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Audit and Standards Committee
24 September 2018

Lewes District Council

Time and venue:

10.00 am in the Ditchling Room - Southover House, Lewes

Membership:

Councillor Mike Chartier (Chair); Councillors Stephen Catlin, Johnny Denis, Nigel Enever, Stephen Gauntlett, Andy Loraine and Julian Peterson

Quorum: 4

Published: Friday, 14 September 2018

Agenda

1 **Minutes** (Pages 1 - 8)

To confirm and sign the minutes of the previous meeting held on 17 July 2018 (attached herewith).

2 **Apologies for absence/declaration of substitute members**

3 **Declarations of interest**

Disclosure by councillors of personal interests in matters on the agenda, the nature of any interest and whether the councillor regards the interest as prejudicial under the terms of the Code of Conduct.

4 **Urgent items**

Items not on the agenda which the Chair of the meeting is of the opinion should be considered as a matter of urgency by reason of special circumstances as defined in Section 100B(4)(b) of the Local Government Act 1972.

5 **Written questions from councillors**

To deal with written questions from councillors pursuant to Council Procedure Rule 12.3 (page D8 of the Constitution).

6 **Annual report on the establishment and maintenance of a Register of Interests 2017/2018** (Pages 9 - 16)

Report of Monitoring Officer/Assistant Director of Legal and Democratic Services.

7 **Interim report on the Council's Systems of Internal Control 2018/19** (Pages 17 - 30)

Report of Head of Audit and Counter Fraud.

8 **Lewes District Council - Update of the Strategic Risk Register** (Pages 31 - 40)

Report of Deputy Chief Executive.

9 **Audit completion report** (Pages 41 - 84)

Report of BDO Accountants and Business Advisers.

10 **Statement of Accounts 2017/18** (Pages 85 - 204)

Report of Head of Finance.

11 **Treasury Management** (Pages 205 - 210)

Report of Deputy Chief Executive.

12 **Date of next meeting**

To note that the next meeting of the Audit and Standards Committee is scheduled to be held on Monday, 19 November 2018 in the Telscombe Room, Southover House, Southover Road, Lewes, BN7 1AB, commencing at 10:00am.

Information for the public

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Information for councillors

Disclosure of interests: Members should declare their interest in a matter at the beginning of the meeting.

In the case of a disclosable pecuniary interest (DPI), if the interest is not registered (nor the subject of a pending notification) details of the nature of the interest must be reported to the meeting by the member and subsequently notified in writing to the Monitoring Officer within 28 days.

If a member has a DPI or other prejudicial interest he/she must leave the room when the matter is being considered (unless he/she has obtained a dispensation).

Councillor right of address: A member of the Council may ask the Leader, a Cabinet Member or the Chair of a committee or sub-committee any question without notice upon an item of the report of the Cabinet or a committee or subcommittee when that item is being received or under consideration by the Council.

A member of the Council may ask the Chair of a committee or sub-committee a question on any matter in relation to which the Council has powers or duties or which affect the District and which falls within the terms of reference of that committee or subcommittee.

A member must give notice of the question to the Head of Democratic Services in writing or by electronic mail no later than close of business on the fourth working day before the meeting at which the question is to be asked.

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Lewes District Council

Audit and Standards Committee

Minutes of meeting held in Ditchling Room - Southover House, Lewes on 17 July 2018 at 10.00 am

Present:

Councillor Mike Chartier (Chair)

Councillors Stephen Catlin, Johnny Denis, Nigel Enever, Stephen Gauntlett and Julian Peterson

Officers in attendance:

Pauline Adams (Head of Finance), David Heath (Head of Audit and Counter Fraud) and Jennifer Norman (Committee Officer)

Also in attendance:

Janine Combrink, Engagement Lead, BDO

1 Minutes

The minutes of the meeting held on 19 March 2018 were submitted and approved, and the Chair was authorised to sign them as a correct record.

2 Apologies for absence/declaration of substitute members

There were none.

3 Declarations of interest

There were none.

4 Urgent items

The Chair reported that he had agreed, in accordance with section 100B(4)(b) of the Local Government Act 1972, that the report entitled "Treasury Management", which was circulated to all members of the Committee prior to the meeting, be considered as a matter of urgency in order that the Committee could take its decisions based on the most recent information which was available.

Resolved:

That the report entitled “Treasury Management” be deferred to the next meeting of the Audit and Standards Committee scheduled on 24 September 2018, so that the Committee has ample time to fully consider the report.

5 Written questions from councillors

There were none.

6 Annual Report on the Council's work to combat Fraud and Corruption 2017/18

The Committee considered the report which informed councillors on the adequacy and effectiveness of the Council’s systems to combat fraud and corruption during 2017/18.

The Head of Audit and Counter Fraud had reviewed the Council’s arrangements for countering fraud and corruption, and compared them to the standards and principles within the Chartered Institute of Public Finance and Accountancy (CIPFA’s) Code of Practice. The report outlined the Council’s work on counter fraud and corruption in 2017/18, and how that work had met the Council’s responsibilities for ensuring an effective response to those risks.

Section 6 of the report summarised the results of the Council’s counter fraud and corruption work during 2017/18. Of note, the Head of Audit and Counter Fraud highlighted (under Housing Tenancy fraud) that six properties had been returned to the Council’s housing stock after the team had proved abandonment by the tenant.

The Committee queried if it would be possible to compare annual statistics between the current year and previous years at future meetings. The Head of Audit and Counter Fraud agreed that going forward that annual statistics from previous years would be compared to the current year in the Annual Report on the Council’s work to Combat Fraud and Corruption presented to the Committee.

The Committee wished to acknowledge the success by the Head of Audit and Counter Fraud and his team in countering fraud and corruption during 2017/18.

Resolved:

1) That the report be noted;

2) That the control measures that are in place to maintain a strong anti-fraud and corruption culture, as shown under Section 3 of the report be noted;

3) That the structures within the Council that counter fraud and corruption, particularly the arrangements for preventing, detecting and investigating fraud across a range of Council services and activities, as shown under section 4 of the report, be noted;

4) That the Council's involvement in national, regional and local counter fraud networks, as shown under section 5 of the report be noted;

5) That the results of the Council's counter fraud activity during 2017/18, as shown under Section 6 of the report, be noted;

6) That the Council's compliance with Chartered Institute of Public

7) Finance and Accounting (CIPFA's) Code of Practice on managing the risk of fraud and corruption, as shown under section 8 of the report, be noted; and

8) That the Council's zero tolerance to fraud and corruption be reaffirmed.

7 Annual Report on the work of the Audit and Standards Committee 2017/18

The Committee considered the report which presented to councillors the annual report on the work of the Audit and Standards Committee, which summarised activity in this key area of corporate governance and provided assurance that the oversight of governance, risk and internal control was operating effectively.

The Audit and Standards Committee comprised seven councillors, with the quorum set at four. Up to three additional co-opted non-voting Town/Parish members could participate in Standards, but not Audit, matters. The Chair of the Committee was elected from the Council's minority group.

The Chair of the Committee highlighted paragraph 18, in which the Committee endorsed the opinion of the Head of Audit and Counter Fraud that the overall standards of internal control have been generally satisfactory despite staffing issues at the Authority.

Resolved:

1) That the report be noted;

2) That the conclusions on the effectiveness of Internal Audit, as shown under paragraph 16 of the report, be endorsed;

3) That the opinion on the Council's Internal Control Environment and Risk Management Framework, as shown under paragraphs 17 to 19 of the report, be endorsed; and

4) That it be noted that the Audit and Standards Committee has discharged all of the duties outlined and complied with the Terms of Reference in all respects, as shown under paragraph 20 of the report.

8 Annual Governance Statement 2018

The Committee considered the report which sought councillors' approval to the draft Annual Governance Statement (AGS) 2018, as set out under Appendix A of the report.

The Council was required to prepare an AGS each year in accordance with the statutory requirement set out in the Accounts and Audit Regulations, the most recent reference being Regulation 6 (1) of the Accounts and Audit Regulations 2015. The AGS covered the entire control framework of the Council rather than those controls which simply had a financial aspect.

The Head of Audit and Counter Fraud highlighted that the AGS is approved and signed off by the Leader of the Council and the Chief Executive, and that in response to recent guidance there was a complete review of the Code of Corporate Governance during the year.

The Committee queried whether a section could be included in future reports on the Annual Governance Statement regarding how the Corporate Management Team's (CMT) performance was monitored and reviewed. It was noted that this linked to other parts of the report. The Head of Audit and Counter Fraud agreed that two amendments requested by the Committee would be included in future reports regarding the Annual Governance Statement.

Resolved:

1) That the draft Annual Governance Statement 2018, as shown under Appendix A of Report No 84/17, be approved; and

2) That it be delegated to officers any final adjustments required to the Annual Governance Statement in the period up to the approval of the Statement of Accounts in July 2018.

9 Annual Report on Internal Audit Performance and Effectiveness 2017/18

The Committee received the report which informed councillors of the Internal Audit work of the Audit and Performance Division for 2017/18, and in the outcome of the review of the effectiveness of Internal Audit for 2017/18.

It was the Audit and Standards Committee's duty to consider the annual report of the Head of Audit and Counter Fraud, and to keep the work of Internal Audit under review to ensure that it was discharging its functions effectively.

The work carried out by Internal Audit during 2017/18 was outlined in section 4 of the report. The audit coverage had been sufficient to enable the Head of Audit and Counter Fraud to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment. This opinion was included in the Annual Report on the Council's Systems of Internal Control 2017/18 that was presented separately to this meeting of the Committee.

Resolved:

1) That the Internal Audit coverage in 2017/18 has been sufficient to enable the Head of Audit and Counter Fraud to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment, as set out in section 3 of the report; and

2) That the satisfactory outcome of the review of the effectiveness of Internal Audit for 2017/18, as set out in sections 7 to 10, be noted.

10 Annual Report on the Council's Systems of Internal Control 2017/18

The Committee considered the report which informed councillors on the adequacy and effectiveness of the Council's systems of internal control for 2017/18.

The remit of the Audit and Standards Committee included a duty to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk. There was a further duty to consider the annual report by the Head of Audit and Counter Fraud, and to report annually to the Cabinet on the adequacy and effectiveness of internal controls within the Council.

The Head of Audit and Counter Fraud's satisfactory opinion on the overall standards of internal control was based on the work of Internal Audit, other internal reviews and external assurance bodies, and the Council's work on risk management.

Resolved:

1) That the annual report by the Head of Audit and Counter Fraud be noted;

2) That it be noted that the overall standards of internal control were generally satisfactory during 2017/18, as shown under Section 3 of report;

3) That it be noted that the generally satisfactory opinion on internal control is taken forward into the draft Annual Governance Statement 2018 that is presented separately to this meeting of the Audit and Standards Committee; and

4) That the opinion on the Council's systems of internal control be reported to Cabinet.

11 Interim Report on the Council's Systems of Internal Control 2018/19

The Committee received the report which informed councillors on the adequacy and effectiveness of the Council's systems of internal control during the first three months of 2018/2019, and which summarised the work on which that opinion was based.

The Annual Report on the Council's Systems of Internal Control for 2018/2019 included the opinion of the Head of Audit and Counter Fraud that the overall standards of internal control were satisfactory. That opinion was based on the work of Internal Audit and the Council's external auditors, BDO, and the Council's work on risk management. In the three months since the start of the financial year there had been nothing to cause that opinion to change and there had been no instances in which internal control issues had created significant risks for Council activities or services.

The Head of Audit and Counter Fraud informed the Committee that BDO was carrying out the audits of the 2017/18 accounts and the 2017/18 HB subsidy claim, and would therefore be working with the Council until at least November 2018. He further informed the Committee that a cost quotation had been obtained from Deloitte LLP for the independent check and sign off of the HB subsidy claim exercises after the BDO contract has ceased. Deloitte LLP have been appointed to this role for the 2018/19 HB subsidy claim.

Resolved:

That it be noted that the overall standards of internal control during the first three months of 2018/19, as shown in Section 3 of the report, were satisfactory.

12 BDO update

The Committee received a brief verbal update by the Council's external auditors, BDO, on the Statement of Accounts for 2017/18.

Resolved:

That the verbal update by the Council's external auditors regarding the Statement of Accounts for 2017/18, be noted.

13 Statement of Accounts 2017/18

The Committee received the report which provided an update on the progress of the Statement of Accounts 2017/18 and the audit of the accounts.

The Head of Finance highlighted that the statutory deadline for local authorities to publish draft accounts and make them available to the auditor was brought forward for the current year by one month, from 30 June to 31 May 2018. The deadline for completion of the publication of the audited accounts was brought forward by two months, from 30 September to 31 July 2018.

The Head of Finance informed the Committee that due to circumstances outside the Council's control, the draft accounts were not completed until 25 June 2018, 3 weeks behind schedule. The reasons for the delay were due to the following reasons:

1) The final valuations were not received until 28 May 2018; and

2) The final accounting information did not become available until 18 June 2018.

The Head of Finance further informed the Committee that the accounts were sent to the Council's external auditors on 25 June 2018, and following discussions with the Audit Manager, it was agreed to delay the start of audit until August 2018. The audit would commence at the beginning of August 2018, and the final accounts and audit report would be submitted to the Committee for approval at its next meeting on 24 September 2018.

Resolved:

That the position in regards to the Statement of Accounts 2017/18 be noted.

14 Date of next meeting

That the next meeting of the Audit and Standards Committee that is scheduled to be held on Monday, 24 September 2018 in the Ditchling Room, Southover House, Southover Road, Lewes, BN7 1AB, commencing at 10:00am, be noted.

The meeting ended at 11.25 am

Councillor Mike Chartier (Chair)

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Report to:	**Audit and Standards Committee**
Date:	**24 September 2018**
Title:	**Annual report on the establishment and maintenance of a Register of Interests 2017/2018**
Report of:	**Catherine Knight, Monitoring Officer, Assistant Director of Legal and Democratic Services**
Ward(s):	**All**
Purpose of report:	**(1) To confirm that the Register of Interests is being maintained in accordance with the law and Council's constitution.** **(2) To provide a summary of the Code of Conduct complaints for the year 2017/2018.**
Officer recommendation(s):	**(1) To receive and note the annual report by Lewes District Council's Monitoring Officer.**
Reasons for recommendations:	**The remit of the Audit and Standards Committee includes a requirement to consider the Monitoring Officer's annual report on the establishment and maintenance of a Register of Interests of members and co-opted members of the Council. The Monitoring Officer has requested that the annual report submitted to the Committee also outlines the number and nature of Standards complaints received in the municipal year 2017/2018.**
Contact Officer(s):	**Name: Jennifer Norman** **Post title: Committee Officer, Democratic Services** **E-mail: jennifer.norman@lewes-eastbourne.gov.uk** **Telephone number: 01273 471600**

1 Information

1.1 Section 29 of the Localism Act 2011 requires the Monitoring Officer to establish and maintain a Register of Interests of the members and co–opted members of Lewes District Council.

1.2 In accordance with provisions of the Localism Act 2011 and the Council's Code of Conduct, each councillor is required to complete a Register of Members' Interests form annually in order to maintain an up to date register of financial and other interests.

1.3 The law and the Council's Code of Conduct also requires each councillor to register details of any new personal interest or change of any personal interest in writing to the Council's Monitoring Officer within 28 days of becoming aware of any new interest or change of interest. Each councillor is reminded of their obligation to inform the Council's Monitoring Officer when they are issued with the form for completion annually.

1.4 Democratic Services issue each councillor with a blank form on which members are asked to register their interests for the current municipal year. Forms were issued to councillors in June 2018 for the 2018/2019 municipal year. At the time of writing this report, 40 out of 41 councillors have submitted returns for the current year. An update is not expected from one particular councillor due to his personal circumstances which have led to him being granted dispensation from attending council meetings until January 2019. Councillors were asked to complete a new form, indicate any amendments to their existing form or confirm that there were no changes to be made to their current form.

1.5 Returned forms are made public for inspection on the Council's website at http://democracy.lewes-eastbourne.gov.uk/mgMemberIndexGroup.aspx?bcr=1&g=LewesCllrs&m=LewesCllrs. The relevant Register of Interest information is attached to each councillor's profile. All amendments to existing forms, or confirmation that no changes are to be made to existing interests are also uploaded and published. The Register can also be inspected by contacting Democratic Services.

1.6 Town and parish councillors in Lewes District are also required to complete a Register of Member's Interests form in accordance with their town or parish council's Code of Conduct. The town and parish council clerks forward details of those interests to Democratic Services for publication on Lewes District Council's website at https://www.lewes-eastbourne.gov.uk/parish-councils/town-and-parish-councils/.

1.7 It is important to note that the responsibility to complete Register of Interests forms and to keep them up to date is a personal responsibility placed on members. Failure to do so is a breach of the Code of Conduct. Furthermore, the Localism Act 2011 defines certain interests as being "disclosable pecuniary interests". Section 34 of the Localism Act makes it a criminal offence for a member or co-opted member to fail, without reasonable excuse, to comply with requirements under the Act to register or declare disclosable pecuniary interests, or to take part in discussions or to vote at meetings without registering his/her interest or disclosing its existence at the meeting during the municipal year 2017/2018.

1.8 The Council has a responsibility to deal with Standards matters for both Lewes District Council and the town and parish councils within the District. The appendix to this report contains statistical information about the complaints received and such action, if any, taken in connection with them.

1.9 Any complaint received by the Monitoring Officer is the subject of consultation with an Independent Person who has been appointed by the Council for this purpose. Following consultation, the Council's adopted procedure which can be found on the Council's website at [Complaints about councillors] requires the Monitoring Officer to make a decision as to whether the complaint merits formal investigation.

2.0 Relevant extracts from the Council's procedure provide that:

The Monitoring Officer may decide a complaint does not merit investigation if:

- It is about someone who is no longer a member of the Council
- There has been a long delay before the complaint was made
- The complaint appears to be minor, politically motivated, or not sufficiently serious to warrant further action.

2.1 This list is not intended to be exhaustive and the Monitoring Officer may decide that a complaint does not merit formal investigation for any other reason which appears to him/her to be relevant.

2.2 The Monitoring Officer has discretion to refer the decision as to whether a complaint merits an investigation to the Standards panel if it appears appropriate to do so.

2.3 Where he/she requires additional information in order to come to a decision, he/she may come back to the relevant person for such information, and may request information from the member against whom the complaint is directed. When a complaint made by a person relates to a town/parish councillor, the Monitoring Officer may also inform the town/parish council clerk of the person's complaint and seek the views of the town/parish council clerk before deciding whether the complaint merits formal investigation.

2.4 In appropriate cases, the Monitoring Officer may seek to resolve the complaint informally, without the need for a formal investigation. Such informal resolution may involve the member accepting that his/her conduct was unacceptable and offering an apology, or other remedial action by the authority. Where the member or the authority makes a reasonable offer of local resolution, but the complainant is not willing to accept that offer, the Monitoring Officer will take account of this in deciding whether the complaint merits formal investigation.

2.5 If a complaint identifies criminal conduct or breach of other regulation by any person, the Monitoring Officer is permitted to call in the police and other regulatory agencies.

3 Financial appraisal

3.1 There are no additional financial implications arising from this report.

4 Legal implications

4.1 None save as set out in the body of the report.

5 Risk management implications

5.1 I have been advised by the Head of Audit and Counter Fraud that if the information contained in this report is not reported to and reviewed by the Committee, overall transparency and good governance by the Council will be reduced.

6 Equality analysis

6.1 There are no equalities issues arising from the report.

7 Appendices

7.1
- Appendix 1 - Standards complaints about councillor conduct received by Lewes District Council's Monitoring Officer 2017/2018.

8 Background papers

8.1 The background papers used in compiling this report were as follows: **(please provide a URL link to each paper – remove this text from final version)**

8.2 Audit and Standards Committee remit

Constitution - Part 11 - V10 - V11

Code of Conduct for Members of the Council

Constitution - Part 5 - L1 - L15

Register of Interest of Members and Co-opted Members of the Council

Constitution - Part 5 - M1

Number of complaints received in 2017/2018	- 8 matters of complaints	- 6 Peacehaven Town Council - 1 Telscombe Town Council - 1 Lewes District Council
Number of complaints considered by the Monitoring Officer	- 6 matters of complaint were considered by the Monitoring Officer, but did not require a formal investigation. - 2 matters of complaint were considered by the Monitoring Officer which warranted investigation. One was investigated by the Monitoring Officer personally and one was referred to an external investigator for investigation.	- 1 matter of complaint related to allegations that a town clerk and a councillor did not answer questions by a member of the public regarding financial regulations. The Monitoring Officer concluded that the matter of complaint regarding the town clerk was not within her remit. The Monitoring Officer further concluded that although the councillor did not answer questions regarding financial regulations in relation to the town council, this did not constitute a breach of the town council's Code of Conduct. No further action was taken. - 1 matter of complaint alleged that several councillors had breached the town council's Code of Conduct by contacting external auditors without approval of the town council. The Monitoring Officer concluded that although the town council's procedures required that any approach to the auditor be made through the town clerk and not by councillors, this did not constitute a breach of the town council's Code of Conduct. The Monitoring Officer advised the town clerk to remind the members concerned regarding the town council's procedures. No further action was taken. - 1 matter of complaint alleged a breach of confidentiality by a councillor in relation to sharing confidential information from a committee meeting with a member of the public. The Monitoring Officer interviewed the councillor and concluded that the councillor had

		breached the town council's Code of Conduct. The Monitoring Officer recommended to the town council that the councillor not sit on the committee in question for the remainder of the 2017/2018 municipal year. - 1 matter of complaint alleged that a town councillor had made disparaging remarks about a fellow councillor during a committee meeting. The councillor who was the subject of the complaint admitted that an inappropriate comment was made, although a personal apology had been made and accepted at that time. The Monitoring Officer recommended that the councillor write a letter to the town clerk acknowledging that the disparaging remark made could not be substantiated and was inappropriate. No further action was taken. - 1 matter of complaint alleged that a district councillor interfered with a planning application decision. The Deputy Monitoring Officer concluded that that the conduct of the councillor did not breach any aspect of the town council's Code of Conduct and the matter of complaint did not warrant formal investigation. No further action was taken. - 1 matter of complaint alleged that a town councillor exhibited abusive and threating behaviour towards a colleague during a council meeting. The Monitoring Officer concluded that the matter of complaint warranted an investigation. The Monitoring Officer conducted an investigation and concluded that the councillor was in breach of the town council's Code of Conduct. A Standards panel was held. The Panel determined that

		the Councillor had breached the town council's Code of Conduct. The councillor resigned from the town council prior to the beginning of the hearing. No sanctions could therefore be imposed by the town council, but as the councillor was a member of another public local authority the Panel decided it was appropriate to publish its finding. - 1 matter of complaint alleged that a town councillor had made disparaging remarks to the press about a fellow town councillor. The Deputy Monitoring Officer concluded that although the councillor's remarks breached the town council's Press and Media Policy 2017, the remarks did not constitute a breach of the town council's Code of Conduct. No further action was taken. - 1 further matter of complaint relating to a town/parish council has been referred to an independent investigator. The investigation is still ongoing at the time this report was written.
Number of complaints not progressed and reasons why	- N/A	- N/A
Number of Standards Panels held	- 1	- Standards Panel held on 16 January 2018.

Cost to the District Council of engaging investigator	- 1 matter of complaint warranted investigation by an external investigator.	- Due to the ongoing investigation by the independent investigator, the total cost for the external independent investigator was not available at the time this report was written.

Report To:	**Audit and Standards Committee**
Date:	**24 September 2018**
Report Title:	**Interim Report on the Council's Systems of Internal Control 2018/19**
Report of:	**David Heath, Head of Audit and Counter Fraud**
Ward(s) Affected:	**All**
Purpose of report:	**To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first five months of 2018/19, and to summarise the work on which this opinion is based.**
Officer recommendation(s):	**To note that the overall standards of internal control were generally satisfactory during the first five months of 2018/19 (as shown in Section 2).**
Reasons for recommendations:	**The remit of the Audit and Standards Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.**
Contact Officer(s)	**Name: David Heath** **Post title: Head of Audit and Counter Fraud** **E mail: David.Heath@lewes-eastbourne.gov.uk** **Telephone number: 01273 085157**

1 Introduction

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that were first applied from 1 April 2013. The PSIAS have been updated, with new standards published in March 2017. The new standards are not materially different from the previous version, and so have not been separately reported to the Committee.

1.2 The PSIAS 2017 continue to specify the requirements for the reporting to the Audit and Standards Committee and senior management by the Head of Audit and Counter Fraud (HACF). These requirements are met via a series of reports, including interim reports to each meeting of the Committee.

1.3 Each interim report includes a review of the work undertaken by Internal Audit compared to the annual programme, an opinion of HACF on the internal control, risk management and governance environment at the Council, together with any significant risk exposures and control issues, in the period since the beginning of the financial year. Each interim report contains an appendix that includes an outline of each of the final audit reports issued since the previous meeting of the

Committee, and an appendix that outlines any significant recommendations that have not yet been implemented.

1.4 In September 2015, Cabinet approved a strategy for the development of shared services between Lewes District Council (LDC) and Eastbourne Borough Council (EBC) based on the integration of the majority of council services via a Joint Transformation Programme (JTP). The formal integration of the Internal Audit and Counter Fraud Teams in both councils took place on 1 July 2017.

2 Internal Control Environment at Lewes District Council

2.1 The Annual Report on the Council's Systems of Internal Control for 2017/18 was presented to the July meeting of the Committee. The report included the opinion of HACF that the overall standards of internal control are generally satisfactory. This opinion is based on the work of Internal Audit, the internal assurance framework, external reviews, and the Council's work on risk management. In the five months since the start of the financial year there has been nothing to cause that opinion to change and there have been no instances in which internal control issues created significant risks for Council activities or services.

3 Internal Audit work 2018/19

3.1 Table 1 shows that a total of 290 audit days have been undertaken compared to 285 days planned in the first five months of the year.

Table 1: Plan audit days compared to actual audit days for April to August 2018

Audit Area	Actual audit days for the year 2017/18	Plan audit days for the year 2018/19	Actual audit days to date	Pro rata plan audit days to date
Main Systems	347	308	213	
Central Systems	67	65	18	
Departmental Systems	3	87	1	
Performance and Management Scrutiny	34	30	10	
Computer Audit	5	25	12	
Management Responsibilities/Unplanned Audits	101	158	36	
Total	557	673	290	285

Note: The 'Pro rata plan audit days to date' provides a broad guide to the resources required to carry out planned audits. The actual timing of the individual audits will depend on a variety of factors, including the workloads and other commitments in the departments to be audited.

The variance of five days is not material, and it is estimated that the audit days will be close to plan by the year end.

3.2 This section of the report summarises the work undertaken by Internal Audit, compared to the annual plan that was presented to the Audit and Standards Committee in March 2018. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A1.

3.3 ***Main Systems:*** The key work has been on the testing of the major financial systems in order to gain assurance on the adequacy of internal controls for the Annual Governance Statement (AGS) and to inform BDO's work on the Council's accounts for 2017/18. The testing is completed and a final report has been issued. The results have contributed to the overall opinion given by HACF (see Section 2 above).

3.4 The work on behalf of BDO to test the Council's HB subsidy claim 2016/17 has been the other main priority and is now complete. BDO had identified the need for significant additional testing to address the issues noted in the 2015/16 claim and other errors noted in the current claim. The timetabled date for BDO to sign off and submit the audited claim was the end of November 2017 but, because of the significant extra work required and BDO's other commitments, Internal Audit and BDO have been working towards the submission of the claim in the second week of September 2018.

3.5 The corresponding exercise to test the Council's HB subsidy claim 2017/18 is now the main priority and the work is underway. The results from the initial sample testing will help to inform BDO's work on the Council's 2017/18 accounts.

3.6 ***Central Systems:*** The annual audit of Ethics is underway. This is a light touch review – because of the generally satisfactory situation noted over the last two audits the focus of the 2018 review is on the implementation of the recommendations from the previous report. The initial planning for a review of joint ventures and Council owned companies was done in 2017/18 – the full review is underway and has reached the draft report stage. An audit of Safeguarding at both councils has been completed by audit personnel in Eastbourne, and a final report has been issued.

3.7 ***Departmental Systems:*** The audit of Estates Management, incorporating work on the corresponding function at EBC, began in 2017 but was put on hold to free resources for the work on the HB subsidy claim and the testing of the main financial systems - the audit has been completed by audit personnel in Eastbourne and a final report has been issued. An audit of Licensing is at the planning stage, with the fieldwork to begin shortly.

3.8 ***Performance and Management Scrutiny:*** The initial work in this category has been in reviewing the data that supports the Annual Governance Statement (AGS) for 2018, and the examination of the revised Strategic Risk Register.

3.9 ***Computer Audit:*** Internal Audit has examined the IT aspects of the main financial systems (see 3.3 above). An audit of Cyber Security is at the planning stage

3.10 ***Management Responsibilities/Unplanned Audits:*** This category provides resources for activities such as support for the Audit and Standards Committee, managing the Counter Fraud Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.

3.11 CMT requested Internal Audit to carry out an assurance review to support the establishment of the newly configured Health and Safety (H&S) service. The review includes site visits to two key service areas – the Eastbourne Crematorium and the Waste and Recycling (W&R) service for LDC. A final interim report was issued on the W&R aspects of the review, and the results of the H&S review of the crematorium have been included in a draft report that also covers other aspects of the Bereavement Services at the location. Internal Audit has also carried out a review of the management of statutory building compliance at both councils; an interim report was issued in June 2018 and a draft report on the overall results has been circulated.

3.12 Internal Audit has coordinated the Council's work on NFI data matching exercises, with Internal Audit, the Counter Fraud Team and service managers preparing for the receipt of the reported matches, and nominating officers to investigate matches in their service areas. There were over 2,000 separate matches detailed across 93 reports. Each report sets out different types of potential frauds among benefit claimants, housing tenants, and anyone receiving payments or discounts from the Council. The exercise has involved analysis of the matches to identify those that are the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud - 335 matches have been examined, with no fraud or error noted so far. Because the work is resource intensive and services have experienced staffing issues during the JTP process, the investigation of matches is now being done in Internal Audit but not as a priority task.

3.13 The preparations for the 2018 NFI exercise are underway, with the Counter Fraud Investigations Manager in Eastbourne taking the coordination role for both councils and putting in place a targeted approach to the examination of reported matches.

