000		£000
	2,000	3,000		5,000
	<u>2,000</u>	<u>3,000</u>		<u>5,000</u>

* Local authorities as sovereign bodies are underwritten by the UK Government and as such individual local authorities are not required to undergo credit rating.

By following the ongoing investment strategy outlined above, the maximum exposure to default in respect of bank deposits is estimated to be minimal.

In respect of amounts receivable from our customers, the Council's collection performance is extremely high. Each year an assessment is made of the potential maximum level of default against the amount owed for each class of debt (e.g. council tax, non-domestic rates, rents, sundry debtors). This assessment takes account of both age and value of individual debts. Note 18 shows the total value of customer debt at the year end, along with the allowance for non-collection. The aggregate of investments and debtors shown above represents the maximum exposure to default.

Explanatory Notes to the Core Financial Statements

Liquidity Risk

As the Council has ready access to borrowings from the Public Works Loans Board (PWLb), there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council may be required to replenish a significant proportion of its borrowings at a time of unfavourable interest rates.

The maturity analysis of financial liabilities at 31 March is as follows:

	2013 £000	2014 £000	Interest rate range
Up to five years	0	0	-
Between five and ten years	5,000	5,000	variable rate loan
Between ten and fifteen years	18,000	20,000	2.63% - 3.05%
Between fifteen and twenty years	12,000	10,000	3.28% - 3.30%
Between twenty and twenty five years	10,000	10,000	3.43% - 3.44%
Between twenty five and thirty years	6,673	6,673	3.5%
More than thirty years	5,000	5,000	4.5%
	<u>56,673</u>	<u>56,673</u>	

The liabilities shown as maturing between 5 and 30 years consist of 12 separate loans totalling £51.673m taken from the PWLB on 28 March 2012, each of which has a different maturity date and carries a different interest rate.

The liability which is shown as maturing after 30 years is a single loan. This is a Lenders Option Borrowers Option loan, which has a final maturity date in April 2054. The lender has the option to review and increase the loan rate every four years but if at a review date the lender proposes to increase the rate, then the Council can exercise its option to repay the loan. If this were to be the case the Council would either take a replacement loan from the PWLB or bank or reduce the money available for investment at that time. At the review date of 5 April 2012 the Lender did not exercise the option to vary the interest rate and the loan will continue at 4.5% until the next review date in April 2016.

All trade and other payables are due to be paid in less than one year.

Explanatory Notes to the Core Financial Statements

Market Risk

Interest rate risk

The Council is exposed to some risk in terms of its exposure to interest rate movements on its borrowings and investments.

Movements in interest rates have a complex impact on the Council. A rise in interest rates would have the following effects:

- borrowings at fixed rates – the fair value of the liabilities will fall
- borrowings at variable rates – the fair value of the liabilities will rise
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses would not impact on the Comprehensive Income and Expenditure Statement.

The Council carries out its borrowing and investment activity within parameters set out in its Treasury and Investment Strategies, which assess interest rate exposure to feed into the annual budget process. The Council assumed a maximum interest rate of 0.5% for new deposits within its base budget and holds a buffer against fluctuations within the General Fund Working Balance. In this way, the funding of core services is less exposed to interest rate risk. Interest rate and investment income forecasts are updated regularly throughout the year, allowing significant changes to be reflected in updated budget projections.

Price and foreign exchange risk

The Council does not invest in equities and is not, therefore, exposed to losses arising from movements in share prices.

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

Explanatory Notes to the Core Financial Statements

Note 18. DEBTORS

	2012/13		2013/14	
	£000	£000	£000	£000
Operational Debtors:				
Central Government Bodies		51		483
Other Local Authorities		307		62
Other Entities and Individuals:				
Sundry Debtors	2,575		2,808	
less allowance for non-collection	(507)	2,068	(496)	2,312
Housing Rents	336		367	
less allowance for non-collection	(243)	93	(261)	106
Operational Debtors net of impairment		2,519		2,963
Non-Operational Debtors				
Central Government Bodies		562		391
Other Entities and Individuals:				
Council Taxpayers	280	199	297	213
less allowance for non-collection	(81)		(84)	
Non-domestic ratepayers	0	0	254	165
less allowance for non-collection	0	0	(89)	
Non-Operational Debtors net of impairment		761		769
Debtors net of impairment on the Balance Sheet at 31 March		3,280		3,732

Note 19. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

	2012/13	2013/14
	£000	£000
Cash held by the Council	7	5
Bank current accounts	(364)	461
Short-term deposits	6,001	5,420
Cash and Cash Equivalents on the Balance Sheet at 31 March	5,644	5,886

Explanatory Notes to the Core Financial Statements

Note 20. CREDITORS

	2012/13 £000	2013/14 £000
Operational Creditors:		
Central Government Bodies	1,044	363
Other Local Authorities	596	537
Other Entities and Individuals	3,046	2,634
Short-term Employee Benefits (value of untaken leave)	161	142
Operational Creditors	<u>4,847</u>	<u>3,676</u>
Receipts in Advance and Non-Operational Creditors:		
Central Government Bodies	357	214
Other Local Authorities	114	211
Council Taxpayers	126	81
Non-Domestic Ratepayers	0	135
Housing Rents	139	202
Receipts in Advance and Non-Operational Creditors	<u>736</u>	<u>843</u>
Creditors on the Balance Sheet at 31 March	<u>5,583</u>	<u>4,519</u>

Note 21. PROVISIONS

	2012/13 £000	2013/14 £000
Balance at 1 April	0	41
Additional provisions made in the year	41	417
Amount used in the year	0	(41)
Provisions on the Balance Sheet at 31 March	<u>41</u>	<u>417</u>

The provision made in 2013/14 represents the Council's share of the allowance made for non-domestic rates appeals.

Explanatory Notes to the Core Financial Statements

Note 22. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

Note 23. UNUSABLE RESERVES

The Council's unusable reserves consist of:

Revaluation Reserve	2012/13	2013/14
Capital Adjustment Account	£000	£000
Financial Instruments Adjustment Account	10,437	14,303
Pension Reserve	125,443	134,303
Deferred Capital Receipts	24	20
Collection Fund Adjustment Account	(16,978)	(23,822)
Accumulated Absences Account	0	390
	95	(199)
	(161)	(142)
Unusable Reserves on the Balance Sheet at 31 March	118,860	124,853

A description of the nature and purpose of each unusable reserve, the movement in the reserve during the financial year, and the balance at the year end is detailed below as follows:

Revaluation Reserve

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

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.

Explanatory Notes to the Core Financial Statements

Revaluation Reserve

	2012/13 £000	2013/14 £000
Balance Sheet at 1 April	11,172	10,437
Upward revaluation of assets	0	4,244
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(3,026)	0
Depreciation written out from Property, Plant and Equipment and Heritage Assets Surplus/(deficit) on the revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	<u>2,862</u> (164)	<u>0</u> 4,244
Difference between fair value depreciation and historical cost depreciation Accumulated gains on assets sold or scrapped	(556) <u>(15)</u>	(358) <u>(20)</u>
Amount written off to the Capital Adjustment Account	(571)	(378)
Balance Sheet at 31 March	<u>10,437</u>	<u>14,303</u>

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 additions to those assets under statutory provisions.

The Account is debited with the cost of acquisition, construction or subsequent costs 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 Council as finance for the costs of acquisition, construction and subsequent costs.

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.

Explanatory Notes to the Core Financial Statements

Capital Adjustment Account

Balance Sheet at 1 April

2012/13	2013/14
£000	£000
128,367	125,443

Reversal of items relating to capital expenditure debited or credited to Comprehensive Income & Expenditure Statement:

• Charges for depreciation of non-current assets	(1,577)	(1,713)
• Charges for impairment/(reversals) of non-current assets	(901)	7,706
• Amortisation of Intangible Assets	(150)	(164)
• Transfer to offset Housing Revenue Account contribution to the Major Repairs Reserve	(3,709)	(4,387)
• Revenue expenditure funded from capital under statute (REFCUS)	(820)	(737)
• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(743)	(1,171)
• Amounts of non-current assets written off on derecognition of components to the Comprehensive Income and Expenditure Statement	(3,905)	(1,778)

Adjusting amounts written out of the Revaluation Reserve

(11,805)	(2,244)
571	378

Net written out amount of the cost of non-current assets consumed in the year

(11,234)	(1,866)
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Capital financing applied in the year:

• Use of the Capital Receipts Reserve to finance new capital expenditure	695	516
• Use of the Major Repairs Reserve to finance new capital expenditure	3,894	3,351
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	367	549
• Application of grants to capital financing from the Capital Grants Unapplied Account	550	1,971
• Statutory provision for the financing of capital investment charged against the General Fund Balance	154	175
• Voluntary provision for the financing of capital investment charged against the Housing Revenue Account (HRA) Balance	584	1,185
• Capital expenditure charged against the General Fund and HRA Balances	1,475	2,339

7,719	10,086
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Movements in the market value of Investment Properties (debited) or credited to the Comprehensive Income and Expenditure Statement

591	640
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Balance Sheet at 31 March

125,443	134,303
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Explanatory Notes to the Core Financial Statements

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) absorbs the timing differences arising from the different arrangements for accounting for income and expense relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the Account to manage premiums paid and discounts received on the early redemption of loans.