4 Follow up of Audit Recommendations

4.1 All audit recommendations are followed up to determine whether control issues noted by the original audits have been resolved. The early focus for follow up in 2018/19 has been on confirming the implementation of the recommendations that had been agreed in the previous year.

5 Quality Reviews/Customer Satisfaction Surveys/Performance Indicators (PIs)

5.1 The results of the Internal Audit quality reviews and customer satisfaction surveys for 2017/18 were reported to the July meeting of the Committee. The results enabled the HACF to report that the Internal Audit service at Lewes achieves its aims, and objectives, and operates in accordance with the Internal Audit Strategy as approved by the Audit and Standards Committee.

5.2 As part of the standardisation of the Internal Audit service at both Lewes and Eastbourne, HACF is examining the range of PIs that will cover the shared service. The proposals for the shared PIs, including the PI results for 2017/18 and the forecasts for 2018/19, will be presented to the December 2018 meeting of the Committee.

6 Peer Review

6.1 The External Peer Review of LDC Internal Audit has been completed. The review was carried out by the Principal Auditor at Chichester District Council. The overall results of the review are that the LDC Internal Audit service generally conforms to the standards set by PSIAS 2017.

6.2 The Peer Review examined the service in four key sections – Purpose and positioning; Structure and resources; Audit execution; Impacts – comparing these to the statements of good practice contained within the PSIAS. The review also took account of the results from the client questionnaires sent to CMT, Heads of Service and the Chair of the Audit and Standards Committee.

6.3 The review found that the Internal Audit service fully complies with 43% of the statements of good practice and, for the remainder, complies with the PSIAS requirements in all material respects. The exceptions were in areas such as annual appraisals, succession planning, and the rotation and technical development of audit staff who are not professionally qualified. No remedial action is planned because the service complies with Council policies in these areas, but these do not meet PSIAS requirements in all respects.

6.4 Where the service is planning remedial action is in completing the audit manual which is in the processing of being re-worked following the merger with Eastbourne Borough Council. The work is underway, and includes the recent procurement of the Pentana audit management system, but no target date for completion has been set. In another area, the service commits to more regular team meetings to facilitate the transfer of knowledge between team members.

7 Combatting Fraud and Corruption

Local initiatives

7.1 The Investigation Team is a member of the East Sussex Fraud Officers Group (ESFOG), a body that enables information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work. Since 2014/15, a sub group of authorities within ESFOG, including LDC and EBC, have been working as a ‘Hub’ to coordinate new counter fraud initiatives across East Sussex.

7.2 The Hub is administered by officers at Eastbourne, with input from ESFOG partners as appropriate. Lewes and Eastbourne Counter Fraud activities have benefitted from Hub funding in the ongoing provision of training, the introduction of a shared case management system, a shared approach to publicity for Hub activities, and the set-up of an on-line system to allow the public to report suspected frauds – the Counter Fraud Teams at Eastbourne and Lewes use a shared web link to receive these reports.

Counter Fraud Team

7.3 At present, countering housing tenancy fraud and abandonment, and preventing RTB fraud, are the main operational priorities for the Counter Fraud Team at Lewes because of the evidence of this being a high risk area for the Council. There are 18 cases of suspected abandonment and/or subletting under investigation, plus two of suspected housing application fraud. Five properties have been returned to stock after joint action by officers in Housing, Legal Services and Counter Fraud to address cases of abandonment or anti-social behaviour. Further property returns are anticipated in current cases where evidence gives a strong indication that the tenant no longer lives at the property.

7.4 Since April 2018, 19 new RTB applications have been received and checked to prevent fraud and protect the Council against money laundering. In the same period, 14 RTB applications have been approved and passed for processing, and 12 applications are currently under review. In the same period, seven RTB applications have been withdrawn or closed after intervention by the team. The team will assess these applications to determine whether the cases indicate potential fraud.

7.5 Audit and Counter Fraud has in place an agreement with DWP for the management of cases of HB fraud. The major work on each HB case is the responsibility of the national Single Fraud Investigation Service (SFIS) within DWP. LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information. In an agreement with Counter Fraud colleagues at Eastbourne, a member of that team carries out the DWP liaison work for LDC and thus allows the LDC team to focus on case work in other areas. In the period since April 2018, there have been six referrals to SFIS, and 18 information requests have been actioned.

8 Risk Management

8.1 Cabinet approved the Risk Management Strategy in September 2003. Since then risk management at the Council has been developed via a series of action plans, with the result that all the elements of the risk management framework set out in the strategy are in place and are maintained at best practice standards.

8.2 The Annual Report on Risk Management and the Strategic Risk Register was presented to the March 2018 meeting of the Committee, and subsequently to the Cabinet. The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. However, there are some risks that are beyond the Council's control, for example a major incident, a '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 effects of such events, and continues to monitor risks and the effectiveness of controls. The overall satisfactory situation for risk management has helped to inform the opinion on the internal control environment.

8.3 CMT has reviewed the Strategic Risk Register, and the results of the review are reported separately to this meeting of the Committee.

8.4 In response to reductions in Government funding for local authorities, the Council continues to make savings each year in its General Fund (which covers all services except the management and maintenance of Council owned homes). At its meeting in February 2018, Council agreed a net budget of £11.82m for 2018/19 including a savings target of £1.03m – of this, £0.70m is to be delivered by Phases 2 and 3 of the JTP and £0.20m from increasing commercial income streams. The 2018/19 budget is to be seen in the context of a Medium Term Finance Strategy that will require an additional £0.73m of savings in the net budget by 2021/22, including £0.30m from the JTP.

8.5 There are also pressures to reduce spending on the management and maintenance of Council owned (HRA) housing. Starting in 2016/17, the Government has required all housing authorities to reduce tenants' rents by a 1% in cash terms in each of the four years through to 2019/20. As a result, by 2019/20, total annual rent income will have fallen by £0.6m to £14.4m. This means that savings of £2.2m will be needed to offset the expected impact of inflation on expenditure budgets over that period. A share of the JTP savings will pass through to the HRA, and the 2018/19 HRA budget has been reduced by a target of £0.30m accordingly.

8.6 The HACF will continue to monitor the impact on the control environment of the JTP, and will liaise with managers who are working to ensure that the control environment keeps pace with these changes.

9 System of management assurance

9.1 The Council operates a management assurance system, which enabled senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they are responsible. As part of this process senior managers are required to consider whether there were any significant governance issues during 2017/18. None were reported and, at its meeting on 26 June 2018, CMT confirmed that there were no significant governance issues to report.

10 Corporate governance

10.1 The Council is required to produce an Annual Governance Statement (AGS), which outlines the main elements of the Council's governance arrangements and the results of the annual review of the governance framework including the system of internal control. The AGS for 2018 is presented to this meeting of the Audit and Standards Committee.

11 External assurance

11.1 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 Council's current external auditors are BDO, and the results of their external reviews have helped inform the opinion on the internal control environment. There have been no recent results since the meeting of the Committee in March 2018, at which the Committee considered BDO's Planning Report to the Audit and Standards Committee: Audit for the year ended 31 March 2018.

12 Future external audit arrangements

12.1 Under the provisions of the Local Audit and Accountability Act 2014, the Secretary of State for Communities and Local Government has specified that a company, Public Sector Audit Appointments (PSAA) Limited, will appoint auditors to local government, police and some NHS bodies.

12.2 The Council has opted into the PSAA arrangements, and was consulted on the appointment of the external auditor for the period of five years from 2018/19. PSAA have appointed Deloitte LLP, and the Council responded to the consultation to confirm its acceptance of the appointment, which started on 1 April 2018. Deloitte LLP will also be the external auditors for EBC.

12.3 BDO is carrying out the audits of the 2017/18 accounts and the 2017/18 HB subsidy claim, and will therefore be working with the Council until at least November 2018. HACF obtained cost quotations from Deloitte LLP and other companies for the independent check and sign off of the HB subsidy claim exercises after the BDO contract has ceased. Deloitte LLP have been appointed to this role for the 2018/19 HB subsidy claim.

13 Financial Appraisal

13.1 There are no financial implications arising from the recommendations in this report other than those already contained within existing budgets.

14 Legal Implications

14.1 There are no direct legal implications arising from this report.

15 Risk Management Implications

15.1 If the Council does not have an effective risk management framework that is subject to proper oversight by Councillors it will not be able to demonstrate that it has in place adequate means to safeguard Council assets and services, and it could be subject to criticism from the Council's external auditor or the public.

16 Equality analysis

16.1 An equalities impact assessment is not considered necessary because the report is for information only and involves no key decisions.

17 Background Papers

Report to the Audit and Standards Committee – Annual Audit Plan 2018/19, 19 March 2018

2018/19 Annual Audit Plan

18 Appendices

18.1 Appendix A1 - Statement of Internal Audit work and key issues.

18.2 Appendix A2 - Table of abbreviations.

18.3 There is no Log of Significant Outstanding Recommendations (normally Appendix B) for this report.

APPENDIX A1

Statement of Internal Audit work and key issues.

Audit Report: Safeguarding of children at Lewes District Council and Eastbourne Borough Council

Date of issue: 29 June 2018

Introduction

Internal Audit has reviewed the Councils' arrangements for ensuring that, in providing services and discharging functions, there is proper regard to the need to safeguard and promote the welfare of children in accordance with their statutory duty under Section 11 of the Children Act 2004.

The East Sussex Local Safeguarding Children Board (LSCB) advises that all organisations in East Sussex engaging people to work with children, whether in a paid or unpaid capacity, must have robust and transparent recruitment procedures to ensure children and young people are safeguarded. The LSCB provides a Safer Recruitment e-learning programme which covers preparing to recruit, selecting the right people, vetting checks and maintaining vigilance. In addition, the Disclosure and Barring Service (DBS) helps employers make safer recruitment decisions and prevent unsuitable people from working with vulnerable groups, including children.

Overall opinion

From the audit work carried out during this review, Internal Audit has obtained minimal assurance that there is a sound system of internal control covering the councils' duties in the area of safeguarding. Weaknesses in the controls and the in level of compliance with controls place the system at risk. If the situation is not improved the councils are at risk of loss or damage.

The main issues that give rise to the above opinion are summarised below. They mainly relate to inconsistencies in policies and gaps in record keeping that have arisen from the merger of the two councils. The audit was advised that there had been no recorded incidents or allegations of abuse made against staff or volunteers.

Senior management's commitment to safeguarding and promoting children's welfare

Systems are in place to ensure that compliance with child protection and safeguarding standards is monitored and quality assured. When commissioning a service from another organisation there are robust mechanisms in place to ensure compliance with Section 11 requirements.

Training

Not all staff have completed the mandatory on line course covering Safeguarding and Child Protection. Not all relevant job descriptions explicitly recognise responsibilities for safeguarding and promoting the welfare of children. An appropriate induction process is in place for all staff. However, the completion of the induction process is not consistent and is not monitored.

Recruitment

Recruitment and vetting policies are in place to help prevent unsuitable people from working with children. These policies are detailed within the separate Safeguarding Policies for each Council, but the policies do not appear to have been fully aligned and contain some differing clauses.

There are written procedures for handling allegations against staff and volunteers and there is a named senior officer with responsibility for dealing with such allegations. However, the individual Councils' Safeguarding Policies have not been updated to reflect the current role of the named senior officer.

Actioning specific safeguarding risks

Safeguarding policies and guidance available to staff do not promote awareness that local authorities must be notified about all Private Fostering arrangements.

There is an appointed Prevent Lead, but the officer is not identified within the Councils' Safeguarding Policies or on the Safeguarding Contacts Details list. The Prevent Lead is identified on the Safeguarding page of .the Councils' intranet.

Additional observations

The Safeguarding Policy for LDC does not contain the Council's e-Safety Policy and a separate policy is not available on the Councils' intranet.

LDC's Disciplinary Procedure states that unproven allegations regarding safeguarding will be retained on employment records for 75 years after termination of employment. It is important that the Disciplinary Procedures are updated to include the correct references and reflect the 10 year (or until retirement) retention period for such allegations.

The report contains ten recommendations, five of which concern issues assessed as high risk. Internal Audit has been advised that the recommendations in the report have already been addressed or good progress is being made. A formal follow up of the recommendation will begin in September 2018.

Audit Report: Estate Management

Date of issue: 1 August 2018

Introduction

The property functions of Eastbourne and Lewes Councils were merged in May 2016 as the Property and Facilities Shared Service (PFSS). This formed part of a gradual move to a Corporate Landlord model, under which the management of property assets and the responsibility for maintenance, development, disposal, management (including leases and licences) and statutory compliance are delivered by a centralised corporate unit. Budgets are transferred from the service department to enable strategic procurement of services and the service departments become clients of PFSS.

Lewes has over 200 properties, of which around 35% of which are industrial units and 20% commercial - including parking receipts, the portfolio generates an annual income of around £2.5m. Eastbourne has nearly 300 properties, of which around 30% are commercial and 14% retail - the portfolio generates around £3m annual income. Around 6% of the overall portfolio is subject to a peppercorn or nominal rental value; a number of these properties are on historic or very long leases or ground rents. Voids stand at approximately 6%; the majority of these are properties being held for future regeneration projects.

Overall opinion

From the audit work carried out during this review Internal Audit has obtained substantial assurance that there is a sound system of internal control covering estate management. On the whole, compliance with controls is satisfactory although there are small number of issues that indicate that there is scope to strengthen the ways in which some controls are operated. The main issues that give rise to this opinion are summarised below.

Asset management and maintenance

A joint Corporate Asset Management Plan is in place for 2017-2020. The plan is supported by a number of policies. A Building Maintenance Plan is being drafted and will set out the planned maintenance across the Corporate Landlord and Investment Estates for a three to five year period.

New acquisitions

Currently there are two properties being managed on behalf of Eastbourne Homes Investment Company (EHIC). There is no service level agreement (SLA) in place but it is planned that a SLA will be drafted.

Asset records

The asset registers for both councils appear to represent full lists of all properties. It was noted that recent acquisitions were included within the Lewes asset register. A check was made on the Eastbourne register for the two properties owned by EHIC - one property was missing from the register, but an updated version of the register was provided which included the second property.

The asset registers contain extracts of all required information to enable management of properties. Currently neither authority uses a computer system to record lease details. New software is being considered but requires further review.

Property monitoring

Currently there is no capacity within the team to carry out planned landlord inspections on a regular basis. Where applicable, tenants remain responsible for internal repairs and when leases finish the property is inspected at this point and dilapidations reviewed. Empty properties are kept at a minimum - the Lewes Asset List contains reasons for vacancies while the Eastbourne Asset List does not.

A list of upcoming lease renewals is manually created from the Asset Lists. There are number of leases showing on the asset lists that are past their end date with no new leases being put in place. This situation is allowed for some types of leases under the Landlord and Tenant Act and is called “holding over” (where there is no current lease but the landlord continues to accept rent payments).

Rent and service charges

There are some properties that are charged a peppercorn or nominal rent. This can be for a number of reasons including charges being for ground rent only, where there is a commercial/social benefit, or when there are old leases in place with low rents that cannot be amended.

Rent reviews are usually completed every five years but this is dependent on the terms of the lease in place. In some cases, it was not clear whether rent reviews had been completed and some documentation was missing.

The report included five recommendations, all of them dealing with issues assessed as low risk.

Audit Report: Key Financial Systems

Date of issue: 10 September 2018

Introduction

This review, which supplements the other work of Internal Audit, enables HACF to form an opinion on the Council’s control environment for the purposes of the Annual Governance Statement (AGS). BDO uses the results of this review to gain assurance about the systems operated by the Council and the effectiveness of the controls that are applied.

Overall opinion

The audit has confirmed that procedures and controls within the key systems are operating to a reasonable standard in most respects. The audit has not identified any significant control issues that will have an impact on the Council’s main accounts for 2017/18.

In a number of cases the controls over ordering and the receiving of goods and services have not operated as intended, or are not operated consistently across the Council. These issues reflect a situation in which lists of authorised signatories and the operation of other controls appear unable to keep pace with changes in staffing and officers’ responsibilities. In other areas established procedures have not operated as originally planned. These issues are not considered likely to have a material effect on the integrity of the main accounts but the issues themselves indicate a change in the control environment within service areas, partly in response to the Joint Transformation Programme (JTP). On balance, the control environment is appropriate to the Council’s requirements in all material respects.

The audit report contains summaries of the findings for the twelve key systems. There are no recommendations.

APPENDIX A2

Table of abbreviations

AGS – Annual Governance Statement
BDO – BDO, the Council's external auditors. Formerly BDO Stoy Hayward
CIPFA – Chartered institute of Public Finance and Accounting
CMT – Corporate Management Team
CTRS – Council Tax Reduction Scheme
DCLG – Department for Communities and Local Government
DWP – Department of Work and Pensions
EBC – Eastbourne Borough Council
ESFOG – East Sussex Fraud Officers Group
ESPB - East Sussex Prevent Board
GDPR - General Data Protection Regulation
HACF – Head of Audit and Counter Fraud
HB – Housing Benefit
HRA – Housing Revenue Account. Refers to Council owned housing
HSO – Health and Safety Officer
ISO – International Organisation for Standardisation
IT – Information Technology
JTP – Joint Transformation Project
LATC – Local Authority Trading Company
LDC – Lewes District Council
LLP – Limited Liability Partnership
NDR – Non Domestic Rates
NFI – National Fraud Initiative
PFSS - Property and Facilities Shared Service
PIs – Performance Indicators
PSIAS – Public Sector Internal Audit Standards
PSAA - Public Sector Audit Appointments
QAIP – Quality Assurance and Improvement Programme
RTB – Right to Buy
SFIS – Single Fraud Investigation Service
WGA – Whole of Government Accounts
W&R – Waste and Recycling

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Report to:	**Audit and Standards Committee**
Date:	**24 September 2018**
Title:	**Lewes District Council - Update of the Strategic Risk Register**
Report of:	**Alan Osborne, Deputy Chief Executive**
Ward(s):	**All**
Purpose of report:	**To present the updated Strategic Risk Register taking account of changes made by Corporate Management Team (CMT)**
Officer recommendation(s):	**(1) To receive and note the update to the Strategic Risk Register**
Reasons for recommendations:	**The Council is committed to proper risk management and to regularly updating the Audit and Standards Committee with regard to the Strategic Risk Register.**
Contact Officer(s):	**Name: David Heath** **Post title: Head of Audit and Counter Fraud** **E-mail: david.heath@lewes-eastbourne.gov.uk** **Telephone number: 01273 085157**

1 Introduction

1.1 Risk management is about using common sense to take effective action to prevent or limit the impact of risks so as to help the Council meet its priorities and deliver services effectively. In September 2003, Cabinet adopted a Risk Management Strategy that set out the responsibilities for risk management at the Council, and which has been supported by a framework of procedures and guidance for the assessment of risks and the development of mitigating controls. The strategy was reviewed and updated, and endorsed by the Audit and Standards Committee in March 2018.

1.2 To support this strategy the Council has a standard approach for assessing risk which is applied to service planning, the management of major projects and decision making. The methodology reflects the need to manage the different aspects of the uncertainty that is inevitable when making changes in how the Council works and taking new approaches to regeneration and investment. The methodology recognizes both the uncertainty that could have an adverse impact leading to loss, harm or damage (i.e. a risk) and the uncertainty that could have a positive effect leading to benefits or rewards (i.e. an opportunity).

2 Approach to the reporting of strategic risks

2.1 In March 2018, the Audit and Standards Committee adopted changes in approach to the reporting of risks as follows:

- The Audit and Standards Committee to become the principal recipient of the Strategic Risk Register and on-going updates. This aligns with the Committee's Remit as set out in the Constitution of the Council.

- Each risk to be scored on the basis of likelihood and impact before mitigation and after mitigation.
- Each strategic risk to become the responsibility of all of CMT.
- CMT to review the strategic risks on a quarterly basis. Where any changes are proposed they are reported to the Audit and Standards Committee with a detailed explanation of the changes in risks or the scoring.
- Consideration of a broader basket of risks that incorporate all the areas of strategic risk previously identified in the Annual Report on Risk Management to the Committee.

3 Quarterly review of the Strategic Risk Register by CMT

3.1 The following changes have been made by CMT since the March 2018 meeting of the Audit and Standards Committee:

- Risk 5 - Not being able to sustain a culture that supports organisational objectives and future development. The residual score after mitigation for likelihood has been raised from a 2 to 3. This raises the overall Current Risk Score from 8 to 12 (remains Amber).
- Risk 8 – Failure to meet regulatory or legal requirements. The residual score after mitigation for likelihood has been raised from a 1 to 2. This raises the overall Current Risk Score from 4 to 8 (from Green to Amber).
- Risk 9 – Commercial enterprises that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements. The original risk, before mitigation, had a score of 3 for impact and this has now been raised to a 4. This raises the overall Original Score from 9 to 12. The residual score after mitigation for likelihood has been raised from 2 to 3. This raises the overall Current Risk Score from 6 to 9. (remains Amber).

3.2 CMT considered that, in the current difficult economic and financial environment, the scores outlined above needed to be increased for the three risks.

4 Financial appraisal

4.1 There are no financial implications arising from the recommendations to this report other than those already contained within existing budgets. However, if a strategic risk is not subject to effective mitigation there could be significant financial impact on the Council.

5 Legal implications

5.1 There are no direct legal implications arising from this report.

6 Risk management implication

6.1 If the Council does not have an effective risk management framework that is subject to proper oversight by Councillors it will not be able to demonstrate that it has in place adequate means to safeguard Council assets and services, and it could be subject to criticism from the Council's external auditor or the public.

7 Equality analysis

7.1 An equalities impact assessment is not considered necessary because the report is seeking endorsement of existing risk management arrangements at the Council including the strategic risks identified by CMT.

8 Appendices

- Appendix 1 – Lewes District Council - Strategic Risk Register 2018/19 (updated)
- Appendix 2 – Scoring methodology for risks

9 Background papers

Report to the Audit and Standards Committee - Risk Management and the Strategic Risk Register 19 March 2018.

http://democracy.lewes-eastbourne.gov.uk/CeListDocuments.aspx?CommitteeId=423&MeetingId=2882&DF=19%2f03%2f2018&Ver=2

Appendix 1: Lewes District Council – Strategic Risk Register 2018/19 (updated)

Risk	Description	Likelihood	Impact	Original Risk Score	Mitigating controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light
1. No political and partnership continuity/consensus with regard to organisational objectives	Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and Medium Term Financial Strategy unfit for purpose.	4	4	16	1. Creation of inclusive governance structures which rely on sound evidence for decision making. 2. Annual review of corporate plan & Medium Term Financial Strategy. 3. Creating an organisational architecture through the Joint Transformation Programme that can respond to changes in the environment.	CMT	3	3	9	Amber
2. Changes to the economic and financial environment makes the Council economically less sustainable	1. Economic development of the district suffers. 2. Council objectives cannot be met.	4	4	16	1. Robust Medium Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macro-economic environment triennially. 2. Creating an organisational architecture through the Joint Transformation Programme that can respond to changes in the environment.	CMT	4	3	12	Amber
3.Unforeseen socio-economic and /or demographic shifts creating significant changes in demands and expectations.	1. Unsustainable demand on services. 2. Service failure. 3. Council structure unsustainable and not fit for purpose. 4. Heightened likelihood of fraud.	2	4	8	1. Ensuring significant corporate decisions are based on up to date, robust, evidence base. (e.g. Census information) 2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme)	CMT	2	3	6	Amber

Risk	Description	Likelihood	Impact	Original Risk Score	Mitigating controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light
4. The employment market provides unsustainable employment base for the needs of the organisation.	Employment market unable to fulfil recruitment and retention requirements of the Council resulting in a decline in performance standards and an increase in service costs.	4	4	16	1. Joint Transformation Programme to increase non-financial attractiveness of LDC to current and future staff. 2. Appropriate reward and recognition policies reviewed on a regular basis. 3. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of mutually beneficial shared service arrangements.	CMT	2	2	4	Green
5.Not being able to sustain a culture that supports organisational objectives and future development.	1. Decline in performance. 2. Higher turnover of staff.	4	4	16	1. Deliver a fit for purpose organisational culture through the Joint Transformation Programme. 2. Continue to develop our performance management capability to ensure early intervention where service and/or cultural issues arise. 3. Continue to develop communications through ongoing interactions with staff.	CMT	**3**	4	12	Amber
6 Council prevented from delivering services for a prolonged period of time.	1. Denial of access to property (including plant and equipment) 2. Denial of access to technology/information 3. Denial of access to a significant contract or partnership.	3	5	15	1. Reviewed and tested Business Continuity Plans. 2. Reviewed and tested Disaster Recovery Plan. 3. Joint Transformation Programme has created more flexible, less locationally dependent service architecture.	CMT	2	4	8	Amber

Risk	Description	Likelihood	Impact	Original Risk Score	Mitigating controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light
					4. Adoption of best practice IT and Asset Management policies and procedures.					
7 Council materially impacted by the effects of an event under the Civil Contingencies Act.	1. Major incident caused by fire, flood or other disaster resulting in homelessness, disruption to Council services and local business community. 2. Service profile of the Council changes materially as a result of the impact of the event. 3. Cost profile of the Council changes materially as a result of the impact of the event.	3	5	15	1. Robust Emergency Planning/ use of Council's Emergency powers. 2. Ongoing and robust risk profiling of local area (demographic and geographic). e.g. flood risk 3. Review budget and reserves in light of risk profile to make funds available if an event occurs. 4. Working in partnership with other public bodies to put in place preventative measures and/or deal with effect of an incident once it has occurred.	CMT	1	3	3	Green
8. Failure to meet regulatory or legal requirements	1. Credibility of the Council is negatively impacted. 2. Deterioration of financial position as a result of regulatory activity/ penalties. 3. Deterioration of service performance as a result of regulatory activity/ penalties.	3	4	12	1. Maintain, monitor and continue to develop a robust governance framework for the Council. 2. Building relationships with regulatory bodies. 3. Performance Management capability in place and continue to further develop to ensure early intervention where service and/or cultural issues arise. 4. Ensure there is full	CMT	**2**	4	**8**	**Amber**

Risk	Description	Likelihood	Impact	Original Risk Score	Mitigating controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light
	4. Increased probability of prosecutions and compensation claims as a result of inadequate management of Health and Safety duties. 5. Possibility of fraud and bribery. 6. Ensure compliance with legislation such as Data Protection and Safeguarding. 7. Entering into contracts etc. without having adequate finance in place.				understanding the impact of new legislation or regulations .e.g. GDPR 5. All managers are required to abide by the Council's procurement rules. 6. JTP Board considers activity mapping, ensuring that it covers regulatory/legal and main financial matters.					
9.Commercial enterprises and new significant joint ventures that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements.	1. Unfamiliar activity with staff inexperienced in this area. 2 Council finances affected if projects do not meet financial expectations. 3 Reputational damage if governance procedures are inadequate. 4 Failure to abide by company law.	3	**4**	**12**	1. Hire suitably qualified/experienced staff to give legal and specialist support. 2. Appoint Head of Commercial Activities. 3. Ensure that projects meet core principles. 4. Up or reskill staff to maximise commercial opportunities. 5. Maintain strong governance processes which are adhered to. When new commercial enterprises and significant joint ventures are	CMT	**3**	3	**9**	Amber

Risk	Description	Likelihood	Impact	Original Risk Score	Mitigating controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light
					set up ensure strong governance processes are put in place.					

Appendix 2: Scoring methodology for risks

Assess the impact of risks.

Classify (and score) the risks (assuming that nothing is done to prevent the risks occurring) into:

- Very low impact
- Low impact
- Medium impact
- High impact
- Very high impact

Assess the likelihood or risk.

Classify (and score) the risks (assuming that nothing is done to prevent them). Risks are evaluated in terms of:

- Very low likelihood
- Low likelihood
- Medium likelihood
- High likelihood
- Very high likelihood

Evaluate the risks.

Each risk should be plotted on the risk matrix (see below)**.** This allows you evaluate the overall effect of your risk assessment.

Evaluation of risk score

Colour	Score	Commentary
Green	1 to 4	Low Risk
Amber	5 to 14	Medium Risk
Red	15 to 25	High Risk

Determine the action or controls to deal with the risks.

Determine what can be done or what is already being done to deal with the risks that have been identified. There are four ways to deal with risks:

- **Accept**

Some risks may be accepted if they have a low impact or are not likely to occur, or are considered to be risks worth taking to secure a business advantage.

- **Reduce/Treat/Mitigate**
  Risks may be reduced by taking steps to control or reduce the risk. It is for managers to take appropriate action to limit the threat posed by risks.

  Effective control systems already exist in many areas of the Council's activities. However, it is important that existing controls are **not** assumed to mitigate all the risks identified by the risk assessment exercise. As the risk environment needs regular monitoring, so will managers need to consider whether new controls or improvements to existing controls are needed.

Where significant new controls are required these need to be planned as part of the Service Plan. If additional resources are necessary, managers will need to discuss requirements with their Director and the Head of Finance to determine if resources are available.

- **Avoid**

If the risk is too great for the Council and it is not practical to reduce the risk, then it may be decided that the risk should be avoided. Please note that areas of greatest uncertainty may provide the greatest opportunity for significant benefits to the Council. In that context, decisions to avoid risks should be taken after a full assessment of the positive/negative impacts.

- **Transfer**

Insurance is the normal method of transferring risks, particularly high impact risks that cannot be accepted. It may be necessary to consider additional insurance cover and the Council's Insurance Officer will be able to offer further advice on this if required. It is possible to transfer some risks by contracting out certain functions/services, but the contracting process itself can create other risks.

Specify what can be done to reduce/mitigate/control the risk.

Identify what action or control would reasonably deal with the risk and the managers responsible.

Rescore the risk.

Once the mitigation or control is in place you should re score the impact and likelihood to reflect the current position.

<u>Risk matrix</u>

IMPACT

5					
4					
3					
2					
1					
	1	**2**	**3**	**4**	**5**

LIKELIHOOD

LEWES DISTRICT COUNCIL

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

12 September 2018

BDO

CONTENTS

WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit and Standards Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Audit and Standards Committee. At the completion stage of the audit it is essential that we engage with the Audit and Standards Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit and Standards Committee meeting on 24 September 2018, and to receiving your input.

In the meantime, if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Audit and Standards Committee and those charged with governance. In preparing this report, we do not accept or assume responsibility for any other purpose or to any other person.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit and Standards Committee in reviewing the results of the audit of the financial statements and use of resources of the Council for the year ended 31 March 2018.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

AUDIT SCOPE AND OBJECTIVES	
Audit status	We are in the process of completing our audit procedures in accordance with the planned scope. Our objectives have been achieved subject to resolution of matters set out in the outstanding matters section below. As reported by management to the Audit and Standards Committee in July 2018, the draft Statement of Accounts was not prepared in accordance with the new faster close statutory deadline of 31 May 2018. It was submitted for audit towards the end of June 2018 and we agreed with management that we would carry out our final audit visit in August and September 2018. Therefore, the new statutory deadline of 31 July 2018 for the final Statement of Accounts has also not been met. Management attributed the delay in preparation of the draft Statement of Accounts to late receipt of land and buildings valuation information from the external valuer and IT issues with the fixed asset register.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan to you dated 26 February 2018.
Materiality	Our final materiality is £1.8 million. We have increased our materiality level by £100,000, compared to the materiality level reported in our Audit Plan, as a result of an increase in gross expenditure in the 2017/18 financial statements.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.

OVERVIEW

KEY AUDIT AND ACCOUNTING MATTERS	
Material misstatements	Our audit work completed to date has not identified any material misstatements, although our audit procedures on non-current assets are still in progress and could result in audit differences.
Unadjusted audit differences	Our audit sample testing identified a capital item for £14,000 incorrectly charged to revenue expenditure. Whilst this is below our trivial level for reporting, we are required to consider the potential for misstatements in the untested population and therefore we extrapolated the error and estimated an overall potential misstatement of £88,000 (after extending the sample tested). We have also rolled forward audit differences in the prior year that continue to impact on current year balances. These are set out in Appendix I. You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement, although we also request that you correct the current year audit difference even though not material.
Control environment	Whilst the Council has attributed the delay in preparation of the draft Statement of Accounts to factors beyond its control, we have raised a significant control deficiency recommendation in Appendix II, as management will need to ensure that there are appropriate contingency arrangements in place in the event of unforeseen circumstances in the accounts closedown process going forward.
KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
Sustainable finances	While there is a recognised funding gap in the Medium Term Financial Strategy (MTFS), we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS. All of the required savings for 2018/19 have been identified.

OVERVIEW

AUDIT OPINION	
Financial statements	Subject to the successful resolution of outstanding matters set out on page 6, we anticipate issuing an unmodified opinion on the Council financial statements for the year ended 31 March 2018.
Other information	We propose issuing an unmodified opinion on the consistency of the other information in the Statement of Accounts with the financial statements and our knowledge.
Annual Governance Statement	We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge, although we have requested that additional information is added to the Governance Statement to explain the delay in preparation of the draft financial statements.
Use of resources	We anticipate issuing an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018.
OTHER MATTERS FOR THE ATTENTION OF THE AUDIT AND STANDARDS COMMITTEE	
Whole of Government Accounts (WGA)	The Council is below the audit threshold of £500 million for a full assurance review of the WGA Data Collection Tool.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Management letter of representation	The draft management letter of representation, to be approved and signed, is set out in Appendix VI.

OUTSTANDING MATTERS

At the time of drafting this report, we are in the process of completing our audit work for the year ended 31 March 2018, and anticipate issuing an unmodified opinion on the Council financial statements.

The following matters are outstanding at the date of this report. We will update you on their current status at the Audit and Standards Committee meeting at which this report is considered:

1	Clearance of six outstanding issues on the audit queries tracker currently with management
2	Audit of the valuation of Non-Current Assets: Property, plant and equipment; Investment Properties and Heritage Assets
3	Documentation to support some journals in the final quarter of the year
4	Audit of financial instruments
5	Completion of our sample testing of receipts and expenditure either side of the year end
6	Completion of our audit of the Collection Fund
7	Reperformance of a sample of benefits testing completed by internal audit
8	Final review and approval by you of the Statement of Accounts
9	Engagement lead and independent quality control reviews
10	Subsequent events review
11	Management letter of representation, as attached in Appendix VI to be approved and signed

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

Below we set out how these risks have been addressed and the outcomes of our procedures.

Key: ■ Significant risk ■ Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	Management override of controls	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. By its nature, there are no controls in place to mitigate the risk of management override.	We: • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements for the first nine months; we need to compete this testing for the last quarter of the year	No issues were identified from our review of the appropriateness of journal entries in the first nine months of the year. We will update the Audit and Standards Committee on the findings of our review of journals in the final quarter and other adjustments to the financial statements made after 31 March 2018.
			• Reviewed accounting estimates for biases associated with pensions, bad debts and accruals and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud	Our work on accounting estimates to date has not identified any evidence of bias. We will update the Audit and Standards Committee on the findings from our review of Non-Current Asset estimates, when we have completed our work in this area.
			• Obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual.	We have not identified any unusual transactions in journals reviewed to date.

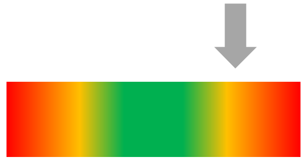
KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	Revenue and expenditure recognition	Under auditing standards there is a presumption that income recognition presents a fraud risk. Our Audit Plan identified a risk in relation to the existence and accuracy of fees and charges credited to net cost of services recorded in the Comprehensive Income and Expenditure Statement (CIES) throughout the year and the cut-off of this income at year end. In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 (PN10), issued by the Financial Reporting Council. PN10 states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure.	We: • Tested an increased sample of fees and charges income credited to the net cost of services to underlying documentation and confirmed the existence and accuracy of transactions throughout the year • Tested a sample of receipts either side of year end, to confirm that income has been recorded in the correct period and that all income that should have been recorded at year end has been • Tested a sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period.	We did not identify any issues in our testing of revenue from fees and charges credited to the net cost of services. Our testing of receipts either side of the year end is in progress. Our testing of expenditure either side of the year end is in progress. We will update the Audit and Standards Committee on the findings from this testing, when it is complete.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	Valuation of non-current assets	Local authorities are required to ensure that the carrying value of non-current assets is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date. The Council appointed an external valuer to carry out a year end desktop review on all property categories. Due to the significant value of the Council's non-current assets, and the high degree of estimation uncertainty, our Audit Plan identified a risk over the valuation of non-current assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year end.	We: • Reviewed the instructions provided to the valuer, and the valuer's skills and expertise, in order to determine if we can rely on the management expert • Confirmed that the basis of valuation for assets valued in year is appropriate, including checking that investment properties and surplus assets have been valued at 'highest and best use' • Reviewed the reasonableness of assumptions used in the valuations against indices and price movements for classes of assets, and the Council's critical assessment of the external valuer's conclusions.	From our review of the instructions provided to the valuer, DVS, we noted some instances where out of date information had been provided by the Council. We have included a recommendation about this in Appendix II. However, we are satisfied that we can rely on the management expert. We have not yet received the final updated valuation report from the valuer to confirm the figures in the draft accounts and the basis of the valuations. We have made various attempts to contact the valuer during the execution of the audit but we have not yet received responses to our queries. We are continuing to follow up on these queries via both email and telephone calls. We will update the Audit and Standards Committee on the findings of our audit work in this area, when it is complete.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES		
Land, buildings, dwellings and investment property valuations		
ESTIMATE	**HOW RISK WAS ADDRESSED BY OUR AUDIT**	**IMPACT**
Land and buildings are valued by reference to existing use market values Dwellings are valued by reference to open market value less a social housing discount Investment properties are valued by reference to highest and best use market value Some specialist buildings are valued at depreciated replacement cost (DRC) by reference to building indices	The Council appointed an external valuer to carry out a year end desktop review on council dwellings, investment properties, surplus assets, and assets valued on a depreciated replacement cost basis. This resulted in a net upwards revaluation movement of £10.109 million in the year for property, plant and equipment (£3.529 million as impairments recognised in the deficit on provision of services and £13.638 million to the revaluation reserve) and a loss of £249,000 for investment properties in the draft financial statements submitted for audit. **Council dwellings** The valuer provided the Council with a valuation as at 31 March 2018 (valuation dated 1 January 2018 and topped up with a price movements review to 31 March 2018), on a beacon basis, resulting in an increase of 2.46% on the vacant possession value and net revaluation gains of £1.199 million. This increase is lower than regional trends in property prices in Lewes and the South East, which indicate an increase of 5.7% and 4.3% respectively for the year ended 31 March 2018. We are currently liaising with the valuer to determine the appropriateness of the valuation increase applied and to gain an understanding of the factors which may have contributed to the lower percentage increase. **Other land and buildings valued on depreciated replaced cost basis** All assets valued on a depreciated replacement cost (DRC) basis have been revalued as at 31 March 2018 (valuation dated 1 January 2018 and topped up with a price movements review to 31 March 2018). This resulted in an overall increase of 16.2% in the value of these assets and an upward revaluation gain of £2.910 million. For all assets we have determined a suitable index to benchmark the asset's value against, based on advice from Gerald Eve LLP, a firm of property consultants and chartered surveyors commissioned by the National Audit Office to assist auditors' consideration of movements in the valuation of non-current assets. Based on this advice, we have referred to the BCIS tender price index for assets valued under depreciated replacement cost. In 2017/18, there were significant fluctuations in the BCIS tender price index, an annual increase of 6.7% is reflected in the market report; local data adjusted for location factors provided by the Council's valuer shows an increase of 4.8% in the tender price index, which we have used in our assessment.	 < lower higher >  < lower higher >

KEY AUDIT AND ACCOUNTING MATTERS

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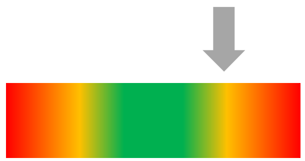
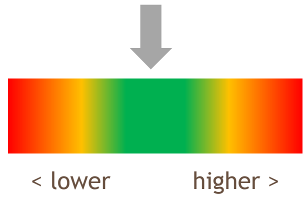
SIGNIFICANT ACCOUNTING ESTIMATES		
Land, buildings, dwellings and investment property valuations (continued)		
ESTIMATE	**HOW RISK WAS ADDRESSED BY OUR AUDIT**	**IMPACT**
As above	Our audit approach has considered all of these factors, and determined an expected valuation for each asset. A reasonable range was then set based on our professional judgement and taking into account the reliability and quality of the market information available. We are currently liaising with the valuer in respect of the assets outside of this reasonable range to determine whether there are specific factors relating to them which have affected their valuation. **Other land and buildings valued on an existing use basis** The valuer provided the Council with a valuation as at 31 March 2018, on an existing use basis for HRA garages, resulting in an increase of 15.4% of the existing use value and net revaluation gains of £1.388 million. We are currently liaising with the valuer to determine the appropriateness of the valuation increase applied for the garages and to gain an understanding of the factors which may have contributed to the percentage increase applied. **Other land and buildings not revalued in the year** Other land and buildings not revalued in the year have a gross book valuation of £24.587 million as at 31 March 2018. The Council's valuer has confirmed that there was no material movement at year-end for assets not revalued in the year, based on a threshold of £100,000. We have reviewed available market data and indices for the periods between valuations and assessed the reasonableness of the valuations in light of this information. For all assets we have determined a suitable index to benchmark the asset's value against, based on advice from Gerald Eve LLP, a firm of property consultants and chartered surveyors commissioned by the National Audit Office to assist auditors' consideration of movements in the valuation of non-current assets. Based on this advice, we have referred to the MSCI capital index.	 < lower higher >

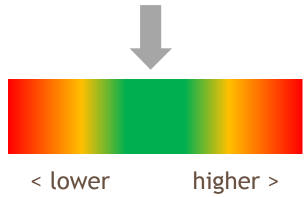
KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Land, buildings, dwellings and investment property valuations (continued)

ESTIMATE	HOW RISK WAS ADDRESSED BY OUR AUDIT	IMPACT
As above	Our audit approach has considered all of these factors, and determined an expected valuation for each asset. A reasonable range was then set based on our professional judgement and taking into account the reliability and quality of the market information available. Applying the relevant indices to the assets, where this resulted in a potential valuation movement outside of a reasonable range. We are currently in the process of quantifying and totalling these differences. **Investment properties** All investment properties were revalued as at 31 March 2018 and a fair value loss of £249,000 is recognised in the statement of accounts, a decrease of 2.6%. Larger gains and losses have been recognised on some investment properties in the year, with movements ranging from -38% to 300%. For each investment property, we have determined a suitable index to benchmark the asset's value against, based on advice from Gerald Eve LLP, a firm of property consultants and chartered surveyors commissioned by the National Audit Office to assist auditors' consideration of movements in the valuation of non-current assets. Based on this advice, we have referred to the MSCI regional rental growth for our assessment of investment property valuations. Our audit approach has considered these factors and determined an expected valuation for each asset. A reasonable range was set based on our professional judgement and taking into account the reliability and quality of the market information available. We are currently liaising with the valuer in respect of the assets outside of this reasonable range to determine whether there are specific factors relating to them which have affected their valuation. **Surplus assets** All surplus assets were assets were revalued as at 31 March 2018 and a net revaluation loss of £811,000 has been recognised in the statement of accounts (£1.200 million recognised as a loss in the surplus on the provision of services). The impairment recognised primarily relates to one asset which is scheduled for demolition as part of a wider regeneration project. Our audit approach determined an expected valuation for each surplus asset based on relevant market information available and reviewed the valuation given against this data. We consider that the valuation of surplus assets is within a reasonable range based on the information available.	





KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	Pension liability assumptions	The net pension liability comprises the Council's share of the market value of assets held in the East Sussex County Council's Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. Our Audit Plan identified a risk that the membership data and cash flows provided to the actuary at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.	We: • Agreed the disclosures to the information provided by the pension fund actuary • Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data • Sought assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary (this is not yet available at the time of drafting our report) • Checked whether any significant changes in membership data have been communicated to the actuary	No issues were identified in the financial statements disclosures when compared to the actuary's report. Our review of assumptions used to estimate the value of the pension liability concluded they are not unreasonable (see next page). We used the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions. We have received an assurance report from the pension fund auditor – no significant issues were reported. There were no significant changes to staff numbers that would require additional communication with the actuary this year.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ACCOUNTING ESTIMATES

Pension liability assumptions

ESTIMATE

The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows

HOW RISK WAS ADDRESSED BY OUR AUDIT

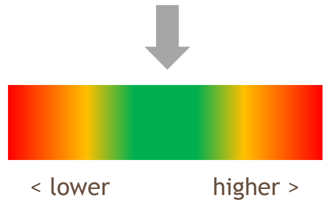
As at 31 March 2018 net pension liabilities disclosed in the Balance Sheet decreased by £1.19 million compared to the balance at 31 March 2017. The movements mainly comprised a decrease from current service costs exceeding contributions paid by the Council and a decrease from interest costs. In addition, in the prior year there was the impact on the transfer of staff to Eastbourne Borough Council. The majority of other assumptions remained consistent between the years other than an increase in the discount rate (this reduced the liability).

The actuary has used the following assumptions to value the future pension liability:

	Actual used	Actuary range	PwC assessment of actuary range to market expectations
CPI increase	2.4%	2.4%	Reasonable
Salary increase	2.8%	--	Scheme and employer specific – appears reasonable in context of CPI/RPI
Pension increase	2.4%	2.4%	Reasonable
Discount rate	2.6%	2.6-2.7%	Reasonable
Mortality - LGPS:			
- Male current	22.1 years	21.5-22.8	Reasonable
- Female current	24.4 years	24.1-25.1	Reasonable
- Male retired	23.8 years	23.7 – 24.4	Reasonable
- Female retired	26.3 years	26.2 – 26.9	Reasonable

The assumptions used all fall within the acceptable range for the actuary.

IMPACT



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KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	**Recharges between the Council and Eastbourne Borough Council**	The Council is undergoing a major Joint Transformation Programme (JTP) with Eastbourne Borough Council to merge frontline services and back office functions. In February 2017, the vast majority of the Council's employees were transferred onto Eastbourne Borough Council's payroll. There are recharging arrangements in place for each of the four key service areas (Corporate Management Team, Information Technology, Human Resources and Asset Management) and for employees outside of these services. On a monthly basis Eastbourne Borough Council calculates, based on these arrangements, the amount to be recharged via invoice back to the Council. Legal Services are held within Lewes District Council and the Council recharges Eastbourne Borough Council for these services. We understand that the recharge percentages may change when budgets are realigned in 2017/18. Given that this is the first full year of these recharge arrangements, there remains a risk over the accuracy of expenditure in the Comprehensive Income and Expenditure Statement. There is also a risk that redundancies from the JTP may not be appropriately accounted and disclosed for in line with the CIPFA's Code of Practice on Local Authority Accounting 2017/18.	We: • Reviewed the reasonableness and accuracy of the recharge arrangements in place between the councils and check that the Council's share of the costs is in line with approved recharge arrangements	We obtained the recharge tracker as part of our audit of Eastbourne Borough Council and confirmed that there are arrangements in place to maintain the spreadsheet on a monthly basis and recharge the council via invoices. For the service lines that were set up as shared service arrangements in phase one of the JTP, there are set percentages in place for the amounts recharged, which are between 40% and 50% per service. As further shared services and greater integration between the councils' staff has developed during the year, Eastbourne Borough Council moved away from recharging the Council 100% of the hosted payroll cost and is allocating payroll and some non-payroll costs between the councils on a shared service basis. Our testing has confirmed that costs are split between 40% and 50% dependent on the service line. In our prior year audit, we confirmed from review of Cabinet minutes and discussions with management of both councils that delegated authority was given to the Deputy Chief Executive to determine the appropriate split of JTP costs and benefits. Internal Audit concluded in their main accounting system review that Shared Service Agreements are not filed with the recharges working papers as supporting documentation for costs split between the councils. Whilst we have found no evidence of unreasonable recharges between the councils, we have repeated Internal Audit's recommendation in Appendix I as there is scope to strengthen the governance arrangements in this area.
			• Reviewed the completeness and accuracy of redundancy accruals and provisions and exit package disclosures.	No issues noted from our testing of exit packages.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
6	Group Accounts	The Council has a new wholly owned subsidiary, Lewes Housing Investment Company Limited. At the time of our planning it was not known whether transactions in this entity would be material in 2017/18 and therefore whether Group Accounts would be required. In addition, the Council has an interest in a new joint housing investment partnership with Eastbourne Borough Council, Aspiration Homes Limited. The Council's share of the joint arrangement depends on the value and timing of transactions in the new company. If material, an assessment will need to be made as to whether the joint arrangement comprises a joint venture or a joint operation under International Financial Reporting Standard 10 Consolidated Financial Statements and Group Accounts will need to be prepared. There is a risk that the Council may need to prepare Group Accounts for the first time.	We have reviewed the financial results of Lewes Housing Investment Company Limited and Aspiration Homes Limited at the year end.	Review of the accounts of Lewes Housing Investment Company Limited and Aspiration Homes Limited confirmed that there were no material transactions in the year and therefore Group Accounts were not required.

KEY AUDIT AND ACCOUNTING MATTERS

OTHER ISSUES

We comment below on other issues identified in the course of our audit, of which we believe you should be aware:

	AUDIT AREA	AUDIT FINDINGS
1	HRA Expenditure	Our audit sample testing identified an invoice for £14,000 within HRA repairs and maintenance expenditure which was capital in nature and therefore incorrectly treated as revenue expenditure. Additional testing has been performed and the sample has been extended to 36 invoices. No further errors were identified. Whilst the identified error is below our trivial level for reporting, we are required to consider the potential for misstatements in the untested population and therefore we extrapolated the error and estimated an overall potential misstatement of £88,000 (after extending the sample tested). This is included within the schedule of unadjusted audit differences in Appendix I, which sets out the factual error and the estimated overall potential error.
2	Accounts adjustments	The following presentational and disclosure amendments have been made to the financial statements as a result of the audit: • Reclassification of an amount of £2.758 million from other service expenses to depreciation, amortisation, impairment/(reversals) in the note on Expenditure and income analysed by nature (note 9) • Reclassification of an amount of £130,000 from capital grants and contributions to other minor grants credited to cost of services within the grant note (note 31) • Various minor presentational amendments.

KEY AUDIT AND ACCOUNTING MATTERS

MATTERS REQUIRING ADDITIONAL CONSIDERATION

We comment below on other matters requiring additional consideration:

	AUDIT AREA	AUDIT FINDINGS
1	Fraud	Whilst the directors have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from those charged with governance on whether you are aware of any known, suspected or alleged frauds since we last enquired when presenting the Audit Plan on 19 March 2018.
2	Internal audit	We reviewed the audit work of the Council's internal audit function to assist our risk scoping at the planning stage and to support our review of the Annual Governance Statement and our use of resources work.
3	Related parties	We are required to consider whether the disclosures in the financial statements concerning related party transactions are complete, accurate and in line with the requirements of the accounting standards. We have agreed the related party note to supporting working papers and declaration forms, reviewed the ledger to ensure accuracy of the stated figures and completed companies house searches to confirm completeness of the disclosures. Our audit did not identify any omissions or inaccuracies in the related parties note in the financial statements.

OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

	MATTER	COMMENT
1	We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Statement of Accounts is consistent with the financial statements and our knowledge.
2	We are required to report by exception if the Annual Governance Statement does not meet the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government Framework' (2016 Edition) published by CIPFA/SOLACE or is misleading or inconsistent with other information that is forthcoming from the audit.	We have no matters to report in relation to the Annual Governance Statement's compliance with relevant guidance, although we have requested that additional information is added to the Governance Statement to explain the delay in preparation of the draft financial statements.

CONTROL ENVIRONMENT

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Standards Committee.

As the purpose of the audit is for us to express an opinion on the Council's financial statements and use of resources, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

We note that the Council’s internal audit function has issued a number of observations and recommendations on the Council’s control environment during 2017/18. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control, which we are required to report to you.

There was a significant control deficiency in 2017/18 as the Council failed to prepare its draft Statement of Accounts by the statutory deadline of 31 May 2018, thereby impacting our ability to complete the audit by the statutory deadline of 31 July 2018. Whilst management has attributed the delay in preparation of the draft Statement of Accounts to factors beyond its control, namely late receipt of land and buildings valuation information from the external valuer and IT issues with the fixed asset register, the Council should ensure that there are appropriate contingency arrangements in place in the event of unforeseen circumstances in the accounts closedown process.

We have identified two other deficiencies in controls that have been discussed with management and included in the action plan at Appendix II.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

	MATTER	COMMENT
1	Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 14 June 2018. The Council submitted its DCT on 31 July, following delays in the preparation of the financial statements. We will submit the relevant section of the assurance statement to the National Audit Office (NAO) when we have completed the audit of the financial statements.

USE OF RESOURCES

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money) and report to you on an 'except for' basis. This is based on the following reporting criterion:

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

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

We reported our risk assessment, which included use of resources significant risks, in the 2017/18 Audit Plan issued in February 2018. We have since undertaken a more detailed assessment of risk following our completion of the interim review of financial controls and review of the draft financial statements, and we have not included any additional significant risks.

We report below our findings of the work designed to address these significant risks and any other relevant use of resources work undertaken.

Key: ■ Significant risk

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances	The update to the Medium Term Financial Strategy (MTFS) to 2020/21 forecast further reductions in Government core grant funding, falling New Homes Bonus funding from 2017/18 and annual inflationary and pay award pressures. Budget gaps were identified in respect of 2017/18 (£641,000), 2018/19 (£913,000), 2019/20 (£605,000) and 2020/21 (£38,000), resulting in an average level of required savings of £549,000 per annum over the four-year period. The Council currently has a number of major development / transformation programmes in place to help facilitate these savings or create additional revenue streams in the medium term, to close the budget gaps. There is a risk that the MTFS does not adequately take account of the investment costs and savings associated with these projects, and that the Council does not have appropriate arrangements to monitor progress in delivering benefits from these projects against the MTFS. As a starting point for assessing the effectiveness of the Council's arrangements for ensuring sustainable finances, we reviewed current year outturn and the Council's reserves position.	**General Fund** The Council budgeted to spend £11.148 million on General Fund services in 2017/18 (incorporating a savings target of £641,000) and to make a net transfer to earmarked reserves of £704,000. The actual cost of services (before technical accounting adjustments) in 2017/18 was £11.969 million, an overspend of £821,000. This was largely due to additional one-off costs associated with the Joint Transformation Programme including temporary staff pending transition. The actual net transfer to reserves was £103,000 less than budgeted. Overall, the general fund balance increased by £31,000, to £2.093 million. The closing General Fund balance remains above the minimum level of £1 million recommended by the Section 151 Officer. The total Earmarked General Fund reserves balance fell by £1.359 million, to £8.737, million at 31 March 2018. The decrease in earmarked reserves largely related to £2.257 million use of strategic reserves set aside to support the Council's Joint Transformation Programme of Integration. **Housing Revenue Account** Net costs of £933,000 were incurred on the HRA in 2017/18, compared to a budgeted break even position. This was largely due to additional one-off costs associated with the Joint Transformation Programme. Total HRA reserves (HRA balance and major repairs reserve) totalled £7.971 million at 31 March 2018, an increase of £166,000 from the prior year. The total contribution made to the major repairs reserve is higher than the original budget to reflect the current known cost of replacing components. **Collection Fund** The council tax balance in the Collection Fund remained in surplus by £781,000 at 31 March 2018. The Council's share of the closing surplus is approximately £122,000. The non domestic rates balance in the Collection Fund is a deficit of £1.949 million at 31 March 2018. This is largely due to charges for appeals against valuations. As a result, the overall Collection Fund is in deficit by £1.168 million at 31 March 2018, which is a deterioration on the prior year deficit balance of £1.362 million. However, we are satisfied that the Collection Fund is being adequately monitored and managed.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances (continued)	We reviewed the assumptions used in the MTFS for investment costs and savings associated with major development/ transformation programmes. We also reviewed the Council's arrangements for monitoring the progress of these programmes against the budgeted savings targets.	**Medium term financial strategy** The Council achieved £341,000 of its £641,000 savings target for the year. This related mainly to savings from the Joint Transformation Programme, a reduction in Wave Leisure service fees and income generation in waste and recycling. The Joint Transformation Programme did not achieve its budgeted savings for the year but the shortfall is being recouped in 2018/19 and the difference was managed by vacancies during 2017/18. An updated MTFS from 2018 – 2021 was approved by Cabinet in July 2018 as part of the 2018/19 general fund revenue budget. Revised budget gaps have been identified in 2018/19 (£1.034 million), 2019/20 (£585,000), 2020/21 (£126,000) and 2021/22 (£19,000), resulting in an average level of required savings of £441,000 per annum over the four year period. This is a reduction on the average savings compared to the previous MTFS update. The savings for 2018/19 have been identified and relate largely to planned new income streams and the JTP shared transformation programme. **Joint transformation programme with Eastbourne Borough Council to provide joint services** As reported above, the Council is currently in the process of undergoing a major Transformation Programme with Eastbourne Borough Council, both in the provision of frontline services and the organisation of back office functions. This is being delivered over three phases. Following the implementation of phase one in 2016/17, which covered management and corporate activity, phase two was implemented in 2017/18, covering frontline services and delivery of further savings. Phase three is planned for 2018/19, with an ongoing review of support services and planned savings of £800,000. Although the exact savings figure for phase two will not be established until the final vacant roles are recruited, we do not have any significant concerns regarding achievement of the savings targets. Good progress has been made on key technology projects to align the two councils. During the year the Customer First; Homes First and Neighbourhood First brands were launched. A new joint website and intranet were also delivered. Delivery of the transformation is being managed within the £6.8m budget and overall the £2.8m of savings for JTP Phases 1 and 2 are on track to be achieved. Challenges within the programme are known and being managed to ensure successful delivery of the overall programme goals. The Programme has a clear governance structure led by a Programme Board and regular meetings held to monitor progress. We note that the savings targets currently only include staff costs. A number of other savings are expected by the councils but are not included in the MTFS expectations, as they cannot yet be quantified.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances (continued)	As above.	**North Street Quarter Development** Management expects this major capital project to bring 416 new homes to the town, 40% of which will be affordable, as well as providing a new health centre, new commercial space flood defences and relocation of the fire station. This is a long term project currently underway with completion estimated by 2021. The Council was able to secure a government award for £55,000 for the new health hub in the period. In July 2018 Cabinet agreed to the purchase the health hub and car park from the North Street Quarter scheme (subject to a satisfactory business case) with a joint independent landowner and an allocation of £700,000 for the development of the temporary car park within the 2018/19 capital programme. **Newhaven Enterprise Zone** Newhaven Enterprise Zone is a collaboration between Coast to Capital and the Council. It is made up of eight sites across the town covering approximately 79 hectares, and is supported by key partners, including East Sussex County Council, Newhaven Town Council and South East LEP. The project aims to facilitate the economic regeneration of Newhaven and shift the town to a higher value economy over the next 25 years. Key developments in the period included refurbishing 5,000m^2 of existing floor space, attracting over £8 million of new private sector investment and opening over 2,000m^2 of new commercial floor space, with a further 5,000m^2 under construction.

USE OF RESOURCES

RISK AREA	RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
Sustainable finances (continued)	As above.	**Joint housing investment partnership with Eastbourne Borough Council** Aspiration Homes was incorporated in June 2017 as a Limited Liability Partnership with Eastbourne Borough Council, with the primary purpose of delivering new affordable housing. The new housing will also assist the Council in meeting its wider economic and regeneration aims and addressing housing need. The Council has a housing strategy feasibility budget of £200,000 for site assessments related to housing development in respect of Aspiration Homes Limited and the Council's other housing subsidiaries. **Joint venture for energy and sustainability** The Council has set up a procurement and delivery framework, called Clear Futures. It was developed jointly with Eastbourne Borough Council in a contractual joint arrangement with two preferred bidders appointed during the procurement process in 2017/18. The aim is to deliver a range of innovative developments to meet environmental ambitions whilst also ensuring resilience against future energy and sustainability. Management expects the joint venture to offer significant advantages in accelerating the delivery of projects, as a low risk option for the Council. In July 2017, Cabinet also approved the setting up of a new Joint Board for Energy & Sustainability in collaboration with Eastbourne Borough Council, which will be overseen through a "Strategic Partnering Agreement". The development of future new homes by Aspiration Homes Limited will primarily be through the Clear Futures joint venture. A pipeline of other projects for the Clear Futures joint venture is being developed. **Conclusion** We are satisfied that the MTFS adequately takes accounts of the investment costs and known savings associated with the Council's major transformational projects.