Premiums and discounts are taken to the Comprehensive Income and Expenditure Statement when they are incurred, but are reversed out of the General Fund and Housing Revenue Account Balances to this Account in the Movement in Reserves Statement. Over time, the income and/or expense is posted back to the General Fund and Housing Revenue Account Balances in accordance with statutory arrangements for spreading the burden on council tax. In the General Fund's case, this period is the unexpired term that was outstanding on the loans when they were redeemed, but for the Housing Revenue Account it is a maximum of 10 years or the unexpired term if that is less than 10 years.

Financial Instruments Adjustment Account

	2012/13	2013/14
Balance Sheet at 1 April	£000	£000
	(43)	24

Proportion of premiums and discounts incurred in previous financial years to be charged against the General Fund and Housing Revenue Account Balances in accordance with statutory requirements

	67	(4)
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Balance Sheet at 31 March

	24	20
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Explanatory Notes to the Core Financial Statements

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 Council 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 Council makes employer's contributions to the pension fund 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 Council 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.

	2012/13	2013/14
Balance Sheet at 1 April	£000	£000
Remeasurements of the net defined benefit liability	(13,929)	(16,978)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the	(2,378)	(5,800)
Provision of Services in the Comprehensive Income and Expenditure Statement	(2,603)	(3,040)
Employer's pension contributions payable in the year	1,932	1,996

Balance Sheet at 31 March

	(16,978)	(23,822)
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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 Council 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.

	2012/13	2013/14
Balance Sheet at 1 April	£000	£000
	0	0

Transfer of deferred sales proceeds credited as part of the gain on disposal to the Comprehensive Income and Expenditure Statement

Balance Sheet at 31 March

	0	390
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Explanatory Notes to the Core Financial Statements

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 non-domestic rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2012/13	2013/14
	£000	£000
Balance Sheet at 1 April	81	95

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

Balance Sheet at 31 March

	<u>95</u>	<u>(199)</u>
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Accumulated Absences Account

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

	2012/13	2013/14
	£000	£000
Balance Sheet at 1 April	(117)	(161)

Settlement or cancellation of accrual made at the end of the preceding financial year

	117	161
Amounts accrued at the end of the current financial year	<u>(161)</u>	<u>(142)</u>

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

	(44)	19
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Balance Sheet at 31 March

	<u>(161)</u>	<u>(142)</u>
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Explanatory Notes to the Core Financial Statements

Note 24. CASH FLOW STATEMENT – ADJUSTMENTS TO NET SURPLUS OR (DEFICIT) ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS

	restated 2012/13 £000	2013/14 £000
Depreciation	5,246	6,096
Impairment and (reversal) of impairment and valuation movements	955	(7,706)
Amortisation	155	168
Increase/(decrease) in impairment for bad debts	50	10
Increase/(decrease) in Creditors	1,906	(1,003)
(Increase)/decrease in Debtors	4,729	(842)
(Increase)/decrease in Inventories	6	34
Movement in pension liability	753	1,126
Carrying amount of non-current assets sold or derecognised	4,648	1,955
Other non-cash items	(142)	1,300
Adjustments for non-cash movements	18,306	1,138

Note 25. CASH FLOW STATEMENT – ADJUSTMENTS FOR ITEMS THAT ARE INVESTING AND FINANCING ACTIVITIES

	2012/13 £000	2013/14 £000
Proceeds from sales of property, plant & equipment, investment property and intangible assets	(1,096)	(1,925)
Capital grants	(2,212)	(590)
Reduction of outstanding liabilities relating to finance leases	89	96
Other items for which the cash effects are investing or financing cash flows	67	232
Adjustments for items that are investing and financing activities	(3,152)	(2,187)

Explanatory Notes to the Core Financial Statements

Note 26. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2012/13 £000	2013/14 £000
Purchase of property, plant and equipment, investment property and intangible assets	(7,510)	(9,767)
Purchase of short-term and long-term investments	(155,104)	(115,400)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,096	1,925
Proceeds from short-term and long-term investments	152,304	117,744
Other receipts from investing activities	4,645	289
Net cash out flows from investing activities	(4,569)	(5,209)

Note 27. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2012/13 £000	2013/14 £000
Other receipts from financing activities – increase/(decrease) in preceptors' share of council tax cash collected net of precepts and surpluses paid	184	374
Cash payments for the reduction of the outstanding liabilities relating to finance leases	(89)	(96)
Other payments for financing activities	(1,494)	354
Net cash out flows from financing activities	(1,399)	632

Explanatory Notes to the Core Financial Statements

Note 28. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the CIPFA *Service Reporting Code of Practice*. In 2013/14 the Council adopted this as the basis for internal reporting rather than using portfolios as had previously been the case.

However, internal reports are prepared on a different basis from the accounting policies used in the Financial Statements.

In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on the employer's pensions contributions due for the year rather than current service cost of benefits accrued in the year

The income and expenditure recorded in the budget reports for the year is analysed as follows:

	Central services £000	Cultural services £000	Environmental & Regulatory £000	Highways Transport £000	Housing services £000	Planning services £000	Corporate & Democratic £000	Other services £000	HRA £000	Total £000
Fees, charges & other income	(652)	(741)	(2,034)	(919)	(1,316)	(1,406)	(67)	(1,391)	(15,919)	(24,445)
Government grants	(140)	(15)	(318)	0	(35,231)	(60)	(45)	0	0	(35,809)
Total Income	(792)	(756)	(2,352)	(919)	(36,547)	(1,466)	(112)	(1,391)	(15,919)	(60,254)
Employees	610	631	3,988	55	1,241	1,596	1,525	69	1,730	11,445
Other service expenses	576	2,368	2,166	562	36,249	584	310	3,383	4,964	51,162
Support service recharges	613	240	551	24	583	681	937	49	1,070	4,748
Total Expenditure	1,799	3,239	6,705	641	38,073	2,861	2,772	3,501	7,764	67,355
Net Expenditure	1,007	2,483	4,353	(278)	1,526	1,395	2,660	2,110	(8,155)	7,101

Explanatory Notes to the Core Financial Statements

Portfolio Income and Expenditure Analysis for 2012/13

	Business Economic Development and Tourism £000	Community Engagement, Health and Environment £000	Finance and Cost Control £000	Housing £000	Leader of the Council £000	Planning £000	District Services £000	Housing Revenue Account £000	Total 2012/13 £000
Fees, charges & other service income	(2,590)	(313)	(1,333)	(639)	(173)	(1,188)	(2,040)	(15,329)	(23,605)
Government grants	0	(51)	(43,328)	(113)	0	0	(53)	0	(43,545)
Total Income	(2,590)	(364)	(44,661)	(752)	(173)	(1,188)	(2,093)	(15,329)	(67,150)
Employees	673	1,370	1,253	596	197	1,376	2,707	1,462	9,634
Other service expenses	1,707	689	43,391	750	1,012	235	2,608	4,653	55,045
Support service recharges	256	338	2,200	259	205	490	204	1,039	4,991
Total Expenditure	2,636	2,397	46,844	1,605	1,414	2,101	5,519	7,154	69,670
Net Expenditure	46	2,033	2,183	853	1,241	913	3,426	(8,175)	2,520

Reconciliation of Income and Expenditure Analysis to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of income and expenditure relate to the amounts included in Cost of Services in the Comprehensive Income and Expenditure Statement

	2012/13 £000	2013/14 £000
Net expenditure in the analysis	2,520	7,101
Net expenditure of services not included in the analysis	131	0
Amounts in the Comprehensive Income and Expenditure Statement not reported to Cabinet in the analysis	6,919	(582)
Amounts included in the analysis not included in the Comprehensive Income and Expenditure Statement	843	(1,988)

Cost of Services on the Comprehensive Income and Expenditure Statement

	10,413	4,531
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Explanatory Notes to the Core Financial Statements

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement (CIES)

2013/14	Income and Expenditure Analysis £000	Services and Support in Analysis £000	Amounts not reported for decision making £000	Amounts not included in CIES £000	Cost of Services in CIES £000	Corporate Amounts £000	Total £000
Fees, charges and other income	(24,445)	0	0	1,995	(22,450)	(1,190)	(23,640)
Interest and investment income	0	0	0	0	0	(738)	(738)
Income from Council Tax	0	0	0	0	0	(9,262)	(9,262)
Income from Non-Domestic Rates	0	0	0	0	0	(9,447)	(9,447)
Government grants and contributions	(35,809)	0	(12)	0	(35,821)	(5,492)	(41,313)
Gain or Loss on Disposal of Property, Plant and Equipment	0	0	0	0	0	(1,144)	(1,144)
Total Income	(60,254)	0	(12)	1,995	(58,271)	(27,273)	(85,544)
Employee expenses	11,445	0	190	(45)	11,590	815	12,405
Other service expenses	51,162	0	(22)	(3,905)	47,235	606	47,841
Support Service recharges	4,748	0	0	(40)	4,708	40	4,748
Depreciation, amortisation and impairment/(reversals)	0	0	(738)	7	(731)	28	(703)
Derecognition of components	0	0	0	0	0	1,778	1,778
Interest payments	0	0	0	0	0	1,766	1,766
Precepts and Levies	0	0	0	0	0	9,829	9,829
Payments to Housing Capital Receipts Pool	0	0	0	0	0	345	345
Total Expenditure	67,355	0	(570)	(3,983)	62,802	15,207	78,009
(Surplus) or deficit on the provision of services	7,101	0	(582)	(1,988)	4,531	(12,066)	(7,535)