APPENDICES

APPENDIX I: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit and Standards Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES

Our audit work completed to date has not identified any material misstatements, although our audit procedures on non-current assets are still in progress and could result in audit differences. We will update the Audit and Standards Committee on the findings of our testing, when complete, and issue an updated Audit Completion Report.

A number of presentational amendments have been made in the revised financial statements as a result of the audit.

UNADJUSTED AUDIT DIFFERENCES

Our audit identified one estimated unadjusted audit difference this year, which would decrease the deficit on provision of services by £88,000, if corrected. We have also rolled forward audit differences in the prior year that continue to impact on current year balances. You consider these identified misstatements to be immaterial in the context of the financial statements taken as a whole. We concur with this judgement, although we also request that you correct the current year audit difference even though not material.

APPENDIX I: AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		STATEMEMENT OF FINANCIAL POSITION	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
Deficit on provision of services before adjustments	3,275				
DR Non-Current Assets				88	
CR Expenditure – Local authority housing	(88)		(88)		
(1) Extrapolated error in respect of HRA expenditure not correctly capitalised (factual error £14,000 and estimated error of £74,000)					
TOTAL CURRENT YEAR UNADJUSTED AUDIT DIFFERENCES	(88)	-	(88)	88	-
Impact on current year of prior year audit differences brought forward (see following page)		-		1,542	(1,542)
TOTAL UNADJUSTED AUDIT DIFFERENCES	(88)	-	(88)	1,630	(1,542)
Deficit on provision of services, if adjusted	3,187				

APPENDIX I: AUDIT DIFFERENCES

IMPACT ON CURRENT YEAR OF PRIOR YEAR AUDIT DIFFERENCES BROUGHT FORWARD (These items cannot be adjusted for in the current year as they are not material)		INCOME AND EXPENDITURE		STATEMENT OF FINANCIAL POSITION	
		DR	CR	DR	CR
	£’000	£’000	£’000	£’000	£’000
DR Other land and buildings net book value				1,246	
CR Revaluation reserve					(1,219)
CR Capital adjustment account					(27)
(2) Impact of not applying indexation to DRC assets since last formal revaluation					
DR Heritage assets net book value	-			166	
CR Revaluation reserve					(166)
(3) Impact of not applying indexation to Newhaven Fort since last formal revaluation					
DR Opening revaluation reserve	-			130	
CR Opening capital adjustment account					(130)
(4) Incorrect posting of revaluation reserve movements in 2015/16					
TOTAL PRIOR YEAR UNADJUSTED AUDIT DIFFERENCES IMPACTACTING ON THE CURRENT YEAR		-		1,542	(1,542)

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Significant deficiency in internal control ■ Other deficiency in internal control

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
FINANCIAL STATEMENTS					
Financial statements preparation	The Council failed to prepare its draft Statement of Accounts by the statutory deadline of 31 May 2018, which were only submitted for audit towards the end of June 2018. Management has attributed the delay to factors beyond its control, namely late receipt of land and buildings valuation information from the external valuer and IT issues with the fixed asset register. However, in the absence of appropriate controls and contingency arrangements to ensure that the financial statements are prepared in time, there is a risk that the Council may miss this statutory deadline again going forward.	Review the circumstances resulting in the delay to the preparation of the draft financial statements and ensure that appropriate action is taken and / or contingency arrangements put in place to prevent these issues going forward.	The events that gave rise to the late completion of the financial statement have been reviewed. Alternative valuation suppliers are currently being considered and the procurement will start in October. Alternatives to use of the asset management software system are being assessed and changes will be made prior to the closure of accounts process for 2018/19 to streamline this work and achieve efficiencies. Joint working with Eastbourne will ensure that sufficient resources are available to meet the 31st May deadline.	Head of Finance	September 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Service level agreements	Internal Audit raised a recommendation that service level agreements should be created to verify the split of salaries between the Council and Eastbourne Borough Council. Income and expenditure may be misstated if there is not sufficient clarity around agreed recharges.	Implement Internal Audit's recommendation that service level agreements should be created to verify the split of salaries between the Council and Eastbourne Borough Council.	Delegated authority has been given to the Deputy Chief Executive (DCE) to allocate cost as deemed appropriate. As the process of transition for JTP2 is still underway, it is not possible to determine the final allocation of costs between the authorities. The interim costs have been shared on a 50/50 basis in most cases ensuring that neither authority is in a worse financial position than before shared services was implemented. The budget realignment process is virtually completed and once the final costs are known a document will be drawn up for each service identifying how costs are to be shared and submitted to the DCE for formal approval.	Head of Finance	September 2018

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
Accuracy of information provided to valuer	Our audit found that the valuer's interim report included valuations for assets that the Council had sold months before the valuation date. This occurred because the Council had not removed these assets from the list of assets to be valued provided to the valuer. The Council may incur unnecessary costs if the list provided to the valuer includes properties that do not need to be revalued.	Undertake a detailed review of the information provided to the valuer to ensure it is accurate and complete.	As part of the final accounts close down process, all Heads of Service will be contacted and asked to provide details of all assets sold during the year.	Head of Finance	March 2019

APPENDIX III: MATERIALITY

MATERIALITY - COUNCIL		
	FINAL	PLANNING
Materiality	£1,800,000	£1,700,000
Clearly trivial threshold	£36,000	£34,000

Planning materiality of £1.7 million was based on 2% of gross expenditure, using prior year gross expenditure.
We have increased our final materiality level by £100,000, as a result of an increase in gross expenditure in the year per the 2017/18 draft financial statements.

APPENDIX IV: INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

Details of services, other than audit, provided by us to the Council during the period and up to the date of this report were provided in our Audit Plan. We understand that the provision of these services was approved by the Audit and Standards Committee in advance in accordance with the Council's policy on this matter.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

APPENDIX V: FEES SCHEDULE

	2017/18 FINAL PROPOSED £	2017/18 PLANNED £	2016//17 FINAL £	COMMENTS
Code audit fee	46,418	46,418	46,418	
Fee for reporting on the housing benefits subsidy claim	15,598	15,598	25,598	We have incurred additional cost in our work on the 2016/17 housing benefits subsidy claim due to a significant level of misstatements identified in the claim, and we have therefore agreed an additional fee of £10,000 with management. This is subject to approval by Public Sector Audit Appointments Limited.
TOTAL AUDIT AND CERTIFICATION FEES	62,016	62,016	72,016	
Fees for reporting on other government grants: Pooling of housing capital receipts return	1,500	1,500	1,500	
Fees for other non-audit services	-	-	-	
NON-AUDIT ASSURANCE SERVICES	1,500	1,500	1,500	
TOTAL ASSURANCE SERVICES	63,516	63,516	73,516	

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

TO BE TYPED ON CLIENT HEADED NOTEPAPER
BDO LLP
55 Baker Street
London
WIU 7EU

[Date]

Dear Sirs

Financial statements of Lewes District Council for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2018 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Deputy Chief Executive and Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2015 and Statement of responsibilities of auditors and of audited bodies issued by Public Sector Audit Appointments (PSAA), and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2018 and of its income and expenditure and cash flows for the year then ended 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) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the Annual Governance Statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date, other than those which have already been disclosed in the 'Events after the reporting period' note to the financial statements, which either require changes to be made to the figures included in the financial statements or to be disclosed in the note. Should any material events of this type occur, we will advise you accordingly.

APPENDIX V: DRAFT LETTER OF REPRESENTATION

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with international financial reporting standards and preventing and detecting fraud and error.

We have considered the risk that the financial statements may be materially misstated due to fraud and have made the results available to you.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving councillors, management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by councillors, employees, former employees, analysts, regulators or any other party.

We note the unadjusted items you identified. We consider the potential and actual differences to be immaterial in the context of the financial statements taken as a whole.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable:

(a) Pension fund

We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with our knowledge of the business. These assumptions include:

- Rate of inflation (RPI): 2.4%
- Rate of increase in salaries: 2.8%
- Rate of increase in pensions: 2.4%
- Rate for discounting scheme liabilities: 2.6%
- Take up option to convert the annual pension into retirement grant:
  - Pre 31 March 2008: 50%
  - Post April 2008: 75%

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

(b) Valuation of housing stock, other land and buildings, surplus assets, investment properties and heritage assets land and buildings

We are satisfied that the useful economic lives of the housing stock and other land and buildings, and their constituent components, used in the valuation of the housing stock and other land and buildings, and the calculation of the depreciation charge for the year, are reasonable.

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

We confirm that the valuations, including desktop valuations, applied in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and are not materially misstated at year end. In particular, we are satisfied that:

- Council dwellings are based on existing use prices discounted for social housing
- Specialised operational land and buildings (including heritage assets) where there is no market based evidence of current value are based on rebuild index prices
- Non-specialised operational land and buildings are based on existing use prices
- Surplus assets are valued at fair value, based on highest and best use
- Investment properties are valued at fair value, based on highest and best use

(c) Allowance for non-collection of receivables
We are satisfied that the impairment allowances for council tax receivables, business rates receivables and housing benefit overpayments are reasonable, based on write-off rates or collection rate data.

(d) Non domestic rates appeals provision
We are satisfied that the provision for non domestic rates appeals is reasonable as it is based on historic success rates.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

We confirm that the above representations are made on the basis of enquiries of councillors, management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

We confirm that the financial statements are free of material misstatements, including omissions.

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware. Each director and councillor has taken all the steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Alan Osborne

Deputy Chief Executive (Chief Finance Officer)

[Date]

Councillor Mike Chartier

Chair of the Audit and Standards Committee

Signed on behalf of the Audit and Standards Committee

[Date]

APPENDIX VII: AUDIT QUALITY

BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

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The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

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Body:	**Audit and Standards Committee**
Date:	**24 September 2018**
Subject:	**Statement of Accounts 2017/18**
Report of:	Head of Finance
Cabinet member:	Councillor Bill Giles (Cabinet Member for Finance**)**
Ward(s):	ALL
Purpose of the report:	To agree the audited accounts for 2017/18 under powers delegated by the Council.
Recommendation:	Members are asked to : i) Approve the final accounts for 2017/18. ii) Note the unadjusted audit differences identified by External Audit. iii) Note the "significant deficiency" in the Council's control environment and the actions being taken to mitigate this for the future. iv) Agree delegated authority to the Chief Finance Officer to make non material amendments to the Statement of Accounts before final publication.
Reasons for recommendations:	The Accounts and Audit Regulations 2015 require the Chief Finance Officer and Councillors to certify and approve an audited set of accounts for publication.
Contact:	Pauline Adams Head of Finance Pauline.adams@lewes-eastbourne.gov.uk 01323 415979

1.0	**Introduction**
1.1	The statutory deadline for local authorities to publish draft accounts and make them available to the auditor has come forward this year by one month, from 30 June to 31 May. The deadline for completion of the publication of the audited accounts has been brought forward by two months, from 30 September to 31 July.
1.2	As reported to this committee on 17th July, there was a problem due to the late valuation data being received and the accounts were not submitted to BDO, the Council's external auditors until 25th June. Following discussions with the Audit

	Manager it was agreed to delay the start of audit until August.
1.3	The audit commenced on 13th August and is currently still underway. A list of outstanding work is covered in BDO's 'Audit Completion report' included on this agenda.
1.4	BDO has identified a potential issue with the valuation of the Council assets, where in some cases the percentage increase in values identified by the Valuation Office does not agree to the benchmark data. BDO is currently liaising with the District Valuer to determine the appropriateness of the factors the valuer has used to arrive at the percentage increases. More detail is provided in BDO report to this committee.
2.0	**Accounting Changes to the Statement of Accounts**
2.1	The Accounts for 2017/18 continue to be produced in accordance with International Financial Reporting Standards (IFRS) which are applicable to both private and public sector organisations There have been no major IFRS accounting changes to the Statement of Accounts for this year.
3.0	**Audit of Accounts**
3.1	BDO has now issued the draft ISA260 Annual Governance Report (Audit Completion Report) which is included as a separate report to this committee.
3.2	BDO has indicated that subject to satisfactory completion of the outstanding work it is anticipated that an unmodified audit opinion on both this Council's accounting statements will be issued. The opinion is expected to be given by the end of September.
4.0	**Key issues arising from the audit**
4.1	There have been no "corrected audit differences", at the time of writing this report, required to be made to the Statement of Accounts.
4.2	There are the following two unadjusted audit differences: • An extrapolated error in respect of HRA expenditure not corrected capitalised of £88,000. The actual error was for £14,000 and using statistical data this has been uplifted to give a theoretical error value. Further sampling was carried out and no further errors have been identified. This has been left as an unadjusted error in the accounts as it is below the materiality limit. • A carried forward valuation error on the 2016/17 accounts of £1,542,000 was reported to this committee at the time of approving the 2016/17 accounts on 25th September 2017. This relates to increases in the value of specialist property such as leisure centres and public conveniences since the last formal valuation in 2014. This "unadjusted error" will be carried forward until the next formal valuation in 2019/20.

4.3	There was the one significant deficiency in the Control Environment for 2017/18 identified by DBO which related to the failure of the Council to prepare its draft statement of accounts by the statutory deadline of 31 May. The reasons for this were outlined in the report to this committee on 17th July and were due to the late receipt of the valuation data of the council's assets from the valuation office. The finance team is currently considering alternative suppliers and will start the procurement process in the next month. Officers are also looking at alternative options to the current asset management software for calculating all the necessary capital journals for depreciation, impairments etc. In the past officers have worked with neighbouring HRA authorities in Wealden, Hastings, Eastbourne and Brighton to identify good practice for capital accounting and the results have highlighted that there are more efficient and streamlined ways of working. Officers are currently assessing how to make the necessary changes and will be implementing these before we start on the closure of accounts process for the 2018/19. In addition joint working with Eastbourne will ensure that sufficient resources are available to meet the 31st May deadline.
4.4	BDO has identified two non-significant deficiencies, full details of the observations, implications, recommendations and management responses are given at appendix II of BDO's report.
5.0	**Consultation**
5.1	The draft accounts are available on the Council's Web site and were open for public inspection when any taxpayer of the Borough is entitled to come, inspect and make copies of the accounts and all books, deeds, contracts, bills, vouchers and receipts related to those accounts during July. No requests were received.
6.0	**Financial appraisal**
6.1	The final outturn for the 17/18 year was presented to Cabinet on 2 July 2018. No differences in the authority's financial performance or reserves are made in the preparation of the Statement of Accounts.
7.0	**Legal implications**
7.1	The Accounts have been prepared in accordance with 2017/18 Code of Practice

	on Local Authority Accounting in the United Kingdom (the Code), based on International Financial Reporting Standards.
8.0	**Risk management implications**
7.1	Any risk implications are covered in the body of the report.
9.0	**Equality analysis**
9.1	This is a routine report for which detailed Equality Analysis is not required to be undertaken.
10.0	**Appendices**
10.1	Statement of Accounts 2017/18.
11.0	**Background papers**
11.1	BDO Audit Completion Report 2017/18

Lewes District Council

Statement of Accounts 2017/18

Contents

Introduction

Welcome to Lewes District Council's Statement of Accounts for 2017/18.

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 2017/18 (the 'Code') in putting together the Statement of Accounts for 2017/18. The accounts present a true and fair view of Lewes District Council's financial position for the financial year ended 31 March 2018. 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 Deputy Chief Executive 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 2017/18 appears on page 110 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 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 on the provision of services' line shows the true economic cost (measured in the same way as a large private sector corporate organisation) of providing Council services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts that a local authority is required to charge 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 shows the accounting cost of providing all operational services in accordance with the Code, which is not the same as the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with statutory regulations. This is different from the accounting cost because, for example, councils do not have to pay for depreciation in the value of their assets out of council tax. The taxation position is shown in the Movement in Reserves Statement.

Balance Sheet
This shows the value, as at the Balance Sheet date, of the Council's assets and liabilities. 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 shows the movements in cash and cash equivalents (short term deposits) 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 loan capital 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 the Code, which is not the same as the amount to be funded from rents and other charges. Councils charge rents to cover expenditure in accordance with statutory regulations. 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.

Narrative Report

This Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). It aims to provide information so that members of the public, electors and residents, elected Councillors, partners, stakeholders and other interested parties can:

- understand the financial position of Lewes District Council both at the end of the 2017/18 financial year and looking to the future;
- have confidence that the public money with which the Council has been entrusted has been used and accounted for in an appropriate manner; and
- be assured that the financial position of the Council is sound and secure.

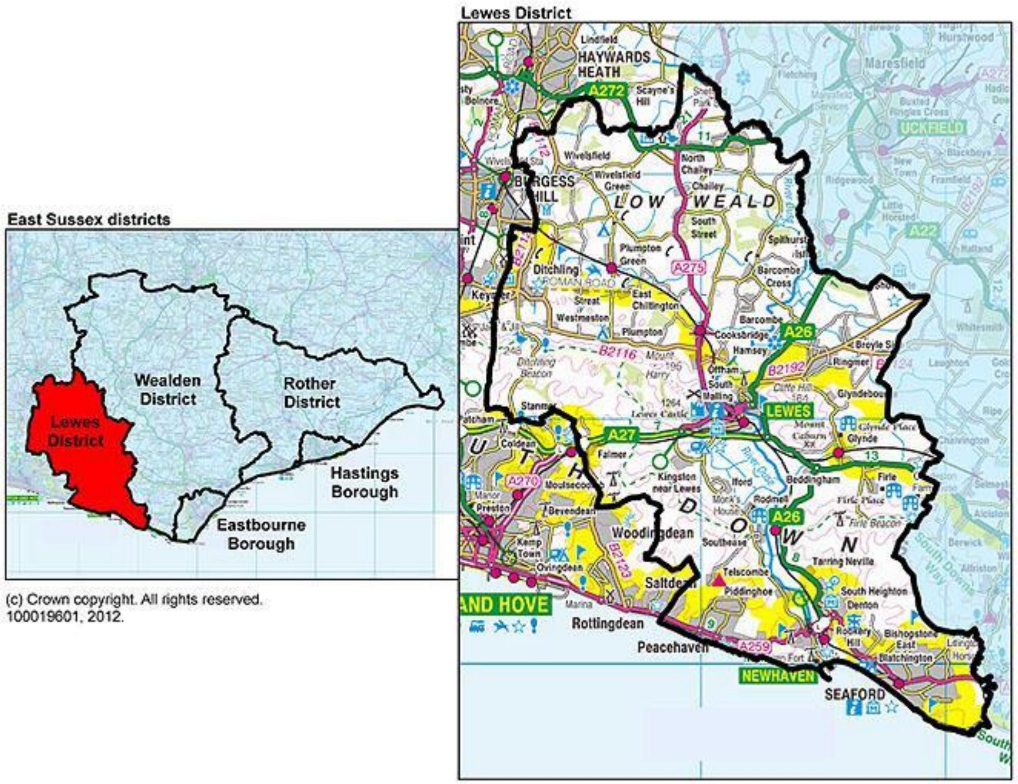
The Accounts and Audit Regulations 2015 came into force on 1 April 2015 setting out requirements that local authorities must follow when preparing and publishing their annual accounts. These regulations require the Council to publish draft accounts by 31 May. Members of the public can then inspect the draft accounts (and supporting documents) and raise any questions or concerns with an independent auditor. The Council must publish audited accounts by 30 July. The Council failed to publish its 2017/18 audited accounts by this date as a result of the late receipt from its external valuer of the revaluations of council property which are required to state the correct balance sheet values at 31 March 2018 and to record in other statements and notes to the accounts the correct movements in property values during the 2017/18 financial year.

The style and format of the accounts complies with CIPFA standards. As a result, the information presented can be technical and complex to follow. The aim of this Narrative Report is to provide a more straightforward summary of the key issues affecting the Council and its finances. It sets out:

- An Introduction to Lewes District
- Some key facts
- How the Council operates
- The 2017/18 Revenue Budget Process
- Financial Performance of the Council 2017/18 – Revenue spending
- Financial Performance of the Council 2017/18 – Capital spending
- Non-Financial Performance of the Council 2017/18
- Corporate Risks
- Future Plans

An Introduction to Lewes District

Lewes District Council is one of five district and borough councils in East Sussex, each providing similar services on behalf of their residents. These services include rubbish and recycling collections, environmental health, tourism, leisure and amenities, planning and collection of council tax. Unlike some of the neighbouring councils, Lewes DC is a large landlord, letting 3,200 houses and flats to tenants.

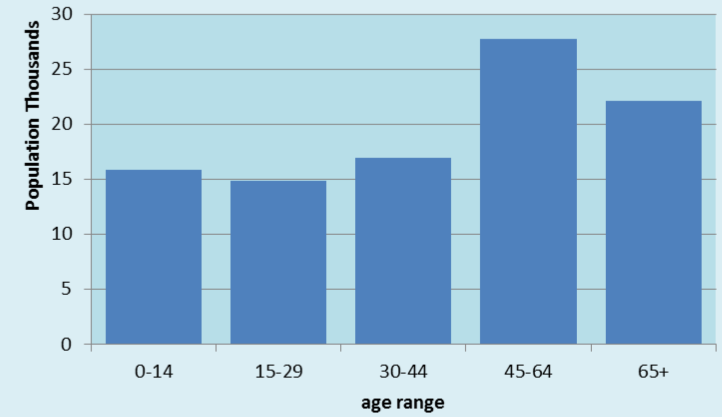


East Sussex County Council serves this entire part of South East England. It provides services including education, social services, roads and transport, waste disposal and libraries.

Our residents, businesses and visitors benefit from beautiful landscapes and a historic environment. Our diverse and attractive countryside includes chalk cliffs and downlands, shingle beaches, heathland, wetland and areas of ancient woodland. The County Town, Lewes, is at the heart of the district and is a popular historic tourist destination. The district has a vibrant and diverse contemporary arts scene and boasts a rich cultural heritage which is important to its economic prosperity.

Some key facts

Lewes DC has a population of 97,500 (2011 census). 77% of residents live within the five urban areas of Lewes, Newhaven, Peacehaven, Seaford and Telscombe Cliffs/East Saltdean. The rest live in our 23 rural parishes. Our population is projected to grow by 14% by 2031. Life expectancy is higher than the East Sussex average. Around 21% of people are living with a limiting long-term illness or disability and 19% have a disability, with both ratios likely to rise over the next decade or so. There is a higher than average occurrence of ill-health and mental health issues (including dementia) in some of our coastal communities.



composition of population (2011 census)

We benefit from an entrepreneurial economy with self-employment being a significant feature of our district, representing 20% of the economically active population. Over 43% of residents are employed in managerial, professional or technical roles.

Unemployment is well below the East Sussex average, as is the number of people who are economically inactive but looking for work. There is a lower than average proportion of self-employed people. Average full-time weekly earnings are £527, lower than the average for South East England (£590).

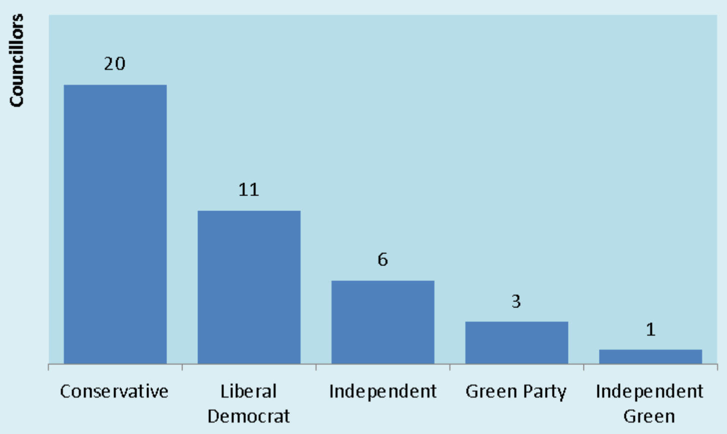
Micro-businesses (between 1 and 10 employees) account for 90% of all local businesses, which is the average for the region.

How the Council operates

Lewes DC is a complex organisation. Elected councillors direct our policies, which the Corporate Management Team (shared with Eastbourne Borough Council) then implements through the officers of the Council. There are 41 councillors representing 21 wards within the district. Full Council elections take place every four years, most recently in May 2015. The Conservative Party is the controlling political group, with 20 councillors.

All councillors meet together as the Council. Meetings of the Council are normally open to the public. Here councillors decide the Council's overall policies and set the budget each year. The Council appoints the members of the Scrutiny Committee and all other council committees – for example, the Audit and Standards Committee and the Planning Applications Committee. The Council considers recommendations made to it by the Cabinet and the Scrutiny Committee as to any changes in policy which might need to be made.

The Executive is made up of the Leader, appointed by the full Council, together with a Cabinet of councillors who the Leader appoints. Each member of the Cabinet has a portfolio of the areas for which they are responsible. Cabinet normally meets seven times in a municipal year.



composition of Council at 31 March 2018

At 31 March 2018, Cabinet members were:

Councillor Andy Smith (Leader of the Council and Chair of Cabinet) – Cabinet Member for Regeneration and Business

Councillor Elayne Merry (Deputy Leader) – Cabinet Member for People and Performance

Councillor Bill Giles – Cabinet Member for Finance

Councillor Paul Franklin – Cabinet Member for Waste and Recycling

Councillor Tom Jones – Cabinet Member for Planning

Councillor Isabelle Linington – Cabinet Member for Environmental Impact

Councillor Ron Maskell – Cabinet Member for Housing

Councillor Tony Nicholson – Cabinet Member for Customers and Partners

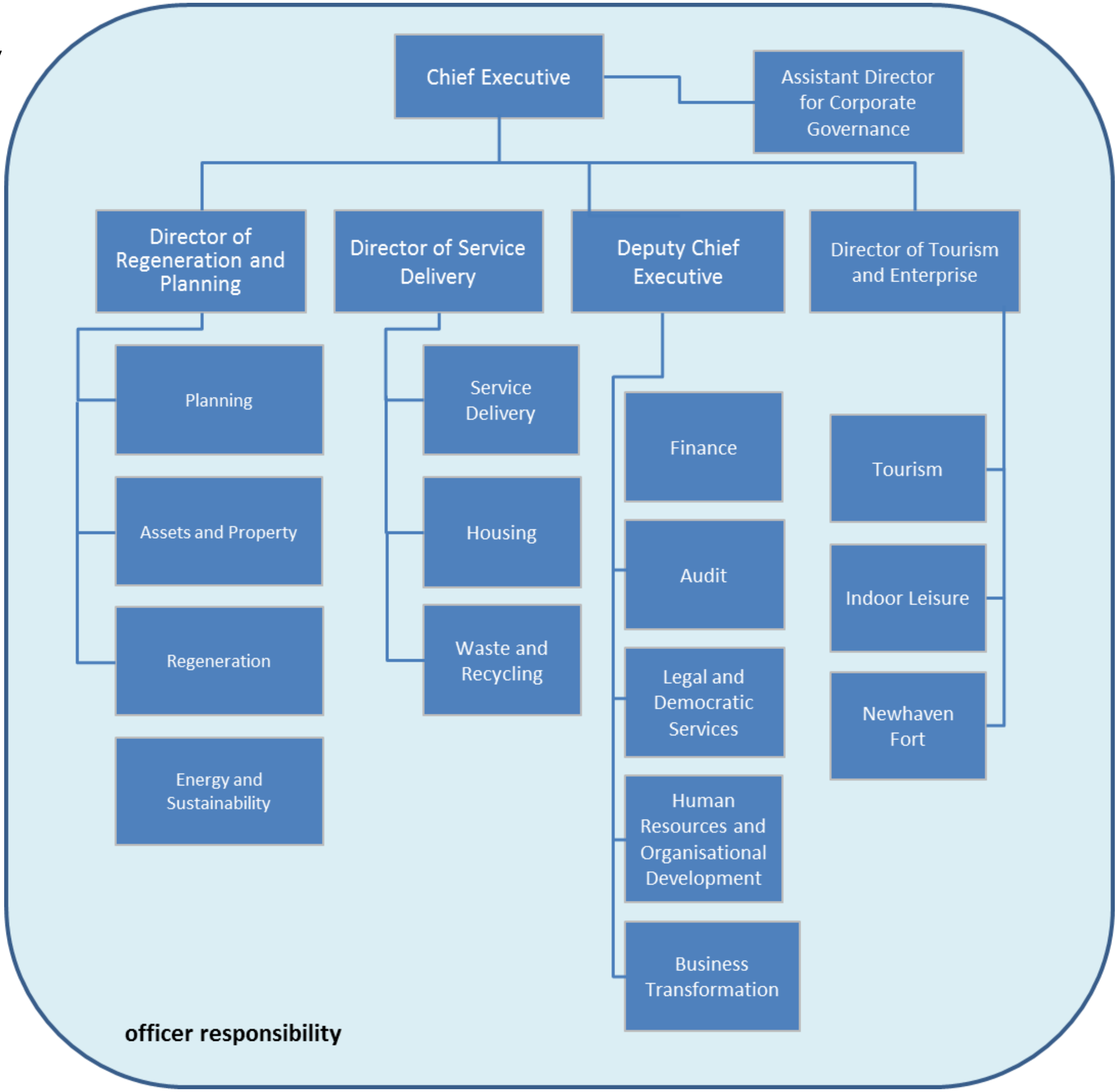
The Leader of the Council is responsible for discharging most day-to-day decisions, although the Leader may decide to delegate his/her powers to the Cabinet as a whole, to another individual member of the Cabinet, to a sub-committee of the Cabinet or to an officer.

The Scrutiny Committee is in place to ensure that the Council's policies, plans, decisions and actions are being made in the community's best interest. It consists of eleven Councillors who are not on Cabinet. This enables non-executive members to influence decisions and ensure the views and needs of local people are taken into account. It is about being a 'critical friend'.

A member of the Minority Group chairs the Scrutiny Committee.

Supporting the work of councillors is the organisational structure of the Council headed by the Corporate Management Team (CMT). CMT is comprised of our most senior staff (officers): the Chief Executive, Robert Cottrill, Deputy Chief Executive and three Directors.

The Chief Executive holds the statutory post of Head of Paid Service. The Council also appoints a Chief Finance Officer (Alan Osborne, Deputy Chief Executive) and Monitoring Officer (Catherine Knight, Assistant Director of Legal and Democratic Services) as required by law. These officers have responsibility to take action if the Council has, or is about to, break the law or if the Council is about to set an unbalanced budget. Both of these officers are part of CMT, ensuring that the key statutory officers are represented at the most senior level of the Council.