Explanatory Notes to the Core Financial Statements

2012/13 comparative figures:

	Income and Expenditure Analysis	Services and Support in Analysis	Amounts not reported to Cabinet for decision making	Amounts not included in CIES	Cost of Services in CIES	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other income	(23,605)	0	(19)	1,874	(21,750)	(1,085)	(22,835)
Interest and investment income	0	0	0	0	0	(822)	(822)
Income from Council Tax	0	0	0	0	0	(10,372)	(10,372)
Government grants and contributions	(43,545)	0	(250)	0	(43,795)	(6,866)	(50,681)
Gain on Disposal of Property, Plant and Equipment	0	0	0	0	0	(353)	(353)
Total Income	(67,150)	0	(269)	1,874	(65,545)	(19,518)	(85,063)
Employee expenses	9,634	56	95	(342)	9,443	(13)	9,430
Other service expenses	55,045	124	(61)	(689)	54,419	344	54,763
Support Service recharges	4,991	0	0	0	4,991	0	4,991
Depreciation, amortisation and impairment /(reversals)	0	(49)	7,154	0	7,105	(10)	7,095
Derecognition of components	0	0	0	0	0	3,905	3,905
Interest payments	0	0	0	0	0	1,762	1,762
Precepts and Levies	0	0	0	0	0	2,855	2,855
Payments to Housing Capital Receipts Pool	0	0	0	0	0	284	284
Total Expenditure	69,670	131	7,188	(1,031)	75,958	9,127	85,085
	2,520	131	6,919	843	10,413	(10,391)	22

Explanatory Notes to the Core Financial Statements

Note 29. TRADING OPERATIONS

The Council operates six Industrial Estates with 97 individual plots in Lewes, Newhaven and Seaford. In addition, the Newhaven Business Centre has 46 units for start-up and small businesses.

The financial performance of these two operations is:

	2012/13		2013/14	
	Turnover £000	Expenditure £000	Turnover £000	Expenditure £000
Industrial Estates	(740)	35	(676)	94
Newhaven Business Centre	(345)	270	(365)	267
	(1,085)	305	(1,041)	361
		(780)		(680)

Note 30. AGENCY SERVICES

The Council entered into an agency agreement under Section 101 of the Local Government Act 1972 on 1 April 2011 with the newly formed South Downs National Park (SDNP), to provide Development Management Services (i.e. the provision of planning services) for a period of 3 years. In 2013/14 costs of £481,000 were recharged to SDNP (£511,000 in 2012/13). In addition to the agency agreement the Council and SDNP agreed to work in partnership on planning policy in order to complete the Local Development Framework (LDF) Core Strategy for Lewes District which includes areas for which the SDNP is now the planning authority. Under this separate partnership arrangement, costs of £69,000 were recharged to SDNP in 2013/14 (£74,000 in 2012/13).

The Council has a contract with The Landscape Group to provide grounds maintenance services in parks, open spaces and recreation grounds throughout the District. Included within this contract are parks, open spaces and recreation grounds belonging to a number of town and parish councils where letting and managing individual small contracts directly would not be cost effective.

The Council is therefore providing an agency service to the individual town and parish councils which are recharged for the costs relating to their particular shares of the overall contract. In 2013/14 costs of £220,000 were recharged (£272,000 in 2012/13).

In 2013/14 the Council spent £130,000 on facilitating the East Sussex County Council election and £21,000 on Town and Parish Council elections, all of which was reimbursed in full.

In 2012/13 the Council spent £126,000 on facilitating the Police and Crime Commissioner for Sussex election and £5,000 on Town and Parish Council elections, all of which was fully reimbursed.

Expenditure and income relating to agency services is excluded from the Comprehensive Income and Expenditure Statement.

Explanatory Notes to the Core Financial Statements

Note 31. MEMBERS' ALLOWANCES

The Council paid £190,000 in allowances to Members of the Council (District Councillors) during 2013/14 and £6,000 in expenses. The comparative figures for 2012/13 were £192,000 and £7,000.

Note 32. OFFICERS' REMUNERATION

The remuneration of senior employees earning over £50,000 who formed the Council's Corporate Management Team is as follows:

Post	Financial Year	Salary	Mileage allowance and other expenses	Benefits in kind	Compensation for Loss of Office	Total excluding pension contribution	Pension contribution	Total including pension contribution
		£000	£000	£000	£000	£000	£000	£000
Chief Executive	2013/14	103	1	4	0	108	22	130
	2012/13	103	1	4	0	108	22	130
Director of Planning & Environmental Services (retired 5 January 2014)	2013/14	66	0	3	0	69	14	83
	2012/13	86	0	4	0	90	18	108
Director of Finance (part-time from 1 April 2013)	2013/14	53	3	0	0	56	11	67
	2012/13	86	3	0	0	89	18	107
Corporate Head – Legal & Democratic Services	2013/14	73	0	4	0	77	16	93
	2012/13	73	0	4	0	77	15	92
Corporate Head - Housing	2013/14	73	0	4	0	77	16	93
	2012/13	71	0	4	0	75	15	90
Corporate Head - Communities & Enterprise (redundant from 31 December 2013)	2013/14	51	0	1	40	92	11	103
	2012/13	62	0	3	0	65	13	78

Explanatory Notes to the Core Financial Statements

The number of other employees receiving more than £50,000 remuneration for the year (excluding pension contributions) is:

Remuneration band	2012/13		2013/14	
	Number of employees		Number of employees	
£50,000 - £54,999	4		2	
£55,000 - £59,999	1		2	
£60,000 - £64,999	1		1	

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:

	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages		Total cost of exit packages	
	2012/13 no.	2013/14 no.	2012/13 no.	2013/14 no.	2012/13 no.	2013/14 no.	2012/13 £000	2013/14 £000
£0 - £ 0,000	0	0	5	21	5	19	28	214
£20,001 - £40,000	1	0	0	3	1	4	33	121
£40,001 - £60,000	0	0	0	2	0	1	0	44
£60,001 - £80,000	0	2	0	0	0	2	0	133
Total	1	2	5	26	6	26	61	512

Note 33. EXTERNAL AUDIT COSTS

The Council incurred the following costs in relation to the audit of the Financial Statements and the certification of grant claims undertaken by the Council's external auditor, BDO:

	2012/13 £000	2013/14 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	64	55
Fees payable for the certification of grant claims and returns for the year	28	13
	<u>92</u>	<u>68</u>

Explanatory Notes to the Core Financial Statements

Note 34. GRANT INCOME

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement:

	2012/13	2013/14
Non-ringfenced Government Grants:	£000	£000
- Revenue Support Grant	75	2,945
- Council Tax Freeze Grant	371	75
- New Homes Bonus Grant	478	878
- Housing Benefit Administration subsidy	0	593
- Non-Domestic Rates	3,692	0
- Other minor grants of less than £100,000 each	0	100
	<u>4,616</u>	<u>4,591</u>
Capital Grants and Contributions:		
- grants and contributions towards capital expenditure	2,270	901
	<u>6,886</u>	<u>5,492</u>
Total credited to Taxation and Non-specific Grant Income		
Government Grants credited to Services:		
- Housing Benefit subsidy	42,409	34,902
- Food Waste Collection	131	311
- Discretionary Housing Payment subsidy	106	176
- Housing Benefit Fraud grant	111	92
- Local Services Support Grant	113	0
- Housing and Council Tax Benefit Administration subsidy	630	0
- Other minor grants of less than £100,000 each	295	340
	<u>43,795</u>	<u>35,821</u>
Total credited to the Comprehensive Income and Expenditure Statement	<u>50,681</u>	<u>41,313</u>

Explanatory Notes to the Core Financial Statements

The Council has received three Government grants together with a number of contributions under Section 106 planning agreements that have yet to be recognised as income. This is because the grants and contributions have conditions attached to them that will require the monies to be returned to the giver if the Council does not satisfy those conditions. It is the Council's intention to satisfy the conditions so that no monies are returned.

The balances held as **Capital Grants Receipts in Advance** at 31 March were as follows:

	2013	2014
	£000	£000
Held as Short Term Liabilities		
Section 106 agreements where each financial contribution is less than £100,000	125	121

Held as Long Term Liabilities

Section 106 agreement - to provide sports and recreation facilities in Peacehaven	843	847
Section 106 agreement - to acquire land for the provision of open/outdoor play space in Peacehaven	524	404
Section 106 agreement - to provide a sports pitch and pavilion within open space land in Peacehaven	503	505
Section 106 agreement - to provide or improve outdoor playing space facilities in the area of Wivelsfield	290	291
Other Section 106 agreements where each financial contribution is less than £100,000	304	352
Government grant (DEFRA) - contaminated land	164	8
Government grant (DEFRA) - air quality	205	0
Government grant (DEFRA) - coast protection	4	21
	2,837	2,428

Total value of balances held as Capital Grants Receipts in Advance at 31 March

2,962	2,549
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Long Term Creditors

Section 106 agreements between developers and the Council which include amounts given for education, highways and other services for which East Sussex County Council (ESSC) is the responsible local authority, are held by the Council until ESSC has developed plans that will satisfy the conditions set out in the agreement. At that point ESSC will request release of the funds from the Council.

Until that occurs the Council holds the monies as long term creditors because it cannot determine when ESSC will develop its plans and request the release of funds. The amount held at 31 March 2014 is £1.193 million (£1.132 million at 31 March 2013).

Other than Section 106 agreement monies held on behalf of ESSC the Council has no other long term creditors.

Explanatory Notes to the Core Financial Statements

Note 35. RELATED PARTIES

The Council 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 Council.

Central Government

Central government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 28 on reporting for resources allocation decisions and in Note 34 Grant Income.

Members

Members of the Council (District Councillors) have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2013/14 is shown in Note 31. Councillors are obliged by the Council's Constitution to record in a Register of Interests of Members any personal interest, financial and/or otherwise, in any business of the Council. The Register of Interests of Members, which is maintained by the Monitoring Officer, is open to public inspection at Southover House, Southover Road, Lewes during office hours.

The Council pays grants and awards discretionary rate relief to a number of organisations, e.g. Lewes and Seaford Citizen's Advice Bureau, in which Councillors have an interest. The relevant Councillors did not take part in any discussion or decision relating to the award of financial support which was made with proper declarations of interest.

Officers

Officers are obliged under the code of conduct in the Council's Constitution to declare any personal interest, financial and/or otherwise, in any business of the Council. They are also required to record any gifts and/or hospitality received in a format prescribed and held by the Monitoring Officer.

Wave Leisure Trust (trading as Wave Leisure Ltd)

The Council has a close relationship with Wave Leisure Ltd, a charitable company established originally to operate the Council's indoor leisure facilities from 1 April 2006. A Funding and Management Agreement between the two organisations sets out the terms of this relationship. In 2013/14 the Council paid Wave Leisure Ltd a service fee of £653,000 (2012/13 £681,000).

Explanatory Notes to the Core Financial Statements

Note 36. 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), 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 Council, the expenditure results in an increase in the Capital Financing Requirement, which is the measure of the capital expenditure incurred historically by the Council that has yet to be financed.

	2012/13	2013/14
	£000	£000
Opening Capital Financing Requirement	70,421	71,032
Capital Investment		
- property, plant and equipment	7,417	9,525
- heritage assets	8	0
- investment properties	4	0
- intangible assets	81	242
- revenue expenditure funded from capital under statute (REFCUS)	820	737
Sources of Finance		
- capital receipts	(695)	(516)
- government grants and other contributions	(4,811)	(5,872)
- sums set aside from revenue	(738)	(1,360)
- direct revenue contributions	(1,475)	(2,339)
Closing Capital Financing Requirement	<u>71,032</u>	<u>71,449</u>
Increase in Capital Financing Requirement	611	417
Explanation of movements in year:		
- increase in underlying need to borrow	700	513
- decrease in finance lease liability	(89)	(96)
Increase in Capital Financing Requirement	<u>611</u>	<u>417</u>

Explanatory Notes to the Core Financial Statements

Note 37. LEASES

Council as Lessee

Finance Leases

The Council has acquired vehicles, plant and equipment and printers and photocopiers under finance leases.

The assets acquired under these leases are carried as Property, Plant and Equipment on the Balance Sheet at the following net values:

	31 March 2013	31 March 2014
Vehicles, plant and equipment	£000	£000
Printers and photocopiers	57	15
	48	0
Total held as Vehicles, Plant, Furniture and Equipment	105	15

The Council 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 Council and finance costs that will be payable by the Council in future years while the liability remains outstanding.

The minimum lease payments are made up of the following amounts

- finance lease liabilities (net present value of minimum lease payments)
- finance costs payable in future years

Minimum lease payments

	31 March 2013	31 March 2014
	£000	£000
	112	16
	1	0
	113	16

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

	Minimum lease payments		Finance lease liabilities	
	31 March 2013	31 March 2014	31 March 2013	31 March 2014
	£000	£000	£000	£000
Not later than one year	97	16	96	16
Later than one year and not later than five years	16	0	16	0
Total	113	16	112	16

Explanatory Notes to the Core Financial Statements

Operating leases

The Council has acquired the use of contract cars, private properties and land and buildings by entering into operating leases.

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

	31 March 2013	31 March 2014
Not later than one year	£000	£000
Later than one year and not later than five years	337	329
Later than five years	350	311
Total	720	662

Minimum lease payments recognised as an expense in 2013/14 amounted to £390,000 (£317,000 in 2012/13).

Council as Lessor

Finance Leases

The Council has not leased any items of Property, Plant and Equipment under a finance lease.

Operating leases

The Council lets under operating leases some of the land and buildings held as Property, Plant and Equipment for purposes such as economic development, housing, leisure and recreation. It also lets under operating leases some of the land and buildings held as Investment Property assets solely to earn income from rentals.

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

	31 March 2013	31 March 2014
Not later than one year	£000	£000
Later than one year and not later than five years	863	852
Later than five years	3,155	2,889
Total	33,161	31,632
	37,179	35,373

The minimum lease payments receivable do not include contingent rents. In 2013/14 the Council recognised a contingent rent of £42,000 as income in respect of its interest in Newhaven Town Centre Property Management (£38,000 in 2012/13).

Explanatory Notes to the Core Financial Statements

Note 38. IMPAIRMENT LOSSES

On 30 January 2014 the Council sold its claim against the Icelandic bank Landsbanki hf to Deutsche Bank. The sale receipt of £406,000 exceeded the carrying amount at that date of £399,000. The gain of £7,000 represents a reversal of impairment losses recognised in previous years and has been included in the Financing and Investment Income and Expenditure line on the Comprehensive Income and Expenditure Statement.

Note 39. POST EMPLOYMENT BENEFITS

Participation in Pension Schemes

As part of the terms and conditions of employment of its staff, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the time the employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme, administered by East Sussex County Council. It is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investments and assets.

Transactions Relating to Post-employment Benefits

The Council recognises the cost of retirement benefits 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 by statutory regulation to be made against council tax is based on the cash payable in the year, so the real cost of post employment benefits is reversed out of the Comprehensive Income and Expenditure Statement through the Movement in Reserves Statement.

Explanatory Notes to the Core Financial Statements

The following transactions have been made in the Comprehensive Income and Expenditure Statement, the General Fund Balance and the Housing Revenue Account Balance through the Movement in Reserves Statement during the year:

	restated 2012/13 £000	2013/14 £000
Service Cost		
- current service cost	(1,754)	(2,181)
- past service cost (including curtailments)	(182)	(89)
Total Service Cost	(1,936)	(2,270)
Financing and Investment Income and Expenditure		
- interest income on plan assets	3,078	3,267
- interest cost on defined benefit obligation	(3,745)	(4,037)
Total Net Interest	(667)	(770)
Total Post Employment Benefits charged to Surplus or deficit on the provision of services	(2,603)	(3,040)
Remeasurement of the net defined benefit liability comprising:		
- return on plan assets (excluding the amount included in the net interest expense)	6,312	436
- actuarial losses arising on changes in demographic assumptions	0	(1,894)
- actuarial losses arising on changes in financial assumptions	(8,869)	(2,765)
- other	179	(1,577)
Total remeasurements recognised in Other comprehensive income and expenditure	(2,378)	(5,800)
Total Post Employment Benefits charged to Comprehensive Income and Expenditure Statement	(4,868)	(8,840)
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	(2,603)	(3,040)
Actual amount charged against General Fund and HRA Balances for pensions in the year		
- employer's contributions payable to pension scheme	1,850	1,914
- discretionary benefits arrangements (unfunded pensions)	82	82
	1,932	1,996

Explanatory Notes to the Core Financial Statements

Pensions Assets and Liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its deferred benefit plan is as follows:

	2012/13	2013/14
Fair value of employer assets	£000	£000
Present value of funded liabilities	73,167	75,833
Present value of unfunded liabilities	(89,067)	(98,583)
	(1,078)	(1,072)
Net liability arising from defined benefit obligation	(16,978)	(23,822)

Reconciliation of the movements in the fair value of scheme assets

Opening fair value of scheme assets	64,489	73,167
Interest income	3,078	3,267
Remeasurement gain - return on plan assets (excluding the amount included in the net interest expense)	6,312	436
Contributions from employer	1,932	1,996
Contributions from employees into the scheme	566	583
Benefits paid	(3,128)	(3,534)
Unfunded benefits paid	(82)	(82)
Closing fair value of scheme assets	73,167	75,833