Lewes DC is engaging in a Joint Transformation Programme (JTP). Under the JTP we are integrating our staff and services with Eastbourne Borough Council (EBC) to provide more flexible, customer-focussed and cost-effective services. Together, both councils will roll out smarter technology and smoother business processes enabling us to serve customers as speedily and efficiently as possible. Local democratic accountability will be maintained – the elected Councils will remain separate and set their own priorities. Over time, all services will be delivered by a joint workforce. Cabinet approved the three phase delivery of the Programme, Phase 1 commenced in September 2016, Phase 2 commenced in April 2017 and the timeframe for Phase 3 will be determined in Spring 2018. Activity within 2017/2018 centred on Phase 2 of the Programme, which aims to create joint teams to deliver the majority of public facing services. The Phase 2 recruitment process concluded at the end of November 2017 following over 400 interviews. This process was followed by activity to plan the mobilisation and transition for the new teams with all newly appointed staff moving into their new posts from 1 January 2018. In line with the councils' duty to minimise redundancies, to safeguard continuity of employment where possible, the number of compulsory redundancies resulting from Phase 2 was limited to 4. The remaining Phase 2 transitions will take place over the coming months and will conclude during 2018/19.

The JTP will deliver considerable changes in technology that will enable the scale of transformation needed by the councils. In 2017/2018 the migration of staff to a new IT network has been completed. A new joint website (www.lewes-eastbourne.gov.uk) was launched in November 2017and continues to develop and become the main point of contact for many customers. Initial results indicate an increase in the number ofonline transactions being completed; this demonstrates a positive direction of travel towards channel shift and the aspiration to be digital by default;

EBC became the sole employer for both councils on 1 February 2017, with the majority of this Council's staff transferring on that day. Staff in one team (Legal) have not transferred to EBC and the Council continues as their employer.

The Council reimburses EBC for the whole cost of employing those staff who transferred and are engaged solely in this Council's service provision. The cost of shared management or service delivery posts is apportioned between the two councils.

The scale of structural change is such that it is not appropriate to compare staff numbers between 2016/2017 and 2017/2018

Much, but not all, of the councils' policies on pay, benefits and pensions is based on the National Agreement on Pay and Conditions of Service agreed by the National Joint Council for Local Government Services. For most staff there is a nationally negotiated pay scale consisting of a large number of scale pay rates. We add a pay supplement to the national rates to reflect the higher cost of living in the South East and to keep our salaries competitive.

The Council Plan sets out our priorities and key projects covering the period 2016 to 2020. Refreshed annually (most recently in July 2017) the four year plan sets out the key outcomes the Council will deliver with its partners for our District. The Plan has been informed and developed in consultation with our residents, partners and other stakeholders. We monitor the Plan and report progress to Cabinet each quarter. It is a 'living plan' that responds to changing times, and the financial context within which we operate, whilst keeping a focus on the needs of our local communities. We publish the Plan on our website https://www.lewes-eastbourne.gov.uk/about-the-councils/corporate-plans/

The 2017/18 Revenue Budget Process

The 2017/18 revenue budget process was heavily influenced by the continued need to make significant reductions in expenditure in the medium term whilst progressing Council priorities.

In December 2016, the Government released provisional details of the amounts of funding that would be available to councils in 2017/18. It confirmed that, nationally, council 'spending power' would reduce by an average of 1.1% compared with the previous year. Lewes DC's reduction was 5.7%. The most significant reduction in spending power facing the Council would come as a result of the Government tailing back the Revenue Support Grant that it pays to the Council, from £0.99m to £0.37m. The Government signalled that any district council could approve a council tax increase of the higher of (a) less than 2% or (b) up to and including £5. Any proposed increase above that level would require approval by local taxpayers in a referendum.

In January 2017, the Scrutiny Committee considered the context of the 2017/18 budget setting round, including the reduction in Government funding. It noted the working assumption of a 1.9% council tax increase and the continuing need to make recurring savings in expenditure.

Cabinet met in February 2017, agreeing the core elements of the budget including a future savings plan, and proposals for the use of reserves and balances. On 23 February 2017, the Council approved the 2017/18 budget, including the amounts of Council Tax that would apply across the district, and the rent increase that would apply to council-owned homes. The Council continued with its policy of charging a general council tax applicable district-wide supplemented by an additional amount of council tax to recover 'special expenses'. These special expenses are the cost of managing and maintaining parks and open spaces. The special expenses element of the council tax varies between towns and villages, depending on the location of each park or open space.

	2015/16	2016/17	2017/18
	£	£	£
District wide	172.11	175.41	178.74
Special expenses	17.50	15.20	16.31
Total tax requirement	189.61	190.61	195.05

Council Tax amounts (for a Band D property)

As a 'billing authority' the Council collects the council tax on behalf of East Sussex County Council, Sussex Police Authority, East Sussex Fire Authority and each of the town and parish councils in the district.

In setting the budget, the Council also confirmed a savings plan spanning the 4 years from 2017/18 to 2020/21.

In total, the savings requirement for this period was set at £2.2m. Planned savings, categorised as delivered, deliverable or requiring significant work or investment to deliver, were valued at £2.3m, exceeding the target.

The 2020 Savings Plan	‘17/18	‘18/19	‘19/20	‘20/21	Total
	£'000	£'000	£'000	£'000	£'000
Savings Requirement	**641**	**913**	**605**	**38**	**2,197**
The plan					
Wave Leisure service fee reduction	105	104	104	105	418
Phasing out grant to Town and Parish Councils	30	30	30	30	120
Joint Transformation Programme (JTP)	300	300	300	0	900
Income generation – Commercial	0	200	0	0	200
Income generation – waste and recycling	206	0	0	0	206
Income generation - Regeneration	0	300	200	0	500
Total Savings Target	**641**	**934**	**634**	**135**	**2,344**
Surplus target over Savings Requirement	**0**	**21**	**29**	**97**	**147**

Delivered

Deliverable

In 2017/18, the JTP was expected to deliver savings of £0.3m, and £0.9m in total by 2020/21 (excluding savings to be allocated to the Housing Revenue Account, see below).

Through the year, Cabinet received Quarterly budget monitoring information, highlighting key variation, alongside performance reports setting out progress against the non-financial targets in the Council Plan.

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Financial Performance of the Council in 2017/18 – Revenue spending

In order to meet statutory requirements, we account separately for spending (and income) on 'General Fund' and 'Housing Revenue Account (HRA)' activity. General Fund services are all those services which are funded from the council tax and exclude the management and maintenance of the council-owned homes which are paid for predominantly by tenants' rents. This landlord service is accounted for in the HRA.

(a) Management area	(b) 2017/18 budget £'000	(c) 2017/18 actual £'000	(d) = (c)–(b) variance £'000
Director of Regeneration and Planning	361	48	(313)
Director of Service Delivery	8,209	8,515	306
Director of Tourism	663	591	(72)
Deputy Chief Executive	4,533	5,036	503
Corporate costs and income	685	1,634	949
Netting-off of reallocated costs included above	(3,303)	(3,855)	(552)
Net cost of service provision	**11,148**	**11,969**	**821**
Net Transfers to Reserves	704	601	(103)
Total cost to be financed	**11,852**	**12,570**	**718**

General Fund – budget and actual spend

For management purposes, budgets are allocated to the control of the Council's Directors, with some items (for example borrowing costs) held separately as Corporate costs.

We budgeted to spend £11.148m on services in 2017/18. The actual cost was higher than this at £11.969m, an increase against the budget of £0.821m.

A number of factors contributed to the overall saving, with additional one-off costs associated with the Joint Transformation Programme, for example, being offset by additional service income and the delivery of efficiency savings.

Important note: The Financial Performance information given on pages 11 to 15 has been prepared on a management accounting basis. It excludes technical accounting entries (e.g. in respect of General Fund depreciation, finance lease accounting) and items where the Council is acting as an agent (e.g. collecting council tax to fund Town and Parish Council precepts). As a result, amounts shown will vary from those in the formal Financial Statements set out on page 24 onwards which are prepared on a financial accounting basis. The Expenditure and Funding Analysis (page 50), in which activities are grouped in a similar but not identical way to those in the table above, identifies the adjustments between management and financial accounts. The Council's underlying financial position, including usable Reserves, is identical in its management and financial accounts.

	£'000	£'000
One-off of voluntary severance	535	
Temporary staff pending JTP transition	832	
Recharge to HRA re above	(363)	
Net increase in employee costs		1,004
Additional expenditure:		
- Recycling incl cost of rolling out co-mingled collection	368	
- JTP (net of HRA share)	439	
- Housing Benefits	283	
- Commercial and industrial premises costs	199	
- Business Rates income maximisation commission	65	
- Legal costs	97	1,451
Reduced Service income:		220
Sub-total to next column		**2,675**

	£'000	£'000
Sub-total from previous column		**2,675**
Reduced Service expenditure		
- Temporary accommodation	(64)	
- Newhaven EZone start-up	(63)	
- Other services (net)	(105)	
- Reserve funded projects deferred to 2018/19	(229)	(461)
Increased service income		
- Specific Government Grants and contributions net of use	(340)	
- Waste Collection incl Green Waste	(189)	
- CIL administration cost share	(132)	
- Car Parking	(59)	
- Taxi Licensing	(56)	
- Other services	(188)	(964)
Service Priority, transition and capital finance budgets not called on		(429)
Net cost of Service provision		**(821)**

General Fund variations against budget 2017/18

The £0.103m reduction in the net amount transferred to Reserves shown in the table on page 11 comprises £0.740m additional transfers into Reserves (primarily the result of transferring resources between the revenue budget and capital programmes to match expenditure and the transfer of Government grants received in 2017/18 ahead of future years' spending) offset by £0.843m increased use (primarily due to the costs associated with the JTP programme and rollout of a co-mingled recycling service).

Ref	Reserve	Balance at 1 April 2017	Contribution/ transfer 2017/18	Use 2017/18	Balance at 31 March 2018
		£'000	£'000	£'000	£'000
1	Strategic Change	(3,668)	(2,711)	3,029	(3,350)
2	Asset Maintenance	(2,591)	(343)	266	(2,668)
3	Vehicle and Equipment Replacements	(2,591)	772	374	(1,445)
4	Economic Regeneration	(274)	(80)	54	(300)
5	Revenue Grants and Contributions pending use	(400)	(191)	195	(396)
6	Unallocated Reserve	(2,288)	(31)	0	(2,325)
7	**General Fund total**	**(11,812)**	**(2,584)**	**3,918**	**(10,478)**

General Fund Reserves 2017/18

At the end of March 2018, the total amount held in General Fund Reserves was £10.478m. All but £2.325m has been committed as funding for specific initiatives that will take place in future years including the JTP; the replacement of vehicles and equipment at the end of life; or major cyclical property works e.g. the replacement of a swimming pool tank.

The General Fund's most significant sources of funding are from the Council Tax, Government Grants and Business Rates. Business Rates are shared with the Government, East Sussex County Council and East Sussex Fire Authority under a complex national 'retention' mechanism. In order to smooth the impact of business rates movements between years, we set aside in the Strategic Change Reserve £1.3m of business rates income received in 2017/18, including Government grants to compensate the Council for national relief schemes.

(a)	(b) 2017/18 Budget £'000	(c) 2017/18 Actual £'000	(d) =(c) – (b) Variance £'000
Retained Business Rates	(1,331)	(1,572)	(241)
Non-specific Government Grants	(3,165)	(3,673)	(508)
Council Tax	(7,356)	(7,356)	0
Total Financing	**(11,852)**	**(12,601)**	**(749)**

General Fund financing variations 2017/18

The overall net surplus between costs to financed (£12.570m) and available financing (£12.601m) is added to the General Fund Unallocated Reserve.

		£'000
Increased income from rents, contributions and interest		(90)
Increased expenditure:	- employees including support services	112
	- allowance for uncollectable rents	36
Reduced expenditure:	- repairs and replacements	(171)
	- grounds maintenance, cleaning, environmental enhancements	(48)
	- external advice	(95)
	- interest payments	(40)
JTP capital expenditure, employee costs and corporate recharge		1,020
Increase in contributions to Major Repairs Reserve		295
Miscellaneous net variations		(86)
Total variation		**933**

Housing Revenue Account variations against budget

The HRA financial performance for 2017/18 was a £0.933m net cost, compared with a break-even position projected at the time that the Council approved the budget, excluding an appropriate share of costs associated with the JTP project which would be made when the Council's overall JTP costs could be reasonably apportioned. That position has now been reached and an apportionment of £1.020m of all costs incurred to date was made in 2017/18. The HRA holds funding for these one-off costs within the Special Projects element of the HRA balance.

The contribution to the Major Repairs Reserve is calculated by reference to the expected life and cost of the various components (windows, bathrooms, heating systems, etc) of the homes that we own. The total contribution made is higher than the original budget to reflect the current known cost of replacing these components.

At 31 March 2018, we held £7.971m in HRA Reserves.

Ref	Reserve	Balance at 1 April 2017	Contribution/ transfer 2017/2018	Use 2017/2018	Balance at 31 March 2018
		£'000	£'000	£'000	£'000
1	Major Repairs Reserve	(4,934)	(5,468)	4,370	(6,032)
2	HRA Balance	(2,872)	0	933	(1,939)
3	**HRA total**	**(7,806)**	**(5,468)**	**5,303**	**(7,971)**

HRA Reserves 2017/18

Financial Performance of the Council in 2017/18 – Capital spending

Capital programme spending relates to the major repair, enhancement, construction or purchase of long-term property assets such as land, buildings and vehicles. The Council's Capital Programme is an allocation of financial resources (principally capital receipts from selling assets, grants or contributions received with specific conditions attached, and reserves) to these projects. In many cases these projects will span financial years, from initial design through to final completion.

	HRA housing £'000	Non-HRA housing £'000	General Fund £'000	Total £'000
Original allocation for year	5,681	975	8,023	14,679
Variations agreed in year including allocations c/fwd from 2016/17	3,862	509	6,708	11,079
Final allocation for the 2017/18 year and beyond	**9,543**	**1,484**	**14,731**	**25,758**
Less: Actual spend in 2017/18	(4,783)	(759)	(4,013)	(9,555)
Remaining allocations to be used in 2018/19 and beyond	**4,760**	**725**	**10,718**	**16,203**

Capital Programme 2017/18

In the year, the Council agreed increases in the Capital Programme which included £1.5m for the redevelopment of the Saxonbury site in Lewes (HRA) and £5.0m for loans to Lewes Housing Investment Company (LHIC) and Aspiration Homes (AH). LHIC is wholly-owned by the Council, and the Council owns a 50% share in AH, with Eastbourne BC owning the remainder.

We spent £9.555m in total in the year. HRA spending included £4.354m on major repairs and improvements to homes. The major elements of General Fund spending were £0.994m on the Joint Transformation Programme and £0.760m on vehicles and bins required for a new method of operating the domestic Recycling Service.

Reserves constituted the largest single source of finance. We left £0.939m unfinanced, using our ability to borrow for capital projects provided it is prudent and affordable to do so.

	£'000
Unfinanced (Borrowing to be repaid)	939
Capital Receipts	397
Reserves	6,336
Capital Grants	893
Developer and CIL Contributions	211
Other Capital Contributions	106
Capital Expenditure Financed from Revenue	673
Total	**9,555**

Capital programme financing 2017/18

Non-financial Performance of the Council in 2017/18

Lewes DC's financial performance does not stand alone from service delivery. The Council has an annual cycle for the preparation, implementation and monitoring of its business plans and budgets. This cycle enables us regularly to review the Council's work, and the targets it sets for performance, to ensure these continue to reflect customer needs and Council aspirations. . It is important to monitor and assess progress and performance on a regular basis, to ensure the Council continues to deliver priority outcomes and excellent services to its customers and communities.

The Scrutiny Committee has a key role in terms of oversight of the Council's progress and performance and challenging areas of under-performance.

A full report on the Council's progress and performance in respect of key projects and targets for 2017/18 can be found here. http://democracy.lewes-eastbourne.gov.uk/documents/s7847/Portfolio%20progress%20and%20performance%20report%202017-18%20-%20quarter%204.pdf

A brief summary is set out below and in the pages that follow.

In 2017/18:

- 14 of the Council's 18 key projects were either completed or on track at the end of the year. There are no serious project delays which constitute a serious risk to the Council
- 72% of the Council's performance targets were either met, exceeded or within acceptable levels during the year as a whole
- 6 performance indicators did not meet their targets

Delivery of key projects 2017/18

Regeneration and Business portfolio

- Key milestones achieved in the **Newhaven Enterprise Zone** include refurbishing 5,000m² of existing floorspace. This is around 1/3 of our target for the whole 25-year lifespan! £8m-plus of new private sector investment was attracted and 2,000m²-plus of new commercial floorspace was opened and a further 5,000m² is under construction.
- The **LEAP** business programme also had a number of highlights: 23 candidates attended business start-up training, 7 of whom have started up a business in the district with more expected to follow shortly.

People and Performance portfolio

- As part of the **Joint Transformation Programme**, in 2017/18 the Customer First; Homes First and Neighbourhood First brands were launched. A new joint website and intranet were also delivered. Report It Lewes & Eastbourne - an app to facilitate and speed up the reporting of environmental issues such as littering and dog fouling -launched across both the borough and district in February 2018.

Environmental Impact portfolio

- **Clear Ventures (the Joint Venture for Energy and Sustainability)** was set up in 2017/18 and has started its first LDC project: Springman House.
- **Co-mingled recycling** was introduced and is having a positive effect on recycling rates in the district.

Housing portfolio

- 22 new homes were delivered under the **Local Growth Fund** and research into rural housing options was undertaken.

Planning portfolio

- Neighbourhood Plans: The Plumpton neighbourhood plan and the Ditchling, Streat & Westmeston plan was adopted in 2017/18.

Key performance indicators 2017/18

KPI Description	2017/18 Target	Performance in 2017/18	Status
Average working days lost due to sickness per FTE equivalent staff	9.0	10.12	
Percentage of invoices paid on time	98.0%	95.1%	
Percentage of Council Tax collected during the year	98.0%	98.23%	
Percentage of Business Rates collected during the year	98.5%	98.6%	
Number of households living in temporary accommodation	65	80	
Percentage of rent collected during the year	95.0%	98.32%	
The number of days taken to process new housing/council tax benefit claims	20	19	
Total number of days that families need to stay in emergency (nightly paid) accommodation	15	0	
Total number of households living in emergency (nightly paid) accommodation	15	9	

KPI Description	2017/18 Target	Performance in 2017/18	Status
Average number of days to re-let LDC Council homes (excluding temporary lets)	25	23	
Overall tenants' satisfaction	90%	84.32%	
Percentage of minor planning applications determined within 8 weeks (LDC/SDNP combined)	75%	81.90%	
Percentage of all planning appeals allowed (officer/committee decisions)	33%	50.0%	
Wave Leisure: Visitors to leisure centres	945,000	949,281	
Average time taken to answer telephone calls	30 secs	52 secs	

The performance indicators above have been used to track performance in the past year and progress has been reported through our Scrutiny Committee and Cabinet on a quarterly basis.

Targets have been achieved or exceeded in many areas of the Council’s work, despite having been in the midst of significant organisational change. However, there were some areas where performance has been below target levels. Positive management action is being taken in all cases and improvement plans have been established to address these issues. Performance will continue to be closely monitored.

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Corporate Risks

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 annually to the Audit and Standards Committee. Each risk is owned by a member of the Corporate Management Team. 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 is an integral part of key Council projects.

Our most recent Strategic Risk Register (2017/18) identifies 9 key risks listed below along with a brief description.

- *No political and partnership continuity/consensus with regard to organisational objectives.*

  Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and Medium Term Financial Strategy unfit for purpose.

- *Changes to the economic and financial environment makes the Council economically less sustainable.*

  1. Economic development of the district suffers. 2. Council objectives cannot be met.

- *Unforeseen socioeconomic and /or demographic shifts creating significant changes in demands and expectations.*

  1. Unsustainable demand on services. 2. Service failure. 3. Council structure unsustainable and not fit for purpose. 4. Heightened likelihood of fraud.

- *The employment market provides unsustainable employment base for the needs of the organisation*

  Employment market unable to fulfil recruitment and retention requirements of the Council resulting in a decline in performance standards and an increase in service costs.

- *Not being able to sustain a culture that supports organisational objectives and future*

  1. Decline in performance.2. Higher turnover of staff.

- *Council prevented from delivering services for a prolonged period of time.*

  1. Denial of access to property (including plant and equipment) 2. Denial of access to technology/information 3. Denial of access to a significant contract or partnership.

- *Council materially impacted by the effects of an event under the Civil Contingencies Act*

  1. Major incident caused by fire, flood or other disaster resulting in homelessness, disruption to Council services and local business community. 2. Service profile of the Council changes materially as a result of the impact of the event. 3. Cost profile of the Council changes materially as a result of the impact of the event.

- *Failure to meet regulatory or legal requirements*

  1. Credibility of the Council is negatively impacted. 2. Deterioration of financial position as a result of regulatory activity/penalties. 3. Deterioration of service performance as a result of regulatory activity/ penalties. 4. Increased probability of prosecutions and compensation claims as a result of inadequate management of Health and Safety duties. 5. Possibility of fraud and bribery. 6. Ensure compliance with legislation such as Data Protection and Safeguarding. 7. Entering into contracts etc. without having adequate finance in place.

- *Commercial enterprises and new significant joint ventures that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements.*
  1. Unfamiliar activity with staff inexperienced in this area. 2 Council finances affected if projects do not meet financial expectations. 3 Reputational damage if governance procedures are inadequate. 4 Failure to abide by company law.

Details of all these key risks and the mitigations that are in place can be found in the Report on Risk Management which the Audit and Standards Committee received on 19 March 2018
https://lewes.cmis.uk.com/cmis5/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/505/Meeting/748/Committee/192/Default.aspx

Future Plans

The General Fund budget for 2018/19 and the Medium Term Financial Strategy for the years through to 2021/22 were set in February 2018 in the context of the multi-year Government funding settlement which is intended to give participating local authorities increased certainty of funding through to 2021/22. In our modelling we took into account the potential impact of inflation, pay and pension changes, as well as the delivery of the Joint Transformation Programme. We updated our savings target accordingly. Over the four year period to 2021/22, the General Fund savings requirement is now £1.764m in total. Our savings target is £1.833m of which £1.0m is to come from the Joint Transformation Programme.

In October 2015, the Government announced that by the end of the 5-year Parliament, local authorities would be able to keep 100% of the business rates that they raise locally. This represents a fundamental change in the way that local government is financed. In order to ensure that the reforms would be fiscally neutral, the main local government grants would be phased out and additional responsibilities devolved to local authorities.

	2018/19	2019/20	2020/21	2021/22
	£'000	**£'000**	**£'000**	**£'000**
Recurring Net Expenditure	10,777	11,167	10,828	10,978
Inflation	225	246	276	276
Total Budget Requirement with inflation	**11,002**	**11,413**	**11,104**	**11,254**
Savings targets (corporate)	(700)	(585)	(126)	(19)
Base Contribution to Reserves	865	0	0	0
Sub-total	**11,167**	**10,828**	**10,978**	**11,235**
Non-recurring items				
New Homes Bonus contribution to Reserve	649	490	323	224
Net Budget Requirement	**11,816**	**11,318**	**11,301**	**11,459**
Financed by:				
Council Tax	(7,568)	(7,669)	(7,853)	(8,041)
Retained Business Rates	(3,219)	(2,819)	(2,819)	(2,919)
Government Grants	(1,029)	(830)	(629)	(499)
Sources of Finance	**(11,310)**	**(11,318)**	**(11,301)**	**(11,459)**

General Fund Medium Term Finance Strategy projections

The draft legislative framework necessary to implement 100% business rates retention fell when the 2017 General Election was called and has not yet been re-introduced. However, in December 2017, the Government announced its intention to introduce at least 75% business rates retention in 2020/21 (a year later than planned). Alongside this, the Government is carrying out a local government 'Fair Funding Review' and stated that it was 'working towards an implementation date for the review of 2020/21 while keeping this under review as work progresses'. We are, therefore, carrying out our medium-term financial planning the context of significant uncertainty.

2018/19 is the third year in the four-year period across which the Government requires local authorities to reduce housing tenants' rents by 1% annually. This reduces HRA income by £0.15m each year or £3.8m in total in real terms over the period.

In 2016 the Government legislated to require every local housing authority to pay an annual levy, with the amount equal to the potential sale proceeds from selling higher value homes each year. This legislation is yet to be implemented and may no longer be a priority for the Government. We will update our 30-year housing business plan by June 2018 to reflect changes in costs and income that we can be most certain about, giving us a firm platform to model the impact of any changes to either resources or service delivery that the Government may announce: a Social Housing Green Paper is expected to be published in Summer 2018.

We are continuing to allocate significant amounts in our Capital Programme, which (as at June 2018) has a total value of £49m in 2018/19. Of particular importance are loans to facilitate housing investment by our related companies, regeneration schemes and the acquisition of commercial property to generate rent income in support of the budget.

	2018/19 £'000		**2018/19 £'000**
New Homes	3,027	Borrowing	34,976
Improvements to Council homes	6,601	Capital Receipts from asset sales	547
Recreation and play areas	94	Reserves	10,619
Conversions to increase capacity	532	Capital Grants	1,837
Total HRA Investment	**10,254**	Developer and Other Contributions	440
Private Sector Housing Support	245	General Fund Revenue contribution	188
Disabled Facilities Grants	1,534	HRA Revenue contribution	361
Total Private Sector Housing investment	**1,779**		
Loans for housing development	20,000		
Regeneration projects	6,271		
Commercial Property acquisition	5,233		
Commercial Property improvement	1,054		
Property Assets Major Works	1,441		
Waste and Recycling Service	1,111		
Vehicle, plant, equipment, IT replacement	506		
Parks, recreation and play areas	581		
Coastal defence, flood alleviation and air pollution projects	426		
Joint Transformation Programme	212		
Total General Fund Investment	**36,935**		
Total spending allocation	**48,968**	**Total Financing**	**48,968**

Capital Programme 2018/19

Movement in Reserves Statement

	General Fund Balance	Earmarked General Fund 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
Balance at 1 April 2017	**(2,062)**	**(10,096)**	**(2,872)**	**(5,248)**	**(4,933)**	**(2,099)**	**(27,310)**	**(210,164)**	**(237,474)**
Movement in Reserves during 2017/18									
Total comprehensive income and expenditure	2,419	0	856	0	0	0	3,275	(14,929)	(11,654)
Adjustments between accounting basis and funding basis under regulations (Note 10 page 59)	(1,091)	0	77	(240)	(1,099)	(1,437)	(3,790)	3,790	0
Net increase or (decrease) before transfers to earmarked reserves	**1,328**	**0**	**933**	**(240)**	**(1,099)**	**(1,437)**	**(515)**	**(11,139)**	**(11,654)**
Transfers from earmarked reserves (Note 11 page 64)	(1,359)	1,359	0	0	0	0	0	0	0
(Increase) or decrease in 2017/18	**(31)**	**1,359**	**933**	**(240)**	**(1,099)**	**(1,437)**	**(515)**	**(11,139)**	**(11,654)**
Balance at 31 March 2018	**(2,093)**	**(8,737)**	**(1,939)**	**(5,488)**	**(6,032)**	**(3,536)**	**(27,825)**	**(221,303)**	**(249,128)**

Movement in Reserves Statement

	General Fund Balance	Earmarked General Fund 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
Balance at 1 April 2016	**(2,066)**	**(10,719)**	**(2,726)**	**(7,593)**	**(2,157)**	**(100)**	**(25,361)**	**(181,142)**	**(206,503)**
Movement in Reserves during 2016/17									
Total comprehensive income and expenditure	(4,930)	0	(2,187)	0	0	0	(7,117)	(23,854)	(30,971)
Adjustments between accounting basis and funding basis under regulations (Note 10 page 59)	5,557	0	2,041	2,345	(2,776)	(1,999)	5,168	(5,168)	0
Net increase or (decrease) before transfers to earmarked reserves	**627**	**0**	**(146)**	**2,345**	**(2,776)**	**(1,999)**	**(1,949)**	**(29,022)**	**(30,971)**
Transfers to earmarked reserves (Note 11 page 64)	(623)	623	0	0	0	0	0	0	0
(Increase) or decrease in 2016/17	**4**	**623**	**(146)**	**2,345**	**(2,776)**	**(1,999)**	**(1,949)**	**(29,022)**	**(30,971)**
Balance at 31 March 2017	**(2,062)**	**(10,096)**	**(2,872)**	**(5,248)**	**(4,933)**	**(2,099)**	**(27,310)**	**(210,164)**	**(237,474)**

Comprehensive Income and Expenditure Statement

2016/17 Gross Expenditure £000	2016/17 Gross Income £000	2016/17 Net Expenditure £000		2017/18 Gross Expenditure £000	2017/18 Gross Income £000	2017/18 Net Expenditure £000
5,110	(2,770)	**2,340**	Director of Regeneration and Planning	6,475	(2,778)	**3,697**
49,400	(39,827)	**9,573**	Director of Service Delivery	49,852	(40,107)	**9,745**
1,752	(173)	**1,579**	Director of Tourism	1,182	(174)	**1,008**
5,348	(239)	**5,109**	Deputy Chief Executive	5,641	(292)	**5,349**
11,699	(16,606)	**(4,907)**	Local authority housing (Housing Revenue Account)	14,788	(16,697)	**(1,909)**
1,088	(95)	**993**	Corporate costs and income	1,259	(73)	**1,186**
(2,778)	0	**(2,778)**	Corporate recharges	(3,070)	0	**(3,070)**
(2,671)	0	**(2,671)**	Material Item: Pension Service Cost Settlements	0	0	**0**
68,948	**(59,710)**	**9,238**	**Cost of Services**	**76,127**	**(60,121)**	**16,006**
4,507	(251)	**4,256**	Other operating expenditure (Note 12)	4,302	(361)	**3,941**
2,886	(994)	**1,892**	Financing and investment income and expenditure (Note 13)	2,904	(925)	**1,979**
7,872	(30,375)	**(22,503)**	Taxation and non-specific grant income (Note 14)	7,736	(26,387)	**(18,651)**
84,213	**(91,330)**	**(7,117)**	**(Surplus)/Deficit on the provision of services**	**91,069**	**(87,794)**	**3,275**
		(15,281)	Surplus on revaluation of property, plant and equipment assets (Note 22)			**(13,821)**
		(8,573)	Re-measurement of net defined benefit liability (Note 35)			**(1,108)**
		(23,854)	**Other comprehensive income and expenditure**			**(14,929)**
		(30,971)	**Total comprehensive income and expenditure**			**(11,654)**

Balance Sheet

31 March 2017 £000			31 March 2018 £000
285,706	Property, Plant and Equipment	Note 15	**294,676**
2,513	Heritage Assets	Note 16	**2,735**
9,711	Investment Property	Note 17	**9,472**
980	Intangible Assets		**1,601**
546	Long Term Debtors	Note 18	**755**
299,456	**Long Term Assets**		**309,239**
8,817	Short Term Investments	Note 18	**7,740**
97	Inventories		**78**
12,449	Short Term Debtors	Note 19	**8,724**
260	Cash and Cash Equivalents	Note 18	**3,600**
21,623	**Short Term Assets**		**20,142**
(355)	Cash and Cash Equivalents	Note 18	**0**
(4,234)	Short Term Borrowing	Note 18	**(234)**
(6,578)	Short Term Creditors	Note 20	**(8,024)**
(720)	Provisions		**(1,184)**
(11,887)	**Short Term Liabilities**		**(9,442)**
(1,384)	Long Term Creditors	Note 31	**(1,743)**
(56,673)	Long Term Borrowing	Note 18	**(56,673)**
(12,071)	Defined Pension Scheme Liability	Note 35	**(10,880)**
(392)	Other Long Term Liabilities	Note 18	**(532)**
(1,198)	Capital Grants Receipts in Advance	Note 31	**(983)**
(71,718)	**Long Term Liabilities**		**(70,811)**
237,474	**Net Assets**		**249,128**

Balance Sheet

31 March 2017 £000			31 March 2018 £000
(2,062)	General Fund Balance		**(2,093)**
(10,096)	Earmarked General Fund Reserves		**(8,737)**
(2,872)	Housing Revenue Account Balance		**(1,939)**
(5,248)	Capital Receipts Reserve		**(5,488)**
(4,933)	Major Repairs Reserve		**(6,032)**
(2,099)	Capital Grants Unapplied		**(3,536)**
(27,310)	**Usable Reserves**	Note 21	**(27,825)**
(58,774)	Revaluation Reserve		**(69,890)**
(163,341)	Capital Adjustment Account		**(161,670)**
(7)	Financial Instruments Adjustment Account		**0**
12,071	Pension Reserve		**10,880**
(546)	Deferred Capital Receipts		**(749)**
358	Collection Fund Adjustment Account		**102**
75	Accumulated Absences Account		**24**
(210,164)	**Unusable Reserves**	Note 22	**(221,303)**
(237,474)	**Reserves**		**(249,128)**

Certificate of the Responsible Financial Officer

In compliance with Part 3 regulation 9(3) of The Accounts and Audit Regulations 2015 I certify that the Statement of Accounts for the financial year 2017/18 presents a true and fair view of the financial position of Lewes District Council at 31 March 2018 and of its income and expenditure for that year.