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

Opening fair value of scheme liabilities	78,418	90,145
Current service cost	1,754	2,181
Interest cost	3,745	4,037
Contributions from scheme members	566	583
Remeasurement losses:		
- actuarial loss arising from changes in demographic assumptions	0	1,894
- actuarial losses arising on changes in financial assumptions	8,869	2,765
- other	(179)	1,577
Past service cost	182	89
Benefits paid	(3,128)	(3,534)
Unfunded benefits paid	(82)	(82)
Closing fair value of scheme liabilities	90,145	99,655

Explanatory Notes to the Core Financial Statements

Pension Scheme Assets comprised:

Asset Category	Period ended 31 March 2013				Period ended 31 March 2014			
	Quoted prices in active markets £000	Quoted prices not in active markets £000	Total £000	Percentage of Total Assets	Quoted prices in active markets £000	Quoted prices not in active markets £000	Total £000	Percentage of Total Assets
Equity Securities								
Consumer	2,432	0	2,432	3%	3,694	0	3,694	5%
Manufacturing	987	0	987	1%	1,878	0	1,878	2%
Energy and Utilities	1,599	0	1,599	2%	1,976	0	1,976	3%
Financial Institutions	3,681	6	3,687	5%	4,161	0	4,161	5%
Health and Care	1,720	0	1,720	2%	2,243	0	2,243	3%
Information Technology	1,623	0	1,623	2%	2,046	0	2,046	3%
Other	1,326	0	1,326	2%	1,080	124	1,204	2%
Debt Securities								
UK Government	0	1,099	1,099	2%	0	1,066	1,066	1%
Other	0	918	918	1%	0	1,007	1,007	1%
Private Equity								
All	0	6,256	6,256	9%	0	5,965	5,965	8%
Real Estate								
UK Property	724	5,273	5,997	8%	419	6,414	6,833	9%
Investment Funds and Unit Trusts								
Equities	146	38,276	38,422	53%	90	36,035	36,125	48%
Bonds	1,461	3,440	4,901	7%	2,882	2,040	4,922	7%
Hedge Funds		41	41	0%	149	0	149	0%
Commodities	375	0	375	1%	223	0	223	0%
Derivatives								
Foreign Exchange	0	(34)	(34)	0%	0	44	44	0%
Cash and Cash Equivalents								
All	0	1,818	1,818	2%	0	2,297	2,297	3%
Totals	16,074	57,093	73,167	100%	20,841	54,992	75,833	100%

Explanatory Notes to the Core Financial Statements

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 discretionary benefits liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, with estimates for the East Sussex County Council pension fund being based on the latest full valuation of the scheme at 31 March 2014.

The significant assumptions used by the actuary have been:

Mortality assumptions:		2012/13	2013/14
- longevity at 65 for current pensioners - men		21.3yrs	22.2yrs
- longevity at 65 for current pensioners - women		23.4yrs	24.4yrs
- longevity at 65 for future pensioners - men		23.3yrs	24.2yrs
- longevity at 65 for future pensioners - women		25.7yrs	26.7yrs
Rate of inflation		2.8%	2.8%
Rate of increase in salaries		5.1%	4.6%
Rate of increase in pensions		2.8%	2.8%
Rate for discounting scheme liabilities		4.5%	4.3%

Sensitivity Analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above.

The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme. i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Change in assumptions at 31 March 2014	Approximate percentage increase to	Approximate monetary amount
	Employer Liability	£000
0.5% decrease in real discount rate	9%	9,220
1 year increase in member life expectancy	3%	2,990
0.5% increase in the salary increase rate	3%	2,515
0.5% increase in the pension increase rate	7%	6,586

Explanatory Notes to the Core Financial Statements

Impact on the Council's cash flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. East Sussex County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 87% over the next 3 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish a new career average revalued earnings scheme to pay pensions and other benefits

The Council anticipates paying contributions of £1,976,000 to the scheme in 2014/15.

The weighted average duration of the defined benefit obligation for scheme members is 17 years.

Note 40. CONTINGENT LIABILITIES

At 31 March 2014 the Council had four material contingent liabilities:

- The Council's former insurer, Municipal Mutual Insurance Limited, ceased to provide new cover from 1994. A scheme of arrangement with its creditors was set up with the aim of funding any outstanding claims. The Board of Directors of MMI decided to trigger the Scheme of Arrangement in 2012/13 and issued the Council with a levy notice for claw back of 15% amounting to £41,000 which was paid during 2013/14. The estimated maximum potential claw back at 31 March 2014 is £230,000 which remains a contingent liability until such time as MMI issues any further formal levy notices for claw back.
- The Council has given a legal undertaking guaranteeing that it will make good any deficit owing to the East Sussex Pension Scheme by Wave Leisure Ltd, the charitable company established to operate the Council's indoor leisure facilities from 1 April 2006. The terms of this undertaking are set out in the pension agreement between the two organisations. At 31 March 2014 the pension liability of Wave Leisure Ltd was £1,343,000 (£569,000 as at 31 March 2013).
- The Council has been subject to claims submitted by a group of Property Search Companies for refunds of fees paid to the Council to access land charges data. This group of Property Search Companies have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of

Explanatory Notes to the Core Financial Statements

any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimidated at present.

- The Council has agreed a Voluntary Severance and Early Retirement Scheme as part of its comprehensive change programme and to assist with the need to make recurring budget savings. The scheme is employee led, subject to the agreement of the Council, and allows for payments to be made to enable a mutually agreed exit on the grounds of efficiency. The Council expects further exits to be mutually agreed in 2014/15 and beyond but cannot be certain about the number, cost and timing of each future exit.

Note 41. CONTINGENT ASSETS

At 31 March 2014 the Council had two material contingent assets:

- The Council has made a claim against HM Revenue and Customs (HMRC) that the payment of interest on overpaid VAT regarding charges for leisure services is made on a compound basis. HMRC has settled claims made by the Council for the repayment of overpaid VAT output tax and has paid interest on those claims without compounding the amount due. The Council has instigated legal proceedings against HMRC for the payment of interest on a compound basis.
- The Council has made a claim against HMRC for the repayment of VAT output tax regarding charges for the collection of trade waste. HMRC announced that with effect from 9 February 2011 local authorities trade waste services are now VAT exempt where previously they were charged at the standard rate. The Council's claim is for the repayment, with interest, of VAT paid to HMRC over the four years prior to 9 February 2011. HMRC is considering the Council's claim.

Note 42. CHARITY ACCOUNTS

The Comprehensive Income and Expenditure Statement includes the following grants payable to two charities for which the Council's Members are trustees:

	2012/13	2013/14
Stanley Turner Recreation Ground	£000	£000
Mounfield Pleasure Ground Trust	63	97
	27	60

Housing Revenue Account and explanatory notes

restated 2012/13 £000	HRA INCOME AND EXPENDITURE STATEMENT	2013/14 £000
	Income	
13,484	Dwelling rents	14,061
449	Non-dwelling rents	446
1,054	Charges for services and facilities	948
342	Contributions towards expenditure	432
15,329		15,887
	Expenditure	
3,418	Repairs and maintenance	3,736
2,740	Supervision and management (including special services)	2,846
207	Rents, rates, taxes and other charges	264
3,709	Depreciation of non-current assets (Note 3)	4,387
459	Impairment/(reversals) of non-current assets (Note 4)	(7,706)
34	Debt management costs	30
57	Movement in the allowance for impairment of debtors	41
10,624		3,598
(4,705)	Net (income) of HRA services in the Comprehensive Income & Expenditure Statement	(12,289)
698	HRA share of Corporate and Democratic Core	815
65	HRA share of Pension Curtailments	30
(3,942)	Net (income) of HRA Services	(11,444)
	HRA share of operating income and expenditure in the Comprehensive Income and Expenditure Statement:	
(414)	(Gain) or loss on sale of HRA non-current assets	(1,251)
3,905	Loss on derecognition of components of HRA non-current assets	1,778
0	Capital Grants and Contributions	(214)
1,880	Interest payable and similar charges	1,855
(31)	Interest and investment income	(26)
111	Net interest on the net defined benefit pension liability	139
1,509	(Surplus) or deficit for the year on HRA services	2,281
		(9,163)

Housing Revenue Account and explanatory notes

The Movement on the HRA Statement takes the surplus or deficit for the year on the HRA Income and Expenditure Statement and reconciles it to the surplus or deficit for the year on the HRA Balance, calculated in accordance with the requirements of the Local Government and Housing Act 1989.

MOVEMENT ON THE HRA STATEMENT		2012/13	2013/14
		£000	£000
restated			
		2012/13	2013/14
		£000	£000
		(2,738)	(3,467)
	Balance on the HRA at 1 April		
			(9,163)
1,509	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement		
Adjustments between accounting basis and funding basis under statute:			
3,709	- transfer to the Major Repairs Reserve (MRR) equal to the depreciation amount charged to HRA	4,387	
(3,709)	- transfer (from) the Capital Adjustment Account to offset the above transfer to the MRR	(4,387)	
(459)	- reversal of impairment losses and impairment reversals charged/(credited) to the HRA	7,706	
(3,905)	- reversal of loss on derecognition of components of HRA non-current assets	(1,778)	
414	- reversal of gain on sale of HRA non-current assets	1,251	
0	- reversal of capital grants and contributions	214	
68	- amortisation of premiums and discounts	(3)	
(467)	- reversal of items relating to retirement benefits charged to the HRA Income and Expenditure Statement	(562)	
338	- employer's pensions contributions payable in the year	372	
1,189	- capital expenditure funded by the HRA	1,517	
584	- voluntary provision for the financing of capital investment	1,185	
(2,238)			9,902
(729)	Net (increase) or decrease in year on the HRA		739
(3,467)	Balance on the HRA at 31 March		2,728

Housing Revenue Account and explanatory notes

Note 1. STOCK OF SOCIAL HOUSING

The number and types of dwellings in the Council's housing stock at 31 March is as follows:

	2013	2014
Houses and Bungalows		
1 bedroom	212	211
2 bedroom	641	633
3 bedroom	899	895
4 bedroom	64	63
5 bedroom	3	3
6 bedroom	1	1
	<u>1,820</u>	<u>1,806</u>
Flats		
bedsits	132	132
1 bedroom	705	703
2 bedroom	535	534
3 bedroom	47	48
4 bedroom	4	4
	<u>1,423</u>	<u>1,421</u>

Total stock of social housing at 31 March

3,243 3,227

In addition the Council had at 31 March 2014 shared ownership arrangements covering 8 properties and 1 property (partly) sold under the Right to Buy scheme.

Housing Revenue Account and explanatory notes

Note 2. VALUE OF HRA NON-CURRENT ASSETS

The value of HRA non-current assets shown in the table below is included within the Balance Sheet.

The change in the valuations of council dwellings arose following a desk top revaluation of council dwellings and garages which was undertaken by the Council's appointed valuer, DVS, at 31 March 2014.

	2013 £000	2014 £000
Council Dwellings		
- houses, bungalows and flats	152,930	162,221
Other Land and Buildings		
- garages	6,200	7,144
- other land and buildings	1,894	504
Vehicles, Plant, Furniture and Equipment	637	1,479
Infrastructure Assets	871	769
Community Assets	34	34
Total Property, Plant and Equipment	162,566	172,151
Heritage Assets	0	0
Investment Property	0	0
Intangible Assets	19	15

The vacant possession value of council dwellings within the HRA at 31 March 2014 was £506.8 million as valued by DVS, compared with a value of £162.2 million for its existing use as social housing. The difference of £344.6 million represents the economic cost of providing housing at less than open market rents. Use as social housing is valued at 32% of open market value as at 1 April 2010, the date of the last full valuation, which equates to a 68% reduction.

Housing Revenue Account and explanatory notes

Note 3. DEPRECIATION

Depreciation on council dwellings is based on the building value of an average dwelling as assessed by the Council's external valuer (DVS), which is then analysed into its significant components by council officers in line with the Council's housing investment strategy. The useful lives and replacement costs of each significant component within the average building value - e.g. roof, windows, bathroom, kitchen, walls and structure, etc - is calculated by officers to arrive at an annual sum which is multiplied by the number of dwellings to arrive at the depreciation charge.

The amounts of depreciation charged to the HRA Income and Expenditure Statement are as follows:

	2012/13	2013/14
Depreciation on council dwellings	£000	£000
Depreciation on other land and buildings	3,241	3,884
Depreciation on vehicles, plant, furniture and equipment	313	238
Depreciation on infrastructure assets	48	159
Amortisation of intangible assets	102	102
	5	4
Total Depreciation charged to the HRA	3,709	4,387

Note 4. IMPAIRMENT

Impairment charges made to the HRA Income and Expenditure Statement are as follows:

	2012/13	2013/14
Impairment resulting from revaluation losses in excess of balances held in the Revaluation Reserve	£000	£000
Reversal of prior year impairment against revaluation gains recognised in the year	541	0
Total Impairment/(reversals) charged/(credited) to the HRA	(82)	(7,706)
	<u>459</u>	<u>(7,706)</u>

Housing Revenue Account and explanatory notes

Note 5. FUNDING OF CAPITAL EXPENDITURE

The totals of HRA capital expenditure and capital financing during the year is summarised as follows:

Capital expenditure	
- on council dwellings	
- on other land and buildings	
- on vehicles, plant, furniture and equipment	
- on intangible assets (computer software)	

	2013	2014
	£000	£000
	5,934	4,990
	170	247
	198	199
	24	0
	<u>6,326</u>	<u>5,436</u>

Sources of capital financing

- from the Major Repairs Reserve	
- from revenue contributions	
- from grants and contributions	
- from the capital receipts reserve	

Total Capital Financing

	3,894	3,351
	1,189	1,362
	0	214
	286	140
	<u>5,369</u>	<u>5,067</u>

Unfinanced – supported by Lewes District Council pending future sale of council assets

	957	369
	<u>6,326</u>	<u>5,436</u>

Note 6. MAJOR REPAIRS RESERVE

This reserve holds the transfer from the HRA equal to the amount of depreciation charged which is then used to finance HRA capital expenditure. The movements on the reserve show that a balance has been retained for future use.

	2013	2014
	£000	£000
Balance at 1 April	(573)	(388)

Amounts transferred from the HRA

- equal to the depreciation amount charged to the HRA Income and Expenditure Statement

	(3,709)	(4,387)
	3,894	3,351

	<u>(388)</u>	<u>(1,424)</u>
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Balance at 31 March

	<u>(388)</u>	<u>(1,424)</u>
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Housing Revenue Account and explanatory notes

Note 7. CAPITAL RECEIPTS

The total of capital receipts generated from disposals of HRA land, houses, flats and other property during the year is as follows:

Sale of Council dwellings (under the right to buy)	2013 £000	2014 £000
	1,012	1,898

Note 8. PENSIONS RESERVE

In accordance with International Accounting Standard 19 and the requirements of the Code of Practice, the cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make to the Housing Revenue Account is based upon the cash payable into the pension fund for the year in accordance with the statutory requirements governing the Local Government Pension Scheme. The Movement on the Housing Revenue Account Balance reconciles these two different amounts under the heading of adjustments between accounting basis and funding basis under statute.

Note 9. RENT ARREARS

The following table provides information and an analysis on the values of rent arrears at 31 March and the provision made in respect of uncollectable debts at the same date.

Current tenants	2013 £000	2014 £000
- dwellings	232	250
- garages	1	3
Former tenants	233	253
- dwellings	100	111
- garages	3	3
Total rent arrears at 31 March	103	114
Allowance for impairment of debts	336	367
	243	261

Collection Fund Statement and explanatory notes

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority (Lewes District Council) in relation to the collection from taxpayers of Council Tax and its distribution to local precepting authorities and the collection from business ratepayers of Non-Domestic Rates and its distribution to Central Government and local authorities.

2012/13		2013/14
£000		£000
	Income	
	Council tax	
56,008	- Income receivable from tax payers	57,205
0	- Transfer from the General Fund for transitional relief (flood relief)	2
8,093	- Transfer from the General Fund for council tax benefits	0
64,101		57,207
	Non-domestic rates (Business rates)	
23,056	- Income receivable from rate payers	23,873
0	- Transitional protection payments receivable from Central Government	22
23,056		23,895
87,157	Total Income	81,102
	Expenditure	
	Council Tax Precepts	
44,793	- East Sussex County Council	39,887
3,166	- East Sussex Fire Authority	2,819
10,298	- Lewes District Council	9,182
5,353	- Sussex Police and Crime Commissioner	4,767
63,610		56,655
	Contribution towards previous year's estimated Council Tax surplus	
264	- East Sussex County Council	282
19	- East Sussex Fire Authority	20
60	- Lewes District Council	65
32	- Sussex Police and Crime Commissioner	33
375		400

Collection Fund Statement and explanatory notes

2012/13 £000		2013/14 £000
	Impairment of Council Tax	
32	- increase in allowance for non-collection	57
<u>64,017</u>	Council Tax Expenditure	<u>57,112</u>
0	Central Government share of Non-Domestic Rates income	11,653
	Local Government share of Non-Domestic Rates income:	
0	- East Sussex County Council	2,098
0	- East Sussex Fire Authority	233
0	- Lewes District Council	<u>9,322</u>
0		11,653
	Impairment of Non-Domestic Rates	
0	- movement in allowance for uncollectable sums	190
0	- movement in provision for appeals	<u>1,042</u>
0		1,232
126	Transfer to the General Fund – allowance for the collection of non-domestic rates	128
22,930	Contributions to national non-domestic rates pool	0
<u>23,056</u>	Non-Domestic Rates Expenditure	<u>24,666</u>
<u>87,073</u>	Total Expenditure	<u>81,778</u>
	(Surplus)/Deficit for the year	
(84)	- Council Tax	(95)
0	- Non-Domestic Rates	<u>771</u>
<u>(84)</u>		<u>676</u>

Collection Fund Statement and explanatory notes

2012/13		2013/14	
£000		£000	£000
Movement on Collection Fund Balances			
(499)	Balance at 1 April		
(84)	(Surplus)/Deficit for the year		
(583)	Balance at 31 March		
		£000	£000
		Council Tax	Non-Domestic Rates
		(583)	0
		(95)	771
		(678)	771
			93

Note 1. COUNCIL TAX BASE

This is based on estimated chargeable dwellings in each valuation band, as adjusted for applicable discounts, converted to an equivalent number of total Band D dwellings and then multiplied by the collection rate to allow for possible losses on collection.