Signed .... Alan Osborne
Deputy Chief Executive

Date September 2018 Statutory Section 151 Officer

Cash Flow Statement

2016/17 £000		2017/18 £000
7,117	Net surplus/(deficit) on the provision of services	**(3,275)**
1,942	Adjustments to net surplus/(deficit) on the provision of services for non-cash movements (Note 23)	**17,907**
(8,247)	Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities (Note 24)	**(3,991)**
812	**Net cash flows from operating activities** (Note 27)	**10,641**
(15,571)	Investing activities (Note 25)	**(3,943)**
4,482	Financing activities (Note 26)	**(3,003)**
(10,277)	**Net increase/(decrease) in cash and cash equivalents**	**3,695**
10,182	Cash and cash equivalents at the beginning of the reporting period	**(95)**
(95)	**Cash and cash equivalents at the end of the reporting period**	**3,600**

Components of Cash and Cash Equivalents

The balance of cash and cash equivalents consists of the following elements:

31 March 2017 £000		31 March 2018 £000
2	Cash held by the Council	**1**
258	Bank accounts	**1,599**
(355)	Bank overdraft	**0**
0	Short-term deposits	**2,000**
(95)	**Cash and Cash Equivalents on the Balance Sheet at 31 March**	**3,600**

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

The accounting policies applied in 2017/18 are consistent with those applied in 2016/17.

Note 2. ACCOUNTING POLICIES

1) General Principles

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018.

The Accounts and Audit Regulations 2015 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 2017/18 (the 'Code') supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The accounts are prepared on a going concern basis.

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.

In cases where a full year's income and expenditure is shown in the accounts, for example utility bills and annual contracts, no accrual is made in the accounts as this would overstate the annual position.

<u>Accounting for Council Tax</u>
While the Council Tax income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out to the major preceptors. The amount credited to the General Fund under statute is the Council's demand for the year plus or minus the Council's share of the surplus or deficit on the Collection Fund for the previous year.

The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to Council Tax shall be measured at the full amount receivable (net of any impairment losses) as the transactions are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.
The cash collected by the Council from Council Tax payers belongs proportionately to the Council and the major preceptors. The difference between the amounts collected on behalf of the major preceptors and the payments made to them is reflected as a debtor or creditor balance as appropriate.

<u>Accounting for Non Domestic Rates (NDR)</u>
While the NDR income for the year credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the Council's General Fund, or paid out to the precepting authorities and the Government. The amount credited to the General Fund under statute is the Council's share of NDR for the year specified in the National Non Domestic Rates NNDR1 return to Government made before the start of the financial year.

The NDR income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year and is as set out in the NNDR3 return at the end of the financial year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to NDR shall be measured at the full amount receivable (net of any impairment losses) as these transactions are non-contractual, non-exchange transactions and there can be no difference between delivery and payment dates. The cash collected by the Council from NDR payers belongs proportionately to the Council, the precepting authorities and Government. The difference between the amounts collected on behalf of the precepting authorities and Government and the payments made to them is reflected as a debtor or creditor balance as appropriate.

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:

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

The 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. The Council has determined that this amount will be equal to either 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to Housing Revenue Account activity, or, in respect of expenditure incurred after 1 April 2008, an amount based on the expected life of the asset.

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 benefits or when the Council recognises costs for restructuring. 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, other than those who have chosen to 'opt out', 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 based on the indicative rate of return on high quality corporate bond (iBoxx Sterling Corporates AA over 15 years index) chosen by the Actuary.
- 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
  - ➢ unitised securities – current bid value
  - ➢ property – market value
- The change in the net pensions liability is analysed into the following components:
  - ➢ 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.
  - ➢ 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.

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) Fair Value Measurement

The Council measures some of its assets and liabilities at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place:

- in the principal market for the assets or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The Council uses external valuers to provide a valuation of its assets and liabilities in line with the highest and best use definition within the accounting standard. The highest and best use of the asset or liability being valued is considered from the perspective of the market participant.

Inputs to the valuation techniques in respect of the Council's fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

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

8) 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 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.

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the 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.

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

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

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

- instruments with quoted market prices – the market price

Material changes in fair value are balanced by an entry in an Available-for-Sale Reserve and the gain/loss recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

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 (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

9) 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.

Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy is charged on new builds with appropriate planning consent. The Council charges for and collects the levy which is a planning charge. The income from the levy will be used to fund infrastructure projects to support the development of the district.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL income will be largely used to fund capital expenditure but a small proportion will be used to fund revenue expenditure.

10) 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 two properties: 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 comprise 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. Depreciation of Newhaven Fort is calculated on a straight-line allocation over the useful life of the asset as estimated by the valuer.

11) 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 price that would be received to sell

such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. 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.

12) 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.
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 benefitting 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 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 Property, Plant and Equipment 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 Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

13) Overheads and Support Services

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

14) 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.

15) 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 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.

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 – current value, determined using the basis of existing use value for social housing (EUV-SH)
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV)

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

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

Assets included on the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current 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.

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

Gains before that date have been consolidated into the Capital Adjustment Account.

<u>Impairment</u>
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.

<u>Depreciation</u>
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 and assets that are not yet available for use (i.e. assets under construction).

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 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 non-current 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.

16) 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 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.

17) 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.

18) 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.

19) 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 (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not adopted.

- IFRS9 Financial Instruments – this introduces extensive changes to the classification and measurement of financial assets and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables, and as available for sale, to amortised cost and fair value through other comprehensive income respectively based on contractual cash flows and business model for holding the assets. There are not expected to be any material changes in the measurement of financial assets. Assessment of Lewes District Council's financial assets does not anticipate any material increase in the level of impairment recognised. IFRS9 will be implemented for the 2018/19 financial year.
- IFRS15 Revenue from Contracts with Customers – this presents new requirements for the recognition of revenue based on a control based revenue recognition model. Lewes District Council does not expect there will be a material change in the value or timing of revenue recognised once IFRS15 is implemented. IFRS15 will be implemented for the 2018/189 financial year.
- IFRS16 Leases – CIPFA/LASAAC are currently consulting on the application of IFRS16 for local authorities. Based on the consultation this will require local authorities that are lessees to recognise most leases on their balance sheets as 'right of use' assets with corresponding lease liabilities (there is exemption for low-value and short-term leases). Lewes District Council currently recognises on its balance sheet the higher value leases that are embedded within contracts for the provision of goods and services. The key change arising from IFRS16 will be in respect of leases currently classified as

operating leases. The value of the lease liability and right of use asset to be recognised will be based on the discounted value of outstanding lease payments. Outstanding commitments are disclosed in Note 34.

- IAS7 Statement of Cash Flows (Disclosure Initiative) – this will potentially require some additional analysis of Cash Flows from Financing Activities in future years. If the standard had applied in 2017/18 there would be additional disclosure required for borrowings. IAS7 will be implemented for the 2018/19 financial year.

As stated above, these amendments are not expected to have any effect on the Council's 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:

- 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 degree 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 and the realisation of savings through the Joint Transformation Programme (JTP) 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 estimates cannot be determined with certainty, actual results could be materially different from the assumptions.

The items on the Council's Balance Sheet at 31 March 2018 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 £6 million. The effects of other changes in individual assumptions are set out within Note 35.

- **Impairment of Doubtful Debts:** the Council has included in its accounts an allowance for the impairment of doubtful debts of £1.7 million at 31 March 2018 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. The annual depreciation charge for buildings would increase in these circumstances. The Council operates a policy of revaluing its Property, Plant and Equipment on a rolling five year basis. Details of revaluations and the significant assumptions applied in estimating values of land and buildings are set out within Note 15.
- **Investment Property:** the Council operates a policy of revaluing its Investment Property on an annual basis. Details of the valuation basis employed are set out within Note 17.
- **Provisions:** the Council has made a provision of £1.2 million for its share of any successful appeals made by businesses against non-domestic rates charged in 2017/18 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 inaccurate an adjustment to the amount of the provision will be required in future financial statements.

Note 6. MATERIAL ITEMS OF INCOME AND EXPENSE

There are no material items of income and expenditure in 2017/18 that are not disclosed elsewhere within the Statement of Accounts.

In 2016/17 following the large scale transfer of Lewes District Council staff to Eastbourne Borough Council with effect from 1 February 2017 the East Sussex County Council pension fund actuary undertook an estimate of the cost of the effects of settlement. The results of the estimate, which are shown in Note 35, are that the value of scheme assets transferred is £28.168 million and the value of scheme liabilities transferred is £30.839 million. The net effect of this movement - £2.671 million - is shown separately as Material Item: Pension Service Cost Settlement on the face of the Comprehensive Income and Expenditure Statement.

Note 7. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Deputy Chief Executive on September 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018 the figures in the financial statements and notes have been adjusted in all material respects to reflect the impacts of this information. In June 2018 the Council purchased an investment property at a cost of £2.6m.

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Note 8. EXPENDITURE AND FUNDING ANALYSIS

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

Expenditure chargeable to General Fund and HRA balances £000	Adjustments between funding and accounting basis £000	2016/17 Net Expenditure in the CIES £000		Expenditure chargeable to General Fund and HRA balances £000	Adjustments between funding and accounting basis £000	**2017/18 Net Expenditure in the CIES £000**
(483)	2,823	**2,340**	Director of Regeneration and Planning	48	3,649	**3,697**
8,873	700	**9,573**	Director of Service Delivery	8,515	1,230	**9,745**
781	798	**1,579**	Director of Tourism	591	417	**1,008**
4,889	220	**5,109**	Deputy Chief Executive	5,036	313	**5,349**
(146)	(4,761)	**(4,907)**	Local authority housing (HRA)	933	(2,842)	**(1,909)**
1,167	(174)	**993**	Corporate costs and income	1,634	(448)	**1,186**
(3,581)	803	**(2,778)**	Corporate recharges	(3,855)	785	**(3,070)**
			Material Item:			
0	(2,671)	**(2,671)**	Pension Service Cost Settlements	0	0	**0**
11,500	**(2,262)**	**9,238**	**Cost of Services**	**12,902**	**3,104**	**16,006**
3,072	1,184	**4,256**	Other operating expenditure	3,278	663	**3,941**
(1)	1,893	**1,892**	Financing and investment income and expenditure	(1)	1,980	**1,979**
(15,893)	(6,610)	**(22,503)**	Taxation and non-specific grant income	(15,878)	(2,773)	**(18,651)**
(12,822)	**(3,533)**	**(16,355)**	**Other Income and Expenditure**	**(12,601)**	**(130)**	**(12,731)**
1,803	**(1,803)**	**0**	**Net transfers from reserves**	**1,960**	**(1,960)**	**0**
481	**(7,598)**	**(7,117)**	**(Surplus)/Deficit on provision of services**	**2,261**	**1,014**	**3,275**

2016/17 £000		2017/18 £000
(15,511)	**Opening General Fund and HRA balances**	**(15,030)**
481	**Deficit on General Fund and HRA balances in year**	**2,261**
(15,030)	**Closing General Fund and HRA balances**	**(12,769)**

For a split of the closing balance between General Fund and HRA see the Movement in Reserves Statement

Adjustments between funding and accounting basis to arrive at the Comprehensive Income and Expenditure Statement amounts:

2017/18	Adjustments for Capital Purposes (note 1) £000	Net Change for Pension Adjustments (note 2) £000	Other Differences (note 3) £000	Changes in Presentation (Note 4) £000	Total Adjustments £000
Director of Regeneration and Planning	3,074	0	0	575	3,649
Director of Service Delivery	1,492	0	0	(262)	1,230
Director of Tourism	417	0	0	0	417
Deputy Chief Executive	298	0	0	15	313
Local authority housing (HRA)	(1,996)	(87)	(759)	0	(2,842)
Corporate costs and income	(2,234)	(319)	(51)	2,156	(448)
Corporate recharges	0	26	759	0	785
Cost of Services	1,051	(380)	(51)	2,484	3,104
Other operating expenditure	492	0	0	171	663
Financing and investment income and expenditure	2,378	297	0	(695)	1,980
Taxation and non-specific grant income	(2,516)	0	(257)	0	(2,773)
Net transfers from reserves	0	0	0	(1,960)	(1,960)
Difference between General Fund and HRA surplus or deficit and the Comprehensive Income and Expenditure Statement Deficit on the Provision of Services	1,405	(83)	(308)	0	**1,014**

Adjustments for capital purposes (note 1)

- Net Cost of Services – adjusts for depreciation and impairment and revaluation gains and losses
- Other operating expenditure – adjusts for capital disposals
- Financing and investment income and expenditure – adjusts for the statutory charges for capital financing
- Taxation and non-specific grant income – adjusts for capital grants and contributions

Net change for pension adjustments (note 2)

- Net Cost of Services – adjusts for the removal of employer pension contributions made and the replacement with current and past service costs
- Financing and investment income and expenditure – adjusts for net interest on the defined benefit liability

Other differences (note 3)

- Net Cost of Services – adjusts for presentational changes required for the statutory accounts and for accumulated absences
- Taxation and non-specific grant income – adjusts for the timing difference between council tax and business rates income determined at the start of the year under statutory regulations and the actual income due for the year

Further analysis and detail is provided in Note 10 Adjustments between accounting basis and funding basis under regulations

Changes in Presentation (note 4)

- These adjustments reconcile differences between how services are reported to the Council's Cabinet as part of financial reporting for management control purposes and how those services are required by the Code of Practice to be reported in the Comprehensive Income and Expenditure Statement.

Comparative figures for 2016/17	Adjustments for Capital Purposes (note 1) £000	Net Change for Pension Adjustments (note 2) £000	Other Differences (note 3) £000	Changes in Presentation (Note 4) £000	Total Adjustments £000
Director of Regeneration and Planning	1,247	25	0	1,551	2,823
Director of Service Delivery	1,537	91	0	(928)	700
Director of Tourism	796	2	0	0	798
Deputy Chief Executive	144	26	0	50	220
Local authority housing (HRA)	(3,984)	(552)	(225)	0	(4,761)
Corporate costs and income	(2,073)	(53)	(11)	1,963	(174)
Corporate recharges	0	578	225	0	803
Material Item: Pension Service Cost Settlements	0	(2,671)	0	0	(2,671)
Cost of Services	(2,333)	(2,554)	(11)	2,636	(2,262)
Other operating expenditure	983	0	0	201	1,184
Financing and investment income and expenditure	2,155	772	0	(1,034)	1,893
Taxation and non-specific grant income	(6,406)	0	(204)	0	(6,610)
Net transfers from reserves	0	0	0	(1,803)	(1,803)
Difference between General Fund and HRA surplus or deficit and the Comprehensive Income and Expenditure Statement Surplus on the Provision of Services	(5,601)	(1,782)	(215)	0	(7,598)

Note 9. EXPENDITURE AND INCOME ANALYSED BY NATURE

The Council's expenditure and income is analysed as follows:	2016/17 £000	2017/18 £000
Employees	14,081	**14,079**
Other service expenses	52,212	**51,596**
Depreciation, amortisation, impairment/(reversals), de-recognition of components	7,483	**12,325**
Interest payments	1,757	**1,752**
Precepts and levies	10,943	**11,014**
Payments to Housing Capital Receipts Pool	408	**303**
Material Item: Pension Service Cost Settlements	(2,671)	**0**
Total expenditure	**84,213**	**91,069**
Fees, charges and other service income	(25,137)	**(26,006)**
Interest and investment income	(124)	**(95)**
Income from council tax and non-domestic rates	(20,200)	**(20,198)**
Government grants and contributions	(45,618)	**(41,134)**
Gain on the disposal of assets	(251)	**(361)**
Total income	**(91,330)**	**(87,794)**
(Surplus) or Deficit on the provision of services	**(7,117)**	**3,275**

Fees, charges and other service income analysed by service segment
The Council receives income from a variety of sources including building control fees, car parking, planning fees, property rentals, recycling and trade waste. This income is analysed on a segmental basis below:

	2016/17 £000	2017/18 £000
Director of Regeneration and Planning	(3,444)	**(3,588)**
Director of Service Delivery	(4,472)	**(5,077)**
Director of Tourism	(146)	**(152)**
Deputy Chief Executive	(209)	**(257)**
Corporate costs and income	(260)	**(235)**
Local authority housing (HRA)	(16,606)	**(16,697)**
	(25,137)	**(26,006)**

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Government grants and contributions analysed by service segment

The Council receives amounts of grants and contributions which is analysed on a segmental basis below:

	2016/17 £000	2017/18 £000
Director of Regeneration and Planning	(50)	**(20)**
Director of Service Delivery	(35,336)	**(34,868)**
Director of Tourism	(27)	**(22)**
Deputy Chief Executive	(30)	**(35)**
Cost of Services	**(35,443)**	**(34,945)**
Taxation and non-specific grant income	**(10,175)**	**(6,189)**
	(45,618)	**(41,134)**

Note 10. 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.

A description of each of the reserves against which the adjustments are made is set out below.

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

Housing Revenue Account Balance
This reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part V1 of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council’s landlord function.

Capital Receipts Reserve
This reserve holds the balance of proceeds from the disposal of land and other assets which are restricted by statue from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure.

Major Repairs Reserve
The Council is required to maintain this reserve which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical HRA capital expenditure.

Capital Grants Unapplied
This reserve holds the balance of grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. Use of the balance is restricted by grant terms which determine the capital expenditure against which it can be applied.

2017/18 Adjustments

	Movement in Usable Reserves					
	General Fund Balance	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments to the Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred from the Pensions Reserve)	55	28				(83)
Financial Instruments (transferred to the Financial Instruments Adjustment Account)	(2)	(5)				7
Council tax and NNDR (transfers to or from the Collection Fund Adjustment Account)	256					(256)
Holiday pay (transferred from the Accumulated Absences Reserve)	51					(51)
Reversal of entries included in the Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):						
• Charges for depreciation of non-current assets	(2,328)	(5,462)				7,790
• Charges for impairment/reversals of non-current assets	(2,330)	(1,199)				3,529
• Movements in the fair value of Investment Properties	(249)					249
• Amortisation of Intangible Assets	(202)	(6)				208
• Capital grants and contributions applied	206					(206)
• Revenue expenditure funded from capital under statute	(1,043)					1,043
• Amounts of non-current assets written off on de-recognition of components		(550)				550
• Amounts of non-current assets written off on disposal or sale as part of the gain on disposal	(11)	(768)				779
Total Adjustments to the Revenue Resources	**(5,597)**	**(7,962)**	**0**	**0**	**0**	**13,559**

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2017/18 Adjustments	Movement in Usable Reserves					
	General Fund Balance	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	5	1,135	(950)			(190)
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)		(10)	10			
Payments to the government housing receipts pool (funded by a contribution from the Capital Receipts Reserve)	(303)		303			
Posting of HRA resources to the Major Repairs Reserve		5,468		(5,468)		
Capital grants yet to be applied to expenditure (transfer to the Capital Grants Unapplied Account	2,440				(2,440)	
Statutory provision for the repayment of debt (transfer to the Capital Adjustment Account)	312					(312)
Voluntary provision for the repayment of debt (transfer to the Capital Adjustment Account)		807				(807)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	2,052	626				(2,678)
Total Adjustments between Revenue and Capital Resources	**4,506**	**8,026**	**(637)**	**(5,468)**	**(2,440)**	**(3,987)**

2017/18 Adjustments	General Fund Balance	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure			397			(397)
Use of the Major Repairs Reserve to finance capital expenditure				4,369		(4,369)
Application of capital grants to finance capital expenditure					1,003	(1,003)
Cash payments in relation to deferred capital receipts		13				(13)
Total Adjustments to Capital Resources	**0**	**13**	**397**	**4,369**	**1,003**	**(5,782)**
TOTAL ADJUSTMENTS FOR 2017/18	**(1,091)**	**77**	**(240)**	**(1,099)**	**(1,437)**	**3,790**

2016/17 comparative figures	Movement in Usable Reserves					
	General Fund Balance	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments to the Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred from the Pensions Reserve)	1,394	388				(1,782)
Financial Instruments (transferred to the Financial Instruments Adjustment Account)	(1)	(3)				4
Council tax and NNDR (transfers to or from the Collection Fund Adjustment Account)	205					(205)
Holiday pay (transferred from the Accumulated Absences Reserve)	11					(11)
Reversal of entries included in the Surplus on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):						
• Charges for depreciation of non-current assets	(2,154)	(5,154)				7,308
• Charges for impairment/reversals of non-current assets	(704)	1,374				(670)
• Movements in the fair value of Investment Properties	146					(146)
• Amortisation of Intangible Assets	(100)	(6)				106
• Capital grants and contributions applied	185	12				(197)
• Revenue expenditure funded from capital under statute	(1,351)					1,351
• Amounts of non-current assets written off on de-recognition of components	(59)	(827)				886
• Amounts of non-current assets written off on disposal or sale as part of the gain on disposal	(57)	(1,684)				1,741
Total Adjustments to the Revenue Resources	**(2,485)**	**(5,900)**	**0**	**0**	**0**	**8,385**

2016/17 comparative figures

	Movement in Usable Reserves					
	General Fund Balance	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	19	1,970	(1,989)			
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	(1)	(18)	19			
Payments to the government housing receipts pool (funded by a contribution from the Capital Receipts Reserve)	(408)		408			
Posting of HRA resources to the Major Repairs Reserve		5,160		(5,160)		
Capital grants yet to be applied to expenditure (transfer to the Capital Grants Unapplied Account	6,216				(6,216)	
Statutory provision for the repayment of debt (transfer to the Capital Adjustment Account)	394					(394)
Voluntary provision for the repayment of debt (transfer to the Capital Adjustment Account)		807				(807)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	1,822					(1,822)
Total Adjustments between Revenue and Capital Resources	**8,042**	**7,919**	**(1,562)**	**(5,160)**	**(6,216)**	**(3,023)**

Adjustments between accounting basis and funding basis under regulations (continued)

2016/17 comparative figures

	Movement in Usable Reserves					
	General Fund Balance	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure			3,907			(3,907)
Use of the Major Repairs Reserve to finance capital expenditure				2,384		(2,384)
Application of capital grants to finance capital expenditure					4,217	(4,217)
Cash payments in relation to deferred capital receipts		22				(22)
Total Adjustments to Capital Resources	**0**	**22**	**3,907**	**2,384**	**4,217**	**(10,530)**
TOTAL ADJUSTMENTS FOR 2016/17	**5,557**	**2,041**	**2,345**	**(2,776)**	**(1,999)**	**(5,168)**

Note 11. 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 2017/18.

Earmarked General Fund Reserve *(purpose of reserve)*	Balance at 1 April 2016 £000	Transfers Out 2016/17 £000	Transfers In 2016/17 £000	Balance at 31 March 2017 £000	Transfers Out 2017/18 £000	Transfers In 2017/18 £000	**Balance at 31 March 2018 £000**
Asset Maintenance *(To support investment in the Council's non-housing property through programmes of maintenance, repair and replacement)*	(2,979)	480	(438)	(2,937)	281	(364)	**(3,020)**
Economic Regeneration *(To support growth of local business and enterprise)*	(351)	77	0	(274)	54	(80)	**(300)**
Revenue Grants and Contributions pending use *(Amounts paid to the Council by Government and third parties to support specific initiatives)*	(253)	96	(243)	(400)	195	(191)	**(396)**
Strategic Change *(To support the Council's Joint Transformation Programme of integration and shared services and its other programmes of change)*	(3,657)	2,631	(2,642)	(3,668)	2,257	(1,939)	**(3,350)**

Transfers to/from earmarked reserves (continued)	Balance at 1 April 2016 £000	Transfers Out 2016/17 £000	Transfers In 2016/17 £000	Balance at 31 March 2017 £000	Transfers Out 2017/18 £000	Transfers In 2017/18 £000	**Balance at 31 March 2018 £000**
Vehicle and Equipment Replacement *(To support the ICT and vehicle replacement programme)*	(2,440)	169	(320)	(2,591)	1,146	0	**(1,445)**
Unallocated *(To provide additional support to initiatives determined by the Council)*	(1,039)	813	0	(226)	0	0	**(226)**
Total Earmarked Reserves on the Balance Sheet	**(10,719)**	**4,266**	**(3,643)**	**(10,096)**	**3,933**	**(2,574)**	**(8,737)**

	Gross Expenditure £000	Gross Income £000	2016/17 Net Expenditure £000	Gross Expenditure £000	Gross Income £000	**2017/18 Net Expenditure £000**
Note 12. OTHER OPERATING EXPENDITURE						
Town and Parish Council Precepts	3,071	0	3,071	3,278	0	**3,278**
Grants to Town and Parish Councils	201	0	201	171	0	**171**
Payments to the Government Housing Capital Receipts Pool	408	0	408	303	0	**303**
Gains on the disposal of non-current assets	0	(251)	(251)	0	(361)	**(361)**
Loss on de-recognition of components of HRA non-current assets	827	0	827	550	0	**550**
Total Other Operating Expenditure	**4,507**	**(251)**	**4,256**	**4,302**	**(361)**	**3,941**

Note 13. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

			2016/17			**2017/18**
Interest payable and similar charges	1,757	0	1,757	1,752	0	**1,752**
Net interest on the net defined benefit liability	772	0	772	297	0	**297**
Interest receivable and similar income	0	(124)	(124)	0	(95)	**(95)**
Solar Panel Trading Account	116	(223)	(107)	118	(198)	**(80)**
Income and expenditure in relation to investment property and changes in fair value	241	(647)	(406)	737	(632)	**105**
Total Financing and Investment Income and Expenditure	**2,886**	**(994)**	**1,892**	**2,904**	**(925)**	**1,979**

Note 14. TAXATION AND NON SPECIFIC GRANT INCOME

			2016/17			**2017/18**
Council Tax Income	0	(10,106)	(10,106)	0	(10,474)	**(10,474)**
Non Domestic Rates income and expenditure	7,872	(10,094)	(2,222)	7,736	(9,724)	**(1,988)**
Non-ring fenced Government Grants	0	(3,769)	(3,769)	0	(3,673)	**(3,673)**
Capital Grants and Contributions	0	(6,406)	(6,406)	0	(2,516)	**(2,516)**
Total Taxation and Non Specific Grant Income	**7,872**	**(30,375)**	**(22,503)**	**7,736**	**(26,387)**	**(18,651)**

Note 15. PROPERTY, PLANT AND EQUIPMENT

Movement on Balances

Movements in 2017/18

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets under construction	Surplus Assets	Total Property Plant and Equipment
Cost or Valuation:	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 April 2017	219,389	48,704	15,491	11,320	1,602	2,206	7,567	306,279
Additions	3,832	569	2,675	80	0	514	0	7,670
Revaluation increases/(decreases) recognised in Revaluation Reserve	2,398	2,910	742	0	0	0	389	6,439
Revaluation (decreases) recognised in Deficit on the Provision of Services	(1,199)	(1,130)	0	0	0	0	(1,200)	(3,529)
Derecognition – components written out and loss recognised in Deficit on Provision of Services	(550)	0	0	0	0	0	0	(550)
Derecognition – disposals	(532)	0	(220)	0	0	0	0	(752)
Reclassifications	1,866	0	0	0	0	(1,866)	0	0
At 31 March 2018	**225,204**	**51,053**	**18,688**	**11,400**	**1,602**	**854**	**6,756**	**315,557**
Accumulated Depreciation and Impairment:								
At 1 April 2017	48	3,036	7,491	9,998	0	0	0	20,573
Depreciation charge	4,782	1,371	1,268	171	0	0	136	7,728
Depreciation written out to Revaluation Reserve on revaluation	(4,780)	(1,924)	(359)	0	0	0	(136)	(7,199)
Derecognition – disposals	(5)	0	(216)	0	0	0	0	(221)
At 31 March 2018	45	2,483	8,184	10,169	0	0	0	20,881
Net book value on Balance Sheet at 31 March 2018	**225,159**	**48,570**	**10,504**	**1,231**	**1,602**	**854**	**6,756**	**294,676**

Movement on Balances

Movements in 2016/17

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets under construction	Surplus Assets	Total Property Plant and Equipment
Cost or Valuation:	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 April 2016	206,817	46,627	15,202	11,216	1,602	645	3,950	286,059
Additions	2,245	2,693	559	104	0	3,432	2,907	11,940
Revaluation increases recognised in Revaluation Reserve	8,950	344	0	0	0	0	1,112	10,406
Revaluation increases/(decreases) recognised in Surplus on the Provision of Services	1,374	0	0	0	0	0	(704)	670
Derecognition – components written out and loss recognised in Surplus on Provision of Services	(826)	(1)	(59)	0	0	0	0	(886)
Derecognition – disposals	(1,042)	(657)	(211)	0	0	0	0	(1,910)
Reclassifications	1,871	(302)	0	0	0	(1,871)	302	0
At 31 March 2017	**219,389**	**48,704**	**15,491**	**11,320**	**1,602**	**2,206**	**7,567**	**306,279**
Accumulated Depreciation and Impairment:								
At 1 April 2016	27	2,120	6,483	9,762	0	0	0	18,392
Depreciation charge	4,533	1,184	1,190	236	0	0	104	7,247
Depreciation written out to Revaluation Reserve on revaluation	(4,504)	(267)	0	0	0	0	(104)	(4,875)
Derecognition – disposals	(8)	(1)	(182)	0	0	0	0	(191)
At 31 March 2017	**48**	**3,036**	**7,491**	**9,998**	**0**	**0**	**0**	**20,573**
Net book value on Balance Sheet at 31 March 2017	**219,341**	**45,668**	**8,000**	**1,322**	**1,602**	**2,206**	**7,567**	**285,706**

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	Vehicles, Plant, Furniture and Equipment – 5-15 years
Other Land and Buildings	Buildings – 15-60 years Fixtures and fittings – 10 years	Infrastructure – 20 years

Capital Commitments
At 31 March 2018 the Council had outstanding commitments of £639,000 for the purchase of 4 waste collection vehicles.
At 31 March 2017 the Council had outstanding commitments of £635,000 for the construction or enhancement of Property, Plant and Equipment.

Revaluations
The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at current value or fair value as appropriate 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 2015 and are subject to annual desktop revaluation reviews at 31 March each year until the next full valuation review due at 1 April 2020.
Other Land and Buildings were revalued by DVS at 1 April 2014 with the next full revaluation review due at 1 April 2019.
At 31 March 2018 desktop revaluation reviews were undertaken for garages and property valued at depreciated replacement cost.

The significant assumptions applied in estimating the valuations of land and buildings are:
- that good title can be shown and all valid planning permissions and statutory approvals are in place
- that the property is not subject to unusual or onerous restrictions, encumbrances or outgoings
- that inspection of those parts which have not been inspected would not cause the valuer to alter his opinion
- that there are no deleterious or hazardous materials or existing or potential environmental factors that would affect the valuation
- 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

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets under construction	Surplus Assets*	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost			18,688	11,400	1,602	854		32,544
Valued at current value as at:								
31 March 2018	224,450	29,464					6,756	260,670
1 April 2015	754							754
1 April 2014		21,589						21,589
Gross Book Value on Balance Sheet at 31 March 2018	**225,204**	**51,053**	**18,688**	**11,400**	**1,602**	**854**	**6,756**	**315,557**

Non-operational Property, Plant and Equipment - Surplus Assets*

Fair Value Hierarchy

The Council's surplus assets have been assessed as Level 2 on the fair value hierarchy for valuation purposes (see Note 2 Accounting Policy 7).

Valuation techniques used to determine Level 2 Fair Values

The fair value of Surplus Assets has been measured based on the market approach using current market conditions consisting of analysed and weighted market evidence such as sales, rentals and yields in respect of comparable properties in the same or similar locations. There has been no change in the valuation technique and no transfers between levels of the fair value hierarchy in the year.

Highest and Best Use

In estimating the fair value of the Council's Surplus Assets, the highest and best use has been used.

The current use of these buildings differs from their highest and best use because they are being held vacant and non-operational pending decisions by the Council on their future development or disposal.

Note 16. HERITAGE ASSETS

Reconciliation of carrying value of heritage assets held by the Council	Land and Buildings	Civic Regalia	Works of Art and Museum Exhibits	Total Assets
Cost or Valuation:	**£000**	**£000**	**£000**	**£000**
At 1 April 2017	2,310	19	776	**3,105**
Additions	100	0	0	**100**
Revaluation decreases recognised in Revaluation Reserve	(51)	0	0	**(51)**
At 31 March 2018	**2,359**	**19**	**776**	**3,154**
Depreciation and Impairment:				
At 1 April 2017	592	0	0	**592**
Depreciation charge	61	0	0	**61**
Depreciation written out to Revaluation Reserve on revaluation	(234)	0	0	**(234)**
At 31 March 2018	**419**	**0**	**0**	**419**
Net Book Value on the Balance Sheet at 31 March 2018	**1,940**	**19**	**776**	**2,735**
Cost or Valuation:	£000	£000	£000	£000
At 1 April 2016	2,289	19	776	3,084
Additions	21	0	0	21
At 31 March 2017	2,310	19	776	3,105
Depreciation and Impairment:				
At 1 April 2016	533	0	0	533
Depreciation charge	59	0	0	59
At 31 March 2017	592	0	0	592
Net Book Value on the Balance Sheet at 31 March 2017	1,718	19	776	2,513

Land and buildings comprises two properties - Market Tower and Newhaven Fort – which are included on the Balance Sheet at market value as assessed by the Council’s external valuer at 1 April 2014. Newhaven Fort is depreciated based on a straight-line allocation over its life as estimated by the valuer. Market Tower is not depreciated as it 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 17. INVESTMENT PROPERTY

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (Note 13 p65):

	2016/17	**2017/18**
	£000	**£000**
Rental income from investment property	(501)	(632)
Direct operating expenses arising from investment property	241	488
Net (gains)/losses from fair value changes	(146)	249
Net (gain)/loss	(406)	**105**

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:	2016/17	**2017/18**
	£000	**£000**
Balance Sheet fair value at 1 April	4,321	**9,711**
Additions - capitalised expenditure	5,244	**260**
Disposals	0	**(250)**
Net gains/(losses) from fair value changes	146	**(249)**
Balance Sheet fair value at 31 March	9,711	**9,472**

Fair Value Hierarchy

The Council's investment properties have been assessed as Level 2 on the fair value hierarchy for valuation purposes (see Note 2 Accounting Policy 7).

Valuation techniques used to determine Level 2 Fair Values

The fair value of Investment Property has been measured based on the market approach using current market conditions of analysed and weighted market evidence such as sales, rentals and yields in respect of comparable properties in the same or similar locations. There has been no change in the valuation technique and no transfers between levels of the fair value hierarchy in the year.

Highest and Best Use

In estimating the fair value of the Council's Investment Property, the highest and best use is their current use.

Valuation Process

The fair value of the Council's Investment Property is measured annually at each balance sheet date. Valuations are 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.

Note 18. FINANCIAL INSTRUMENTS

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

	Long-term		Short-term	
	31 March 2017	**31 March 2018**	31 March 2017	**31 March 2018**
FINANCIAL ASSETS	£000	**£000**	£000	**£000**
Investments				
- loans and receivables	0	**0**	4,005	**4,003**
- available for sale financial assets	0	**0**	4,812	**3,737**
	0	**0**	8,817	**7,740**
Cash and Cash Equivalents				
- loans and receivables	0	**0**	260	**3,600**
- available for sale financial assets	0	**0**	0	**0**
	0	**0**	260	**3,600**
Debtors				
- loans and receivables	546	**755**	5,416	**1,844**
FINANCIAL LIABILITIES				
Borrowings - financial liabilities at amortised cost	56,673	56,673	4,234	**234**
Other Long Term Liabilities				
- finance lease liabilities at amortised cost	392	532	0	**0**
Cash and Cash Equivalents	0	0	355	**0**
Creditors - financial liabilities at amortised cost	0	0	4,271	**5,558**

The short-term debtors line on the Balance Sheet includes non-contractual debtors that do not meet the definition of a financial asset (see Note 19) and which are excluded from the table above.
The short-term creditors line on the Balance Sheet includes receipts in advance and non-contractual 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 31) and is excluded from the table above.

Income, Expense, Gains and Losses	Financial liabilities measured at amortised cost	Financial assets: loans and receivables	Financial assets: available for sale	Total 2016/17	**Financial liabilities measured at amortised cost**	**Financial assets: loans and receivables**	**Financial assets: available for sale**	**Total 2017/18**
	£000	£000	£000	£000	**£000**	**£000**	**£000**	**£000**
Interest expense	1,757	0	0	1,757	**1,752**	**0**	**0**	**1,752**
Total expense in (Surplus)/Deficit on the Provision of Services	1,757	0	0	1,757	**1,752**	**0**	**0**	**1,752**
Interest income	0	(82)	(42)	(124)	**0**	**(72)**	**(23)**	**(95)**
Total income in (Surplus)/Deficit on the Provision of Services	0	(82)	(42)	(124)	**0**	**(72)**	**(23)**	**(95)**
Net (gain)/loss for the year	1,757	(82)	(42)	1,633	**1,752**	**(72)**	**(23)**	**1,657**

Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables are carried on the Balance Sheet at amortised cost.

The fair values calculated in line with accounting policy 7 in Note 2 are as follows:	Fair Value Level	31 March 2017 Balance Sheet	31 March 2017 Fair value	**31 March 2018 Balance Sheet**	**31 March 2018 Fair value**
Financial Assets		£000	£000	**£000**	**£000**
Long-term Debtors	1	546	546	**755**	**755**
Short-term Investments – loans and receivables	2	4,005	4,005	**4,003**	**4,003**
Short-term Investments – available for sale	1	4,812	4,812	**3,737**	**3,737**
Short-term Debtors	1	5,416	5,416	**1,844**	**1,844**
Cash and cash equivalents	1	260	260	**3,600**	**3,600**

Short-term Investments includes £3.7 million in available for sale financial assets. In a departure from accounting policy 7 in Note 2, the balance sheet value and the fair value are held as the same because the difference between the two is not material.

	Fair Value Level	31 March 2017 Balance Sheet	Fair Value	**31 March 2018 Balance Sheet**	**Fair Value**
Financial Liabilities		£000	£000	**£000**	**£000**
Borrowings – market loan*	2	5,108	8,027	**5,108**	**7,722**
Borrowings – Public Works Loan Board (PWLB)*	2	51,799	59,602	**51,799**	**57,625**
Borrowings – short-term	2	4,000	4,000	**0**	**0**
Other Long-term Liabilities – finance leases	2	392	392	**532**	**532**
Cash and cash equivalents	1	355	355	**0**	**0**
Short-term Creditors	1	4,271	4,271	**5,558**	**5,558**

* represented on the Balance Sheet by long term and short term borrowings

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:

- for Public Works Loan Board (PWLB) loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures (Level 2)
- for the market loan payable, because the lender was unable to provide a fair value directly it has been calculated by discounting the contractual cash flows over the whole life of the instrument at the appropriate interest rate swap rate.
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value

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 2018) from a commitment to pay interest to the lender above current market rates.

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.

The Council's annual Treasury Management Strategy (last updated in February 2018) 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 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 2017/18 deposits in banks and building societies were limited to UK banks and building societies that had minimum Fitch (or equivalent) credit ratings of 'BBB+' long term. Deposits were allowed for periods up to 1 year with a maximum exposure limit of £2 million per institutional group.

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 19 shows the total value of customer debt at the year end, along with the allowance for non-collection.

The Council does not generally allow extended credit for its customers so some of the balance included in Note 19 is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	Housing Benefit Overpayments at 31 March 2017 £000	Housing Rents at 31 March 2017 £000	Sundry Debtors at 31 March 2017 £000	**Housing Benefit Overpayments at 31 March 2018 £000**	**Housing Rents at 31 March 2018 £000**	**Sundry Debtors at 31 March 2018 £000**
Less than 3 months	140	24	240	**191**	**25**	**283**
3 months to 6 months	184	39	22	**198**	**38**	**34**
6 months to 12 months	304	38	69	**266**	**39**	**80**
More than 12 months	1,490	535	221	**1,547**	**625**	**242**
	2,118	636	552	**2,202**	**727**	**639**

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Liquidity Risk

The Council manages its liquidity position through a comprehensive cash flow management system which includes the setting and approval of prudential indicators and the approval of treasury and investment strategy reports, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed. The Council has ready access to borrowings from the money markets to cover any day to day cash flow needs, and from the Public Works Loans Board (PWLB) and money markets for any longer term funds. The Council is required by the Local Government Finance Act 1992 to provide a balanced budget which ensures that sufficient monies are raised to cover annual expenditure. There is no significant risk that the Council 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. To mitigate this risk, the Council sets limits on the proportion of its fixed rate borrowing during specified periods.

The maturity analysis of financial liabilities (borrowings principal and interest) at 31 March is as follows:

	2017	**2018**
	£000	**£000**
Less than one year	5,722	**1,726**
Between one and two years	1,722	**1,726**
Between two and five years	10,166	**10,152**
Between five and ten years	25,609	**27,071**
Between ten and fifteen years	17,604	**15,244**
Between fifteen and twenty years	13,925	**13,581**
Between twenty and twenty five years	8,966	**8,732**
Between twenty five and thirty years	1,125	**1,125**
More than thirty years	6,125	**5,900**
	90,964	**85,257**

All trade and other payables are due to be paid in less than one year and are not included within the table above.

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. For instance, 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 interest expense charged to the Surplus on the Provision of Services will rise
- investments at variable rates – the interest income credited to the Surplus on the Provision of Services 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. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus on the Provision of Services and will affect the General Fund Balance.

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. When setting its base budget the Council assumed no increase in the interest rate currently earned on new deposits 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.
If all interest rates had been 1% higher (with all other variables held constant) the financial effect would have been an increase of £50,000 in interest payable, an increase of £207,000 in interest receivable, and a net £157,000 impact on the Deficit on the Provision of Services. The impact on the fair value of fixed rate borrowings would have been a decrease of £6.7 million.

Price and foreign exchange risk

The Council does not generally invest in equity shares but held £3.7 million in available for sale financial assets at 31 March 2018. The Council is, therefore, exposed to losses arising from movements in the prices of the available for sale financial assets but this is mitigated by not trading the assets in an active market and holding them short-term and to maturity.

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

Note 19. DEBTORS

	31 March 2017		31 March 2018	
	£000	£000	£000	£000
Central Government Bodies		7,269		**4,608**
Other Local Authorities		748		**760**
Other Entities and Individuals:				
Sundry Debtors	3,008		**3,238**	
Community Infrastructure Levy Developer Contributions	1,528		**304**	
Housing Rents	636		**727**	
Council Taxpayers	414		**496**	
Non-domestic Ratepayers	454		**347**	
		6,040		**5,112**
		14,057		**10,480**
less allowances for non-collection:				
Sundry Debtors	(909)		**(964)**	
Housing Rents	(460)		**(525)**	
Council Taxpayers	(117)		**(145)**	
Non-domestic Ratepayers	(122)		**(122)**	
		(1,608)		**(1,756)**
Debtors net of impairment on the Balance Sheet at 31 March		12,449		**8,724**

Note 20. CREDITORS

	31 March 2017	**31 March 2018**
	£000	**£000**
Central Government Bodies	406	**1,216**
Other Local Authorities	2,313	**2,932**
Other Entities and Individuals	3,069	**2,805**
Receipts in Advance	790	**1,071**
Creditors on the Balance Sheet at 31 March	6,578	**8,024**

Note 21. USABLE RESERVES

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

Note 22. UNUSABLE RESERVES

The Council's unusable reserves consist of:

	31 March 2017	**31 March 2018**
	£000	**£000**
Revaluation Reserve	(58,774)	**(69,890)**
Capital Adjustment Account	(163,341)	**(161,670)**
Financial Instruments Adjustment Account	(7)	**0**
Pension Reserve	12,071	**10,880**
Deferred Capital Receipts	(546)	**(749)**
Collection Fund Adjustment Account	358	**102**
Accumulated Absences Account	75	**24**
Unusable Reserves on the Balance Sheet at 31 March	(210,164)	**(221,303)**

A description of the nature and purpose of the three major unusable reserves, 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 its non-current assets.

The balance is reduced when assets with accumulated gains are:

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

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

(a) Revaluation Reserve

	2016/17	**2017/18**	
	£000	**£000**	**£000**
Balance Sheet at 1 April	(45,642)		**(58,774)**
Upward revaluation of assets	(15,424)	**(19,720)**	
Downward revaluation of assets and impairment losses/(reversals) not charged to the Surplus/Deficit on the Provision of Services	143	**5,899**	
Surplus on the revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	(15,281)		**(13,821)**
Difference between fair value depreciation and historical cost depreciation	732	**476**	
Accumulated gains on assets sold or scrapped	1,417	**2,229**	
Amount written off to the Capital Adjustment Account	2,149		**2,705**
Balance Sheet at 31 March	(58,774)		**(69,890)**

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 current 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.

(b) Capital Adjustment Account	2016/17	**2017/18**
	£000	**£000**
Balance Sheet at 1 April	(158,040)	(163,341)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement CIES):		
• Charges for depreciation of non-current assets – General Fund	2,154	**2,328**
• Debits/(Credits) for impairments/(reversals) of non-current assets	(670)	**3,529**
• Amortisation of Intangible Assets – General Fund	100	**202**
• Transfer to offset Housing Revenue Account contribution to the Major Repairs Reserve	5,160	**5,468**
• Revenue expenditure funded from capital under statute (REFCUS)	1,351	**1,043**
• Amounts of non-current assets written off on disposal or sale as part of the gain on disposal to the Comprehensive Income and Expenditure Statement	1,741	**779**
• Amounts of non-current assets written off on de-recognition of components to the Comprehensive Income and Expenditure Statement	886	**550**
	10,722	**13,899**
Adjusting amounts written out of the Revaluation Reserve	(2,149)	**(2,705)**
Net written out amount of the cost of non-current assets consumed in the year	8,573	**11,194**
Capital financing applied in the year:		
• Use of the Capital Receipts Reserve to finance new capital expenditure	(3,907)	**(397)**
• Use of the Major Repairs Reserve to finance new capital expenditure	(2,384)	**(4,369)**
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(197)	**(206)**
• Application of grants to capital financing from the Capital Grants Unapplied Account	(4,217)	**(1,003)**
• Statutory provision for the financing of capital investment charged against the General Fund Balance	(394)	**(312)**
• Voluntary provision for the financing of capital investment charged against the Housing Revenue Account (HRA) Balance	(807)	**(807)**
• Capital expenditure charged against the General Fund and HRA Balances	(1,822)	**(2,678)**
	(13,728)	**(9,772)**
Movements in the fair value of Investment Properties (debited) or credited to the CIES	(146)	**249**
Balance Sheet at 31 March	(163,341)	**(161,670)**

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 pay 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.

(c) Pensions Reserve

	2016/17	**2017/18**
	£000	**£000**
Balance Sheet at 1 April	22,426	**12,071**
Remeasurements of the net defined benefit liability	(8,573)	**(1,108)**
Reversal of items relating to retirement benefits debited or (credited) to the (Surplus)/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(133)	**543**
Employer's pension contributions payable in the year	(1,649)	**(626)**
Balance Sheet at 31 March	12,071	**10,880**

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Note 23. CASH FLOW STATEMENT – ADJUSTMENTS TO NET SURPLUS/DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS

	2016/17 £000	**2017/18** **£000**
Depreciation	7,308	**7,789**
Impairment and (reversal) of impairment and valuation movements	(670)	**3,529**
Fair value adjustments for investment properties	(146)	**249**
Amortisation	106	**208**
Increase in impairment for bad debts	140	**148**
Increase in Creditors	756	**1,542**
(Increase)/Decrease in Debtors	(6,196)	**3,653**
(Increase)/Decrease in Inventories	(12)	**19**
(Decrease) in Provisions	(40)	**0**
Movement in pension liability	(1,782)	**(83)**
Carrying amount of non-current assets sold or derecognised	2,627	**1,139**
Other non-cash items	(149)	**(286)**
Adjustments for non-cash movements	1,942	**17,907**

Note 24. CASH FLOW STATEMENT – ADJUSTMENTS FOR ITEMS THAT ARE INVESTING AND FINANCING ACTIVITIES

	2016/17 £000	**2017/18** **£000**
Proceeds from sales of property, plant & equipment, investment property and intangible assets	(1,971)	**(1,131)**
Capital grants	(6,406)	**(2,646)**
Reduction/(Increase) of outstanding liabilities relating to finance leases	130	**(214)**
Adjustments for items that are investing and financing activities	(8,247)	**(3,991)**

Note 25. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2016/17	**2017/18**
	£000	**£000**
Purchase of property, plant and equipment, investment property and intangible assets	(18,317)	**(8,510)**
Purchase of short-term investments	(154,776)	**(99,423)**
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	1,971	**1,131**
Proceeds from short-term investments	148,995	**2,431**
Capital Grants received	6,556	**100,428**
Net cash out flows from investing activities	(15,571)	**(3,943)**

Note 26. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2016/17	**2017/18**
	£000	**£000**
Cash receipt/(payment) of short-term borrowing	4,000	**(4,000)**
Other receipts/(payments) from financing activities – increase/(decrease) in preceptors' share of council tax cash collected net of precepts and surpluses paid	428	**(1,148)**
Cash (payments)/receipts for the reduction/increase of the outstanding liabilities relating to finance leases	(130)	**214**
Other receipts from financing activities – increase in preceptors' share of non-domestic rates collected net of precepts and surpluses paid	184	**1,931**
Net cash in flows/out flows from financing activities	4,482	**(3,003)**

Note 27. CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:	2016/17	**2017/18**
	£000	**£000**
Interest paid	(1,729)	**(1,752)**
Interest received	68	**95**

Note 28. MEMBERS' ALLOWANCES

The Council paid £208,000 in allowances to Members of the Council (District Councillors) during 2017/18 and £5,000 in expenses. The comparative figures for 2016/17 were £205,000 and £5,000.

Note 29. OFFICERS' REMUNERATION

Lewes District Council (LDC) shares a Corporate Management Team of senior officers with Eastbourne Borough Council (EBC). LDC continues to directly employ one senior management officer – the Assistant Director of Legal and Democratic Services – whereas all other senior management officers are directly employed by EBC.

The table below reports the total remuneration of the senior management team during 2017/18.

Post	Salary £	Expenses and Allowances £	Total excluding pension contribution £	Pension Contribution £	Total including pension contribution £
Chief Executive	**137,645**	**3,850**	**141,495**	**22,928**	**164,423**
Deputy Chief Executive	**101,396**	**0**	**101,396**	**17,897**	**119,293**
Director of Service Delivery	**95,950**	**0**	**95,950**	**16,935**	**112,885**
Director of Regeneration and Planning	**95,950**	**0**	**95,950**	**16,935**	**112,885**
Director of Tourism and Enterprise	**87,256**	**0**	**87,256**	**15,401**	**102,657**
Assistant Director of Legal and Democratic Services	**84,789**	**0**	**84,789**	**15,262**	**100,051**
Assistant Director of HR and Transformation	**78,250**	**0**	**78,250**	**13,811**	**92,061**
Assistant Director of Business Transformation (left in September 2017)	**65,875**	**0**	**65,875**	**6,685**	**72,560**

The comparative figures for 2016/17 set out below have been restated from those published in the 2016/17 Statement of Accounts to align with the new Corporate Management Team structure so that meaningful comparisons may be made.

2016/17 Restated					
Chief Executive	132,978	3,850	136,828	25,447	162,275
Deputy Chief Executive	98,675	76	98,751	19,849	118,600
Director of Service Delivery	92,075	3,288	95,363	18,915	114,278
Director of Regeneration and Planning	94,302	0	94,302	19,753	114,055
Director of Tourism and Enterprise	81,086	860	81,946	16,298	98,244
Assistant Director of Legal and Democratic Services	79,700	5,121	84,821	17,433	102,254
Assistant Director of HR and Transformation	70,594	778	71,372	14,189	85,561
Assistant Director of Business Transformation	72,559	860	73,419	14,584	88,003

LDC reimburses an agreed proportion of each senior employee employed by EBC as follows:

	LDC proportion of EBC remuneration %
Chief Executive	50
Deputy Chief Executive (Chief Financial Officer for both LDC and EBC)	40
Director of Service Delivery	50
Director of Regeneration and Planning	50
Director of Tourism and Enterprise	20
Assistant Director of Business Transformation	50

The remunerations for the Assistant Director of Legal and Democratic Services and the Assistant Director of HR and Transformation are included within shared services for Legal and Human Resources respectively for which separate recharge arrangements apply.

The Assistant Director of Legal and Democratic Services is the Monitoring Officer for both LDC and EBC.

The number of other employees receiving more than £50,000 remuneration for the year is set out below.
Remuneration comprises a combined total including salary, redundancy and benefits in kind but excluding pension contributions.

Remuneration Band	2016/17 number of employees	**2017/18 number of employees**	Number of employees leaving the council in 2017/18
£50,000 - £54,999	2	**14**	4
£55,000 - £59,999	5	**5**	2
£60,000 - £64,999	0	**6**	2
£65,000 - £69,999	1	**1**	0
£70,000 - £74,999	0	**2**	2
£90,000 - £94,999	0	**2**	2
	8	**30**	12

The Joint Transformation Programme has consolidated the two staffing structures previously employed by LDC and EBC into one single shared structure. This, together with the exit packages agreed as part of the process of transformation, has resulted in a year on year increase in the numbers shown in the table above.

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies is:

	Compulsory redundancies		Number of other departures agreed		Total number of exit packages		Total cost of exit packages	
	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**	2016/17	**2017/18**
	no.	**no.**	no.	**no.**	no.	**no.**	£000	**£000**
£0 - £20,000	1	0	8	32	9	32	92	337
£20,001 - £40,000	0	0	6	4	6	4	171	109
£40,001 - £60,000	0	0	1	2	1	2	52	88
£60,001 - £80,000	0	0	1	0	1	0	68	0
Total	1	**0**	16	**38**	17	**38**	383	**534**

Note 30. 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:

	2016/17	**2017/18**
	£000	**£000**
Fees payable with regard to external audit services carried out by the appointed auditor for the year	46	**46**
Fees payable for the certification of grant claims and returns for the year	22	**17**
	68	**63**

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Note 31. GRANT INCOME

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

	2016/17	**2017/18**
Non-ringfenced Government Grants:	£000	**£000**
- Revenue Support	995	**375**
- New Homes Bonus	1,597	**1,252**
- Non-Domestic Rate Relief	581	**1,488**
- Housing Benefit Administration	446	**409**
- Other minor grants	150	**149**
	3,769	**3,673**
Capital Grants and Contributions towards capital expenditure		
- Coast to Capital LEP	3,500	**0**
- Community Infrastructure Levy Developer Contributions	1,639	**1,316**
- East Sussex County Council	842	**1,016**
- Other minor capital grants and contributions	425	**184**
	6,406	**2,516**
Total credited to Taxation and Non-specific Grant Income	10,175	**6,189**

	2016/17	**2017/18**
Government Grants credited to Services:	£000	**£000**
- Housing Benefit	34,739	**34,010**
- Discretionary Housing Payment	166	**259**
- Other minor grants	538	**676**
Total credited to Cost of Services	35,443	**34,945**
Total credited to the Comprehensive Income and Expenditure Statement	45,618	**41,134**

The Council has received Government grants and 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** were as follows:	31 March 2017 £000	**31 March 2018 £000**
Held as Short Term Liabilities	0	**0**
Section 106 agreement - to provide sports and recreation facilities in Peacehaven	131	**94**
Section 106 agreement - to provide or improve outdoor playing space facilities in the area of Wivelsfield	295	**225**
Section 106 agreement - to provide or improve outdoor playing space facilities in Peacehaven	191	**192**
Other Section 106 agreements where each financial contribution is less than £100,000	466	**455**
Government grants	115	**17**
Held as Long Term Liabilities	1,198	**983**
Total value of balances held as Capital Grants Receipts in Advance at 31 March	1,198	**983**

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 (ESCC) is the responsible local authority, are held by the Council until ESCC has developed plans that will satisfy the conditions set out in the agreement. At that point ESCC 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 ESCC will develop its plans and request the release of funds. The amount held at 31 March 2018 is £1.743 million (£1.384 million at 31 March 2017). Other than Section 106 agreement monies held on behalf of ESCC the Council has no other long term creditors.

Note 32. 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.
In this context related parties include:

- Central Government
- Other Public Bodies
- Entities Controlled or Significantly Influenced by the Council
- Officers of the Council
- Other Non-Public Bodies

Central Government - Central government has significant influence 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 Note 31 Grant Income.

Elected Members of the Council - Members of the Council (41 District Councillors) have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in Note 28. 5 Members were also members of East Sussex County Council.

Members 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.
In addition, Members are asked to complete an annual declaration of related party transactions to confirm whether or not they had any qualifying interests in the year. All Members confirmed that they had no qualifying interests.

The Council awards grants to a number of organisations, e.g. Lewes District Citizen's Advice, in which Members have an interest. The relevant Members 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 of the Council - 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. In addition, senior officers complete an annual declaration of related party transactions to confirm whether or not they had any qualifying interests in the year. All senior officers confirmed that they had no qualifying interests

Other Public Bodies (subject to common control by Government)

- East Sussex County Council - the Council participates in the East Sussex Pension Scheme which is administered by ESCC. Details of the Council's annual contributions to the Scheme, together with other relevant information, are set out in Note 35.
- Eastbourne Borough Council (EBC) - the Council is engaging in a Joint Transformation Programme (JTP) with EBC under which staff and services are being integrated over a number of financial years. The two Councils have shared a Corporate Management Team since 2016 and from January 2018 the majority of staff (with the exception of the Waste and Recycling Service teams) have been working across both councils. The remaining teams will be integrated by the end of 2018. All staff are employed by EBC with the exception of those who provide Legal services to the councils, who this Council employs. EBC charges the Council for an appropriate share of the employment and operational cost of the staff that it employs.
- Saxon House - alongside the East Sussex Fire Authority (ESFA) and Sussex Police, the Council was a partner in the setting up of a shared facility in Newhaven which opened in January 2016. The Council has a lease to use a portion of the building for which it paid ESFA a service charge of £34,000 in 2017/18 (£31,000 in 2016/17).