The calculation for 2013/14 is as follows:

	Chargeable dwellings	Band D ratio	Band D dwellings
Band A	2,066	6/9	1,377
Band B	3,605	7/9	2,804
Band C	9,845	8/9	8,751
Band D	8,129	9/9	8,129
Band E	5,057	11/9	6,181
Band F	2,712	13/9	3,917
Band G	2,095	15/9	3,492
Band H	199	18/9	398
	33,708		35,049
			98.25%
			34,436

Collection rate for 2013/14

Tax Base for 2013/14

Note 2. NON-DOMESTIC RATES

The total non-domestic rateable value at 31 March 2014 was £64.4 million (£62.5 million at 31 March 2013).

The standard national non-domestic rate multiplier for 2013/14 was 47.1p; reduced to 46.8p for qualifying small businesses.

The multipliers for 2012/13 were 45.8p and 45.0p respectively.

Statement of Responsibilities

Authorisation of the Statement of Accounts

The Director of Finance released this Statement of Accounts on xx September 2014. Events between the balance sheet date and September 2014 were considered before this Statement of Accounts was approved.

The Authority's Responsibilities - the Authority 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
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the Statement of Accounts

Signature of the Councillor presiding at the meeting at which the Statement of Accounts was approved:

.....
Chair of Audit and Standards Committee September 2014

The Director of Finance's Responsibilities - the Director of Finance 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 has:

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

The Director of Finance has also:

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

CHIEF FINANCIAL OFFICER'S CERTIFICATE - I certify that the Statement of Accounts set out in pages 8 to 101 provides a true and fair view of the financial position of the Council at 31 March 2014 and its income and expenditure for the year ended 31 March 2014.

.....
John Magness, CPFA, Director of Finance, September 2014

Independent Auditor's Report to the Members of Lewes District Council

Opinion on the Council's financial statements

We have audited the financial statements of Lewes District Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund Statement and the related notes. 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 2013/14.

This report is made solely to the members of Lewes District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Finance and auditors

As explained more fully in the Statement of the Director of Finance's Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently

Independent Auditor's Report to the Members of Lewes District Council

materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. .
If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Lewes District Council as at 31 March 2014 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 2013/14.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We have nothing to report in respect of the following other matters which the Code of audit practice for local government bodies (March 2010) requires us to report to you if:

- we have been unable to satisfy ourselves that the annual governance statement meets the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 or is misleading or inconsistent with other information that is forthcoming from the audit;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

Independent Auditor's Report to the Members of Lewes District Council

Conclusion on Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and auditors

The Council 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Independent Auditor's Report to the Members of Lewes District Council

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Lewes District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

We certify that we have completed the audit of the accounts of Lewes District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Richard Bint
For and on behalf of BDO LLP, Appointed Auditor
London, UK

September 2014

Annual Governance Statement

Scope of Responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance/Society of Local Authority Chief Executives (CIPFA/SOLACE) Framework, Delivering Good Governance in Local Government. A copy of the Code is on our website at <http://www.lewes.gov.uk/council/3748.asp> or can be obtained from the Head of Audit and Performance, Southover House, Southover Road, Lewes, East Sussex BN7 1AB. This Annual Governance Statement explains how the Council has complied with the Code and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011.

The purpose of the Governance Framework

The Governance Framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled, and the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Governance Framework has been in place at the Council for the year ended 31 March 2014 and up to the date of approval of the Statement of Accounts.

Annual Governance Statement

The Governance Framework

The key elements of the systems and processes that comprise the Council's governance arrangements are described below.

The Council sets out its vision, priorities, projects and planned performance in the Council Plan. Underpinning this are a number of key strategies, programmes, service delivery and project plans which provide detailed commitments in terms of the Council's services and activities. The Medium Term Finance Strategy looks ahead three years and sets out how the Council aims to balance its resources to meet statutory responsibilities and national and local priorities.

The Council Plan is approved each year by Full Council. The Council's Governance Framework is drawn together in the local Code of Corporate Governance which meets national standards.

The Council has a well-established Performance Management Framework which is supported by its project management and collaboration software system - pam (platform for achieving more). The Council has a Data Quality Policy and Strategy aimed at ensuring performance information and other data is valid, accurate, complete, timely and relevant. Progress and performance information is reported to Cabinet and Corporate Management Team each quarter. Progress on projects in the Nexus Programme is closely monitored by the Nexus Board. The quality of services is reviewed through regular consultation with, and feedback from, service users in the form of survey research, comments and complaints.

The Council's Constitution establishes clear arrangements for decision making and the delegation of powers to councillors and officers. It defines and documents the roles and responsibilities of the Council, Cabinet and Committees (including the Audit and Standards Committee and the Scrutiny Committee) as well as the roles and responsibilities of councillors and senior officers. The Council has adopted the Leader and Cabinet Model in accordance with the Local Government Act as amended by the Localism Act 2011.

Communication between councillors and officers is governed by the Protocol on Member/Officer Relations. There is also a Councillor Protocol for Procurement.

The Council's Scrutiny Committee oversees the independent review of decisions of Cabinet and other activities and functions of the Council through appointed Scrutiny Panels and the Call In procedure. The Audit and Standards Committee role includes promoting and maintaining high standards of conduct of councillors. In July 2012 the Council revised its Code of Conduct for councillors and the procedures for dealing with complaints about the conduct of councillors in accordance with the new provisions contained in the Localism Act 2011.

Annual Governance Statement

Standards of behaviour and conduct of councillors and officers are governed by Member and Officer Codes of Conduct, the Anti Fraud and Corruption Strategy, Whistle Blowing Policy, Anti Bribery Policy, Disciplinary and Grievance procedures and the Dignity at Work Policy. A Core Values and Behaviours Statement was agreed in April 2013, following extensive consultation with staff. These guidance documents and procedures are the subject of training/awareness raising for staff and councillors and are made available via the Council's intranet. The Council adopted a new Competency Framework in January 2014 and is beginning to embed this as part of its performance management and appraisal systems.

The Council has an established framework for financial governance based on Contract and Financial Procedure Rules, with sound budgeting systems, clear budget guidance for managers and regular reporting of financial performance to councillors and officers.

The Council's risk management framework is outlined in its Risk Management Strategy, and it is fully established and embedded within the Council. There are robust systems for identifying and evaluating risk in the decision making and service planning processes. Strategic risks are updated and reported to Cabinet annually and operational risks are reviewed as part of service planning. Key staff are trained in the assessment, management and monitoring of risk. Risk assessment and management within projects has been enhanced through the use of the risk management tool in *parm*.

As part of its Corporate Governance arrangements the Council has established an Audit and Standards Committee that is responsible, amongst other things, for keeping under review the probity and effectiveness of internal controls and the effectiveness of management arrangements to ensure legal and regulatory compliance. The Committee conforms to the best practice identified in CIPFA's "Audit Committees – Practical Guidance for Local Authorities", and reports to the Cabinet on the effectiveness of internal controls within the Council.

The Council has a documented Assurance Framework that sets out the sources of assurance within the Council's governance environment and provides the evidence to support the Annual Governance Statement.

The Council has an Internal Audit Section which is an independent assurance function that reports on the adequacy of the whole system of internal control as a contribution towards the proper economic, efficient and effective use of Council resources. The Section operates in accordance with the auditing guidelines contained in the Public Sector Internal Auditing Standards (PSIAS) that have applied since April 2013. The application of the standards was approved at the March 2013 meeting of the Audit and Standards Committee.

The Council has a strong anti fraud culture that is supported by councillors and officers. Proactive anti-fraud work is undertaken, particularly in the area of Benefit Fraud through the work of the Fraud Investigations Team. The outcome of this work informs the opinion on the internal control environment. The Council also has an Anti Money Laundering Policy.

Annual Governance Statement

The Council's Constitution sets out the roles of the Monitoring Officer and Chief Finance Officer (Section 151) - at Lewes District Council these roles are fulfilled by the Assistant Director of Corporate Services and the Director of Finance respectively. These roles include responsibility for ensuring that agreed procedures are followed and that applicable statutes, regulations and relevant statements of good practice are complied with.

The Council has a corporate complaints procedure with supporting systems to record, monitor, investigate and report complaints. Information on complaints is monitored by service managers and high level information is reported to Cabinet through the Annual Performance Report.

A councillors' induction programme takes place every four years after a District Council Election. Individual councillors' training needs are reviewed annually and specialist training on specific areas of activity are organised by officers as required e.g. IT, planning and scrutiny matters. Each year all Council committees are invited to identify training needs/issues arising from their work programme. Training needs for each member of staff are assessed as part of the annual appraisal process.

The Council has a variety of communication channels with local residents and other stakeholders. In addition the Council actively engages with different sections of the community through focus groups, user groups, partnership meetings and networks. The Council's Consultation and Communication strategies set out the approach and specific consultations are planned and agreed in an annual programme.

The Council has put in place guidance for partnership working and has identified a small number of strategic partnerships which require comprehensive governance arrangements, including an annual review by lead officers. Good governance in partnerships is also reflected in the Council's Local Code of Corporate Governance.

The Council has a Project Management Framework that contains a set of principles and procedures for the planning, control and delivery of projects. The Council has developed a set of clear and consistent project documents and associated tools which have been the subject of consultation and training amongst senior officers.

The Council has a Business Continuity Plan (BCP), and will continue to develop its processes and safeguards in this area by having at least one test exercise per year and updating our procedures where appropriate.

Annual Governance Statement

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior officers within the Council who have responsibility for the governance environment, the annual report of the Head of Audit and Performance, and also the work of external auditors and other review agencies and inspectorates as outlined below.

The Head of Audit and Performance reports regularly to the Audit and Standards Committee on the work of Internal Audit, on governance and internal control, and provides an annual report on the systems of internal control which includes an opinion on the internal control environment. For 2013/14, the overall standards of internal control were satisfactory. Whilst recommendations have been made to improve management controls, there were no instances in which internal control issues created significant risks for the Council.

In March 2008 the Audit Committee approved the local Code of Corporate Governance. The local Code is reviewed annually by the Head of Audit and Performance and senior officers taking into account the requirements of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. The Code was reviewed in June 2013 and it was concluded that the Council continues to have satisfactory arrangements in place for corporate governance. The Code will next be reviewed in September 2014.

The Council has undergone some significant organisational change during 2013/14, including a change of Leader and the establishment of a new senior management structure. The Council has embarked on a Transformation Programme which will see a number of fundamental and far reaching developments in its approach to strategic policy making, business planning and performance. The Annual Performance Report for 2013/14 was approved by both Cabinet and Full Council in July 2014 provided both a high level summary of performance and achievements for that year as well as an outline of future strategic priorities and projects. The Council's Strategic Plan and service priorities for 2014/15 have been determined as part of a review of portfolio responsibility following the Annual Meeting in May 2014. These have been communicated via the website and internally through LDC News, the Corporate Briefing and Infolink. The new Business Strategy and Performance Team will be responsible for shaping the Council's business planning and performance management arrangements to ensure efficient and effective delivery of the Council's Transformation Programme and improvement targets over the short to medium term.

The Council has been working in partnership to develop use of a collaboration software tool (pam) to assist in the management of projects and to facilitate partnership working. The tool has also provided a Council wide platform to update and share information. The new Business Strategy and Performance Team is currently reviewing the business needs of the organisation in terms of future IT systems for performance management.

Annual Governance Statement

Cabinet received the Annual Report on Risk Management at its July 2013 meeting. The Audit and Standards Committee receives updates on risk management at every meeting. The reports during 2013/14 noted that most risks are mitigated by the effective operation of controls or other measures. Whilst there are some risks that are outside the Council's control, such as a major incident, flu pandemic, a downturn in the national economy or a major change in government policy or legislation, the Council has sound planning and response measures to mitigate the impact of such events and continues to monitor risks and the effectiveness of controls. Cabinet will receive the Annual Report on Risk Management in November 2014.

The Council's Business Continuity Plan (BCP) was updated in September 2014. There is a risk that a loss of IT services would mean that the priorities for restoration of services that are set out in the BCP may not be achieved in all circumstances. This risk is partially mitigated through preventative measures, and more effective mitigation is gradually being put in place with the significant upgrading of the Council's IT infrastructure that is underway.

As part of the Council's internal assurance framework senior officers have confirmed the proper operation of internal controls including compliance with the Constitution in those service areas for which they are responsible. In addition they have confirmed that there are no cases reported under the Council's Whistleblowing Policy. A joint annual statement by the Monitoring Officer and Chief Finance Officer (Section 151) has confirmed that there were no significant governance issues for the Council in 2013/14.

Under the Code of Practice for Local Authority Accounting 2012/13 the Council is required to confirm that its financial management arrangements conform with governance requirements of the CLPFA Statement on the Role of the Chief Finance Officer (2010). The Council's arrangements conform with the requirements of the Statement and this has been confirmed by the Director of Finance (Section 151).

There have been no cases of fraud or corruption during the year other than those benefits cases investigated by the Fraud Investigations Team. This was confirmed in the Annual Report on the Council's work to combat Fraud and Corruption for 2013/14 presented to the Audit and Standards Committee in September 2014.

There have been no cases where the Audit and Standards Committee has found a District councillor to be in breach of the Council's Code of Conduct.

A review of the Council's strategic partnerships was undertaken and the results of this work were reported to the Audit and Standards Committee at its June 2013 meeting. The guidance for partnership working is subject to review to take account of the changing nature of the partnerships that the Council is involved in and is due to be completed by the end of 2014.

Annual Governance Statement

The level and nature of complaints continues to be monitored as part of the new monthly performance monitoring and management arrangements for the Service Delivery Directorate. Further changes to the Complaints Procedure were approved by Cabinet in September 2013 to make it more efficient and streamlined, and to better meet the needs of complainants.

The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The results of these reviews by the Council's external auditor, BDO, have helped inform the opinion on the internal control environment. The recent results are summarised below.

Annual Audit Letter for 2012/13 (October 2013) – This report outlined the key findings from BDO's audit of 2012/13. The letter confirmed that:

- BDO issued an unqualified true and fair opinion on the financial statements for 2012/13.
- BDO identified one material misstatement in relation to the accounting for the value of additions to HRA Council dwellings. Appropriate amendments were made to the financial statements.
- Working with Internal Audit, BDO found one deficiency in internal controls involving the authorisation of purchase order requisitions and invoices.
- Management has agreed to strengthen relevant internal controls and processes within the creditor payments system.
- BDO were satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and therefore issued an unqualified value for money conclusion.
- BDO were satisfied that the Annual Governance Statement (AGS) was not inconsistent or misleading with other information they were aware of from the audit of the financial statements and complies with '*Delivering Good Governance in Local Government*' (CIPFA/Solace).
- BDO reported on the outcome of the audit of one grant claim and three government returns for the period ended 31 March 2012. The Housing and Council Tax Benefit subsidy claim (total value £41 million) was amended to correct errors, the overall effect being a reduction in subsidy of £902. BDO were unable to fully quantify other errors identified and included the facts in a qualification letter to the Government department (DWP).
- BDO completed a short form assurance review of the Council's Whole of Government Accounts (WGA) because the Council's WGA is below the threshold for a full assurance review. The review confirmed that the 'net funded pension balance' was consistent with the audited financial statements and the 'property, plant and equipment carrying amount at 31 March 2013' was not consistent with the audited financial statements because of the material audit adjustment.
- The Council's financial governance arrangements have continued to enable strong leadership on financial matters from the top of the organisation through the work of the Cabinet and Corporate Management Team.

Annual Governance Statement

- The process of financial planning is embedded across the Council through the annual budget setting process, and is supported by the medium term financial strategy which covers a three year period and is updated annually. The Council's revenue budget for 2013/14 requires additional savings of £757,000 and a contribution from the General Fund balance of £484,000 due to further reductions in the Council's grant settlement and spending pressures.

Grant Claims and Returns Certification for 2012/13 (February 2014) – The key points are:

- The certification of the national Non Domestic Rates (NDR) was completed satisfactorily and the claim was submitted without qualification and without amendment. The claim was valued at £22.93m.
- The certification of the Pooling of Housing Capital Receipts return was completed satisfactorily and the claim was submitted as unqualified and without amendment. The claim was valued at £1.03m.
- The initial and additional testing carried out by Internal Audit identified a range of errors in the claim for Housing and Council Tax Benefit Subsidy. The claim was valued at £43.15m. In line with the requirements of the Department for Work and Pensions (DWP) and the Audit Commission a letter of claim qualification was issued, which included assessments of the possible impact of the findings.
- Following further discussion and the provision of additional supporting information by the Council, the DWP amended its assessment of the impact on the claim. There will now be a deduction of approximately £4,000 from the next settlement.

Audit Plan 2013/14 (June 2014) – The letter set out the scope of the audit work for the review of the financial year 2013/14, the fees, a risk assessment and key outputs. This was presented to the Audit and Standards Committee at its June 2014 meeting.

Significant governance issues

We have been advised by the Audit and Standards Committee on the implications of the result of the review of the effectiveness of the Governance Framework.

There are no significant governance issues to report for the year ended 31 March 2014 and up to the date of approval of the Statement of Accounts.

Councillor Rob Blackman		Jenny Rowlands	
Leader of the Council	Chief Executive
	September 2014		September 2014

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Contact details

The information in this document can be made available in large print, on audio tape or disk, or in another language upon request. Contact the Council on 01273 471600 or email lewesdc@lewes.gov.uk

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