Non-Public Bodies

- Wave Leisure Trust (trading as Wave Leisure Ltd), a charitable company established in 2006 to operate the Council's indoor leisure facilities which it continues to do. The company has also operates the Council's Newhaven Fort historic visitor attraction and, with the Council is working on a project to improve the facility, supported by grant from the Heritage Lottery Fund. A Funding and Management Agreement between the two organisations sets out the terms of this relationship. In 2017/18 the Council paid Wave Leisure Ltd service fees of £418,000 (£522,000 in 2016/17). No services were provided by the Council to the Company in 2017/18 but a contribution of £20,000 was received towards the future replacement of an all-weather pitch. With effect from April 2017 LDC has provided a guarantee to a leasing company with which Wave has entered into various fixed term equipment hire agreements, to be triggered in the event that Wave defaults on its obligations. The guarantee is up to a maximum of £500,000 across four agreements. Step In Agreements give LDC an indemnity from Wave in the event that LDC has to meet its obligations under the guarantee.

Entities Controlled or Significantly Influenced by the Council

- Lewes Housing Investment Company (LHIC) - LHIC is a wholly owned subsidiary of the Council. Incorporated in July 2017, LHIC has been set up to acquire, improve and let residential property at market rents. Although the 2017/18 capital programme included £2.5m as potential commercial loan funding to LHIC to facilitate property purchases, this facility was not drawn down and has rolled forward into 2018/19. No payments were made to, or monies received from, LHIC during 2017/18 and no amounts were owing to, or owed by, LHIC at the end of the year.
- Aspiration Homes (LLP) (AH) - AH is a limited liability Partnership owned equally by Eastbourne BC and Lewes DC. Incorporated in June 2017, AH has been set up for the purpose of developing housing to be let at affordable rent. Although the 2017/18 capital programme included £2.5m as potential commercial loan funding to AH to facilitate property purchases, this facility was not drawn down and has rolled forward into 2018/19. No payments were made to, or monies received from, LHIC during 2017/18 and no amounts were owing to, or owed by, LHIC at the end of the year.

Note 33. 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.

	2016/17 £000	**2017/18 £000**
Opening Capital Financing Requirement	71,531	**77,042**
Capital Investment		
- property, plant and equipment	11,940	**7,670**
- heritage assets	21	**100**
- investment properties	5,244	**260**
- intangible assets	683	**830**
- revenue expenditure funded from capital under statute (REFCUS)	1,351	**1,043**
	19,239	**9,903**

Sources of Finance		
- capital receipts	(3,907)	**(397)**
- Government grants and other contributions	(4,414)	**(1,172)**
- Major Repairs Reserve	(2,384)	**(4,369)**
- direct revenue contributions	(1,822)	**(2,678)**
- sums set aside from revenue for the repayment of debt	(1,201)	**(1,119)**
	(13,728)	**(9,735)**
Closing Capital Financing Requirement	77,042	**77,210**
Increase in Capital Financing Requirement	5,511	**168**
Explanation of movements in year:		
- increase/(decrease) in underlying need to borrow	5,641	**(45)**
- increase/(decrease) in lease liability	(130)	**213**
Increase in Capital Financing Requirement	5,511	**168**

Note 34. LEASES

Council as Lessor

<u>Operating leases</u>

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 2017	**31 March 2018**
	£000	**£000**
Not later than one year	1,090	**1,077**
Later than one year and not later than five years	3,859	**3,873**
Later than five years	30,134	**30,043**
Total	35,083	**34,993**

Note 35. 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. The total contribution comprises a fixed monetary amount and an amount calculated as a percentage of salary costs. Discretionary post-retirement benefits on early retirement are an unfunded benefit arrangement under which liabilities are recognised when awards are made. There is no plan assets built up to meet these discretionary pension liabilities.

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.

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:

	2016/17	**2017/18**
Service Cost	£000	**£000**
- current service cost	(1,758)	**(246)**
- past service cost (including curtailments)	(8)	**0**
- effect of settlements (on transfer of staff to Eastbourne Borough Council on 1 February 2017)	2,671	**0**
Total Service Cost	905	**(246)**
Financing and Investment Income and Expenditure		
- interest income on plan assets	2,798	**1,746**
- interest cost on defined benefit obligation	(3,570)	**(2,043)**
Total Net Interest	(772)	**(297)**
Total Post Employment Benefits credited/(charged) to (Surplus)/Deficit on the provision of services	133	**(543)**

	2016/17 £000	**2017/18 £000**
Remeasurement of the net defined benefit liability comprising:		
- return on plan assets (excluding the amount included in the net interest expense)	13,376	**(41)**
- actuarial gains/(losses) arising on changes in financial assumptions	(12,226)	**1.144**
- changes in demographic assumptions	1,174	**0**
- other experience and actuarial adjustments	6,249	**5**
Total remeasurements recognised in Other comprehensive income and expenditure	8,573	**1,108**
Total Post Employment Benefits credited to Comprehensive Income and Expenditure Statement	8,706	**565**
Movement in Reserves Statement:		
- reversal of net charges/(credits) made to the (Surplus)/Deficit on the provision of services for post employment benefits in accordance with the Code	133	**(543)**
- actual amounts charged against General Fund and HRA Balances for pensions in the year		
• employer's contributions payable to pension scheme	1,572	**550**
• discretionary benefits arrangements (unfunded pensions)	77	**76**
	1,782	**83**

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:

	31 March 2017 £000	**31 March 2018 £000**
Fair value of employer assets	71,433	**70,044**
Present value of funded liabilities	(82,463)	**(79,941)**
Present value of unfunded liabilities	(1,041)	**(983)**
Net liability arising from defined benefit obligation	(12,071)	**(10,880)**

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	2016/17 £000	**2017/18 £000**
Reconciliation of the movements in the fair value of scheme assets		
Opening fair value of scheme assets	85,381	**71,433**
Interest income	2,798	**1,746**
Remeasurement gain/(loss) - return on plan assets (excluding the amount included in the net interest expense)	13,376	**(41)**
Contributions from employer	1,649	**626**
Contributions from employees into the scheme	487	**47**
Benefits paid	(4,013)	**(3,691)**
Unfunded benefits paid	(77)	**(76)**
Effect of settlements - assets transferred	(28,168)	**0**
Closing fair value of scheme assets	71,433	**70,044**
Reconciliation of present value of the scheme liabilities (defined benefit obligation)		
Opening fair value of scheme liabilities	107,807	**83,504**
Current service cost	1,758	**246**
Interest cost	3,570	**2,043**
Contributions from scheme members	487	**47**
Remeasurement losses:		
- actuarial (gain)/losses arising on changes in financial assumptions	12,226	**(1,144)**
- actuarial (gain) arising from changes in demographic assumptions	(1,174)	**0**
- other	(6,249)	**(5)**
Past service cost	8	**0**
Benefits paid	(4,013)	**(3,691)**
Unfunded benefits paid	(77)	**(76)**
Effect of settlements – liabilities extinguished	(30,839)	**0**
Closing fair value of scheme liabilities	83,504	**80,924**

Pension Scheme Assets comprised:

	Period ended 31 March 2017				**Period ended 31 March 2018**			
Asset Category	Quoted prices in active markets	Quoted prices not in active markets	Total	Percentage of Total Assets	**Quoted prices in active markets**	**Quoted prices not in active markets**	**Total**	**Percentage of Total Assets**
Equity Securities	£000	£000	£000		**£000**	**£000**	**£000**	
Consumer	1,331	0	1,331	2%	**1,305**	**0**	**1,305**	**2%**
Manufacturing	704	0	704	1%	**691**	**0**	**691**	**1%**
Energy and Utilities	120	0	120	0%	**118**	**0**	**118**	**0%**
Financial Institutions	2,161	0	2,161	3%	**2,118**	**0**	**2,118**	**3%**
Health and Care	1,223	0	1,223	2%	**1,199**	**0**	**1,199**	**2%**
Information Technology	1,018	0	1,018	1%	**998**	**0**	**998**	**1%**
Other	142	243	385	0%	**140**	**237**	**377**	**1%**
Debt Securities								
UK Government	0	1,979	1,979	3%	**0**	**1,941**	**1,941**	**3%**
Other	127	0	127	0%	**125**	**0**	**125**	**0%**
Private Equity								
All	0	4,088	4,088	6%	**0**	**4,008**	**4,008**	**6%**
Real Estate								
UK Property	0	6,850	6,850	10%	**0**	**6,717**	**6,717**	**10%**
Equities	9	39,333	39,342	55%	**8**	**38,569**	**38,577**	**55%**
Bonds	0	8,240	8,240	12%	**0**	**8,081**	**8,081**	**11%**
Hedge Funds	0	72	72	0%	**0**	**70**	**70**	**0%**
Commodities	106	0	106	0%	**104**	**0**	**104**	**0%**
Infrastructure	0	790	790	1%	**0**	**774**	**774**	**1%**
Other	0	78	78	0%	**0**	**76**	**76**	**0%**
Derivatives								
Foreign Exchange	0	15	15	0%	**0**	**15**	**15**	**0%**
Cash and Cash Equivalents								
All	1,802	1,002	2,804	4%	**1,767**	**983**	**2,750**	**4%**
Totals	8,743	62,690	71,433	100%	**8,573**	**61,471**	**70,044**	**100%**

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 2016.

The significant assumptions used by the actuary have been:

	2016/17	**2017/18**
Mortality assumptions:		
- longevity for current pensioners - men	22.1 yrs	**22.1 yrs**
- longevity for current pensioners - women	24.4 yrs	**24.4 yrs**
- longevity for future pensioners - men	23.8 yrs	**23.8 yrs**
- longevity for future pensioners - women	26.3 yrs	**26.3 yrs**
Rate of inflation	2.4%	**2.4%**
Rate of increase in salaries	2.8%	**2.8%**
Rate of increase in pensions	2.4%	**2.4%**
Rate for discounting scheme liabilities	2.5%	**2.6%**

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 2018	**Approximate percentage increase to Employer Liability**	**Approximate monetary amount £000**
0.5% decrease in real discount rate	7%	5,936
0.5% increase in the salary increase rate	0%	80
0.5% increase in the pension increase rate	7%	5,832

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 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation as at 31 March 2019 is due to be completed in 2019/20.

The scheme takes account of the national changes introduced under the Public Pensions Services Act 2013. 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 to certain public servants. Members started earning benefits under the new scheme from April 2014.

The Council anticipates paying contributions of £603,000 to the scheme in 2018/19.

The weighted average duration of the defined benefit obligation for scheme members is 16.3 years.

Note 36. CONTINGENT LIABILITIES

At 31 March 2018 the Council had two material contingent liabilities:

- 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 2018 the pension liability of Wave Leisure Ltd is £1,127,000 (£1,093,000 at 31 March 2017). The council has also given a guarantee in respect of leases which Wave Leisure entered into 2017/18, as disclosed in Note 32.

- In March 2017 legal proceedings were issued against the Council in relation to the termination of agreements which had been entered into with them and another partner. During 2017/18 the Council has been liable for costs of all legal advice and representation from its external lawyers and counsel, initially in complying with case management directions, and subsequently in relation to alternative dispute resolution (ADR) and potentially a settlement. All costs are included within the Comprehensive Income and Expenditure Statement. The Council will continue to incur legal costs in 2018/19. If ADR proves unsuccessful, the litigation will proceed to a liability trial, scheduled to take place between May 2019 and July 2019. Should this trial go ahead, and should the Court find the Council to be liable in relation to the claim, a second trial would be held (at a date not yet decided) to determine the actual value of damages payable to the claimant. Any such liability would become payable during 2019/20 at the earliest.

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HRA INCOME AND EXPENDITURE STATEMENT

2016/17 £000		£000	2017/18 £000
	Income		
14,785	Dwelling rents	**14,822**	
427	Non-dwelling rents	**423**	
1,211	Charges for services and facilities	**1,295**	
183	Contributions towards expenditure	**157**	
16,606			**16,697**
	Expenditure		
4,873	Repairs and maintenance	**5,130**	
2,829	Supervision and management (including special services)	**2,678**	
175	Rents, rates, taxes and other charges	**164**	
5,160	Depreciation of non-current assets (Note 3)	**5,468**	
(1,374)	Impairment and (impairment reversals) of non-current assets (Note 4)	**1,199**	
40	Debt management costs	**45**	
(4)	Movement in the allowance for impairment of debtors	**104**	
11,699			**14,788**
(4,907)	**Net income of HRA services in the Comprehensive Income & Expenditure Statement**		**(1,909)**
793	HRA share of Corporate and Democratic Core		**759**
(569)	HRA share of Pension Service Cost Settlements		**0**
(4,683)	**Net income of HRA Services**		**(1,150)**
	HRA share of operating income and expenditure in the Comprehensive Income and Expenditure Statement:		
(290)	Gain on sale of HRA non-current assets	**(357)**	
827	Loss on derecognition of components of HRA non-current assets	**550**	
1,839	Interest payable and similar charges	**1,815**	
(32)	Interest and investment income	**(48)**	
164	Net interest on the net defined benefit pension liability	**59**	
(12)	Capital grants and contributions receivable	**(13)**	
2,496			**2,006**
(2,187)	**(Surplus)/Deficit for the year on HRA services**		**856**

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.

2016/17 £000	**MOVEMENT ON THE HRA STATEMENT**	**2017/18 £000**	**2017/18 £000**
(2,726)	Balance on the HRA at 1 April		**(2,872)**
(2,187)	(Surplus)/Deficit for the year on the HRA Income and Expenditure Statement		**856**
	Adjustments between accounting basis and funding basis under statute:		
5,160	- transfer to the Major Repairs Reserve (MRR) equal to the depreciation and amortisation charged to HRA	**5,468**	
(5,160)	- transfer from the Capital Adjustment Account	**(5,468)**	
1,374	- reversal of impairment and impairment reversals taken to the HRA	**(1,199)**	
(827)	- reversal of loss on de-recognition of components of HRA non-current assets	**(550)**	
290	- reversal of gain on sale of HRA non-current assets	**357**	
(3)	- amortisation of premiums and discounts	**(5)**	
12	- reversal of capital grants and contributions	**13**	
27	- reversal of items relating to retirement benefits charged to the HRA Income and Expenditure Statement	**(108)**	
361	- employer's pensions contributions payable in the year	**136**	
0	- capital expenditure funded by the HRA	**626**	
807	- voluntary provision for the financing of capital investment	**807**	
2,041			**77**
(146)	Net (increase)/decrease in year on the HRA		**933**
(2,872)	Balance on the HRA at 31 March		**(1,939)**

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Note 1. STOCK OF SOCIAL HOUSING

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

		2017	**2018**
Houses and Bungalows			
	0 bedroom	0	**1**
	1 bedroom	213	**212**
	2 bedroom	634	**639**
	3 bedroom	869	**870**
	4 bedroom	69	**69**
	5 bedroom	3	**3**
	6 bedroom	1	**1**
		1,789	**1,795**
Flats			
	bedsits	138	**138**
	1 bedroom	683	**692**
	2 bedroom	541	**539**
	3 bedroom	47	**47**
	4 bedroom	4	**4**
		1,413	**1,420**
Total stock of social housing at 31 March		3,202	**3,215**

In addition the Council had at 31 March 2018 shared ownership arrangements covering 7 properties and 1 property (partly) sold under the Right to Buy scheme.

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.

	31 March 2017 £000	**31 March 2018 £000**
Council Dwellings – houses, bungalows and flats		
- social housing	215,489	**220,138**
- affordable housing	1,303	**2,195**
- shared ownership	1,332	**1,364**
- leaseholds	52	**53**
	218,176	**223,750**
Other Land and Buildings		
- garages	9,022	**10,410**
- other land and buildings	833	**823**
Vehicles, Plant, Furniture and Equipment	1,407	**2,367**
Infrastructure Assets	596	**499**
Community Assets	43	**43**
Surplus Assets	2,150	**2,150**
Total Property, Plant and Equipment	232,227	**240,042**
Investment Property	1,000	**663**
Intangible Assets	17	**12**

Council Dwellings Valuation Basis

Council Dwellings are valued, for resource accounting purposes, according to their existing use for social housing. Under this method, the open market value of the stock is reduced by a regional adjustment factor determined in accordance with Government guidance to reflect the status of the properties as social housing. The details of the factor used and the corresponding open market (vacant possession) values of council dwellings are set out below.

Council Dwellings Let at Social Rents

The 2017/18 regional adjustment factor used for dwellings at ‘social rent’ is 67% thereby reducing the balance sheet value of these dwellings to 33% of their open market value (also 67% and 33% in 2016/17).

The open market (vacant possession) valuation of these dwellings at the valuation date of 31 March 2018 was £667 million. The difference between this and the balance sheet value of £220 million represents the economic cost to Government of providing Council housing at less than open market values. The comparative figures at 31 March 2017 were £653 million and £215 million.

Council Dwellings Let at Affordable Rents

A total of 24 dwellings included in the stock at 31 March 2018 (13 at 31 March 2017) are let on an ‘affordable rent’ basis, which is closer to market rent values than ‘social rents’. Consequently, a different regional adjustment factor is required in determining the existing use valuation as social housing for these dwellings. The adjustment factor used has been determined by a professional valuer in accordance with Government Guidance.

The regional adjustment factor used for dwellings let at ‘affordable rent’ is 50% thereby reducing the balance sheet value of these dwellings to 50% of their open market value. The regional adjustment factor for 2016/17 was also 50%.

The open market (vacant possession) valuation of these dwellings at the valuation date of 31 March 2018 was £4.4 million. The difference between this and the balance sheet value of £2.2 million represents the economic cost to Government of providing Council housing at less than open market values. The comparative figures at 31 March 2017 were £2.6 million and £1.3 million.

Shared Ownership Dwellings

A total of 8 dwellings included in the stock at 31 March 2018 are held on a ‘shared ownership’ basis, with the tenant paying rent on the share retained by the Council. The overall proportion retained by the Council at 31 March 2018 is 4.9 dwellings which is the same as at 31 March 2017.

The open market (vacant possession) valuation of these dwellings at 31 March 2018 was £2.2 million. The difference between this and the balance sheet value of £1.4 million represents the value of the share purchased by former tenants. The comparative figures at 31 March 2017 were £2.1 million and £1.3 million.

Note 3. DEPRECIATION

Depreciation on council dwellings is based on the building value as assessed by the Council's external valuer (DVS), which is then analysed into its significant components. The useful lives and replacement costs of each significant component - e.g. roof, kitchen, windows, bathroom, walls and structure, etc. - is assessed to determine the depreciation charge.

The amounts of depreciation charged to the HRA Income and Expenditure Statement are as follows:	2016/17	**2017/18**
	£000	**£000**
Depreciation on council dwellings	4,512	4,761
Depreciation on other land and buildings	278	304
Depreciation on vehicles, plant, furniture and equipment	211	237
Depreciation on infrastructure assets	110	115
Depreciation on surplus assets	43	45
Amortisation of intangible assets	6	6
Total Depreciation charged to the HRA	5,160	**5,468**

Note 4. IMPAIRMENT

Impairment charges made to the HRA Income and Expenditure Statement are as follows:	2016/17	**2017/18**
	£000	**£000**
Impairment resulting from revaluation losses in excess of balances held in the revaluation reserve	1,195	**2,008**
Reversal of prior year impairment against revaluation gains recognised in the year	(2,569)	**(809)**
Total Impairment/(reversals) debited/(credited) to the HRA	(1,374)	**1,199**

Note 5. FUNDING OF CAPITAL EXPENDITURE

The totals of HRA capital expenditure and capital financing during the year is summarised as follows:	2016/17	**2017/18**
	£000	**£000**
Capital expenditure		
- on council dwellings	2,245	**3,524**
- on council dwellings: assets under construction	3,605	**396**
- on other land and buildings	42	**1**
- on vehicles, plant, furniture and equipment	151	**1,780**
- on infrastructure	50	**18**
	6,093	**5,719**
Sources of capital financing		
- from the Major Repairs Reserve	2,384	**4,369**
- from revenue contributions	0	**589**
- from grants and contributions	18	**2**
- from the capital receipts reserve	1,476	**159**
Total Capital Financing	3,878	**5,119**
Unfinanced – supported by Lewes District Council	2,215	**600**
	6,093	**5,719**

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.

	2016/17	**2017/18**
	£000	**£000**
Balance at 1 April	(2,157)	**(4,933)**
Amounts transferred from the HRA		
- equal to the depreciation amount charged to the HRA Income and Expenditure Statement	(5,160)	**(5,468)**
Amounts used to finance HRA capital expenditure	2,384	**4,369**
Balance at 31 March	(4,933)	**(6,032)**

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.

2016/17 £000		2017/18 £000	2017/18 £000
	Income		
	Council tax		
64,711	- Income receivable from tax payers		**67,878**
	Non-domestic rates (Business rates)		
24,849	- Income receivable from rate payers	**24,133**	
12	- Transitional protection payments receivable from Central Government	**456**	
24,861			**24,589**
	Contribution towards previous year's estimated non domestic rates deficit		
800	- Central Government		
640	- Lewes District Council	**693**	
144	- East Sussex County Council	**554**	
16	- East Sussex Fire Authority	**125**	
1,600		**14**	
			1,386
91,172	**Total Income**		**93,853**
	Expenditure		
	Council Tax Precepts		
44,814	- East Sussex County Council	**47,771**	
9,895	- Lewes District Council	**10,367**	
5,331	- Sussex Police and Crime Commissioner	**5,594**	
3,104	- East Sussex Fire Authority	**3,213**	
63,144			**66,945**

2016/17 £000		2017/18 £000	2017/18 £000
	Contribution from previous year's estimated Council Tax surplus		
771	- East Sussex County Council	**1,207**	
172	- Lewes District Council	**266**	
92	- Sussex Police and Crime Commissioner	**143**	
55	- East Sussex Fire Authority	**84**	
1,090			**1,700**
	Impairment of Council Tax		
214	- increase in allowance for non-collection		**244**
64,448	**Council Tax Expenditure**		**68,889**
12,917	Central Government share of Non-Domestic Rates income		**12,228**
	Local Government share of Non-Domestic Rates income:		
10,334	- Lewes District Council	**9,782**	
2,325	- East Sussex County Council	**2,201**	
258	- East Sussex Fire Authority	**245**	
12,917			**12,228**
	Impairment of Non-Domestic Rates		
184	- movement in allowance for uncollectable sums	**102**	
(100)	- movement in provision for appeals	**1,160**	
84			**1,262**
131	Transfer to the General Fund – allowance for the collection of non-domestic rates		**130**
0	Transfer to the General Fund – amount retained in respect of Newhaven Enterprise Zone		**478**
26,049	**Non-Domestic Rates Expenditure**		**26,326**
90,497	**Total Expenditure**		**95,215**

2016/17 £000	(Surplus)/Deficit for the year	2017/18 £000
(263)	- Council Tax	**1,011**
(412)	- Non-Domestic Rates	**351**
(675)		**1,362**

£000 Total	Movement on Collection Fund Balances	£000 Council Tax	£000 Non-Domestic Rates	£000 Total
481	Balance at 1 April	(1,792)	1,598	(194)
(675)	(Surplus)/Deficit for the year	1,011	351	1,362
(194)	Balance at 31 March	(781)	1,949	1,168

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 2017/18 is as follows:	Chargeable dwellings	Band D ratio	Band D dwellings
Band A	2,363	6/9	1,577
Band B	4,076	7/9	3,170
Band C	10,661	8/9	9,477
Band D	8,396	9/9	8,396
Band E	5,171	11/9	6,320
Band F	2,786	13/9	4,024
Band G	2,187	15/9	3,646
Band H	201	18/9	402
	35,841		**37,012**
Collection rate for 2017/18			98.2%
Tax Base for 2017/18			**36,346**

Note 2. NON-DOMESTIC RATES

The total non-domestic rateable value at 31 March 2018 was £71.7 million (£65.3 million at 31 March 2017).
The increase resulted from the Government's national revaluation exercise which took effect on 1 April 2017.
The standard national non-domestic rate multiplier for 2017/18 was 47.9p; reduced to 46.6p for qualifying small businesses.
The multipliers for 2016/17 were 49.7p and 48.4p respectively.

Authorisation of the Statement of Accounts

The Deputy Chief Executive released this Statement of Accounts on September 2018. Events between the balance sheet date and September 2018 were considered before this Statement of Accounts was approved.

The Council's Responsibilities - the Council is required to:

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

The Deputy Chief Executive's Responsibilities - the Deputy Chief Executive is responsible for the preparation of the Council'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 Deputy Chief Executive has:

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

The Deputy Chief Executive has also:

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

DEPUTY CHIEF EXECUTIVE CERTIFICATE - I certify that the Statement of Accounts set out in pages 24 to 109 gives a true and fair view of the financial position of the Council at 31 March 2018 and its income and expenditure for the year ended 31 March 2018.

Alan Osborne, Deputy Chief Executive *September 2018*

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF LEWES DISTRICT COUNCIL

The audit of the Statement of Accounts has not yet taken place.

The Council’s accounts are subject to external audit by Janine Combrinck, Director RI/Public Sector Assurance, BDO LLP 55 Baker Street, London W1U 7EU.

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Opinion on the Council’s financial statements

To follow on completion of Audit.

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

To follow on completion of Audit.

Certificate of completion of the audit

To follow

Index of Explanatory Notes

Explanatory Notes to the Core Financial Statements

Index of Explanatory Notes

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 finance@lewes-eastbourne .gov.uk
For more information about the annual Statement of Accounts please contact:

Pauline Adams,
Head of Finance
Southover House,
Southover Road,
Lewes BN7 1AB
Telephone: 01273 471600

Report Title: **Treasury Management**

Report To: **Audit and Standards Committee** **Date: 24 September 2018**

Ward(s) Affected: **All**

Report By: **Alan Osborne, Deputy Chief Executive**

Contact Officer(s)-

Name(s): **Nigel Morrison**
Post Title(s): **Principal Accountant**
E-mail(s): **Nigel.Morrison@Lewes-Eastbourne.gov.uk**
Tel No(s): **012373 085009**

Purpose of Report:

To present details of recent Treasury Management activity and the Annual Treasury Management Report 2017/2018.

Officers Recommendation:

1. To confirm to Cabinet that Treasury Management activity between 1 March and 31 August 2018 has been in accordance with the approved Treasury Strategies for that period.

2. To review the Annual Treasury Management Report for 2017/2018.

Reasons for Recommendations

1.1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.

1.2 The Treasury Strategy Statement also requires the Audit and Standards Committee to review a formal summary report after the year end before it is considered by Council, in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

2 Treasury Management Activity

2.1 The timetable for reporting Treasury Management activity in 2018/2019 is shown in the table below. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
17 July 2018	1 March to 30 June 2018
24 September 2018	1 July to 31 August 2018
19 November 2018	1 September to 31 October 2018
21 January 2019	1 November to 31 December 2018
18 March 2019	I January to 28 February 2019

2.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 August 2018 and identifies the long-term credit rating of each counterparty at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All of the deposits met the necessary criteria The minimum rating required for deposits made after 1 April 2018 is long term A- (Fitch) (a minimum BBB+ rating applied in 2017/2018).

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
239518	Thurrock Borough Council	14 May 18	14 Nov 18	184	3,000,000	0.63	*
239718	South Heighton Parish Council	29 May 18	29 Nov 18	184	24,000	0.63	*
240018	Surrey Heath Borough Council	12 Jun 18	12 Dec 18	163	1,000,000	0.60	*
240118	Thurrock Borough Council	02 Jul18	02 Oct 18	92	2,000,000	0.50	*
					6,024,000		
	*UK Government body and therefore not subject to credit rating						

2.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since 1 March 2018, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £19m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
237317	Nationwide Building Society	15 Dec 17	15 Mar 18	90	1,000,000	0.37	A+
237417	Nationwide Building Society	15 Dec 17	16 Apr 18	122	1,000,000	0.39	A+
238417	Thurrock Borough Council	12 Feb 18	14 May 18	91	3,000,000	0.55	*
239418	Debt Management Office	10 May 18	22 May 18	12	1,000,000	0.25	*
239618	Debt Management Office	15 May 18	22 May 18	07	2,000,000	0.25	*
239818	Debt Management Office	01 Jun 18	11 Jun 18	10	3,000,000	0.25	*
239918	Debt Management Office	11 Jun 18	19 Jun 18	08	2,000,000	0.25	*
240218	Debt Management Office	18 Jul 18	23 Jul 18	05	1,000,000	0.25	*
240318	Debt Management Office	27 Jul 18	03 Aug 18	07	1,000,000	0.28	*
240418	Debt Management Office	01 Aug 18	03 Aug 18	02	4,000,000	0.34	*
	Total				19,000,000		
	*UK Government body and therefore not subject to credit rating						

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 March and 31 August 2018 was 0.57%, above the average bank base rate for the period of 0.50%. Those made during the period averaged 0.58%.

2.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £2.69m generating interest of approximately £4,500.

	Balance at 30 June '18 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	£1,000	1,571	0.40
Lloyds Bank Corporate Account	£859	1,126	0.65

2.5 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown below. The approved Investment Strategy allows a maximum investment of £3m in each fund, and at no time was this limit exceeded.

	Balance at 31 Aug '18 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	£Nil	2,703	0.57
Deutsche Managed Sterling Fund	£2,000	1,997	0.55

2.6 Treasury Bills (T-Bills)

The table below shows the T-Bills held at 31 August 2018 and activity in the period. It is the Council's intention to hold T-Bills until maturity.

	Maturity Date .	Purchased in period	Purchase date	£'000	Disc %
Held at 31 August 2018					
UK Treasury Bill 0%	10 Sep 18	✓	13 Aug 18	1,000	0.697
UK Treasury Bill 0%	10 Sep 18	✓	13 Aug 18	1,000	0.684
				2,000	
Matured during the period					
UK Treasury Bill 0%	28 Aug 18	✓	27 Jul 18	1,000	0.575
UK Treasury Bill 0%	28 Aug 18	✓	27 Jul 18	1,000	0.569
				2,000	

2.7 Secured Investments

There were no secured investments at 31 August 2018.

2.8 Tradeable Investments

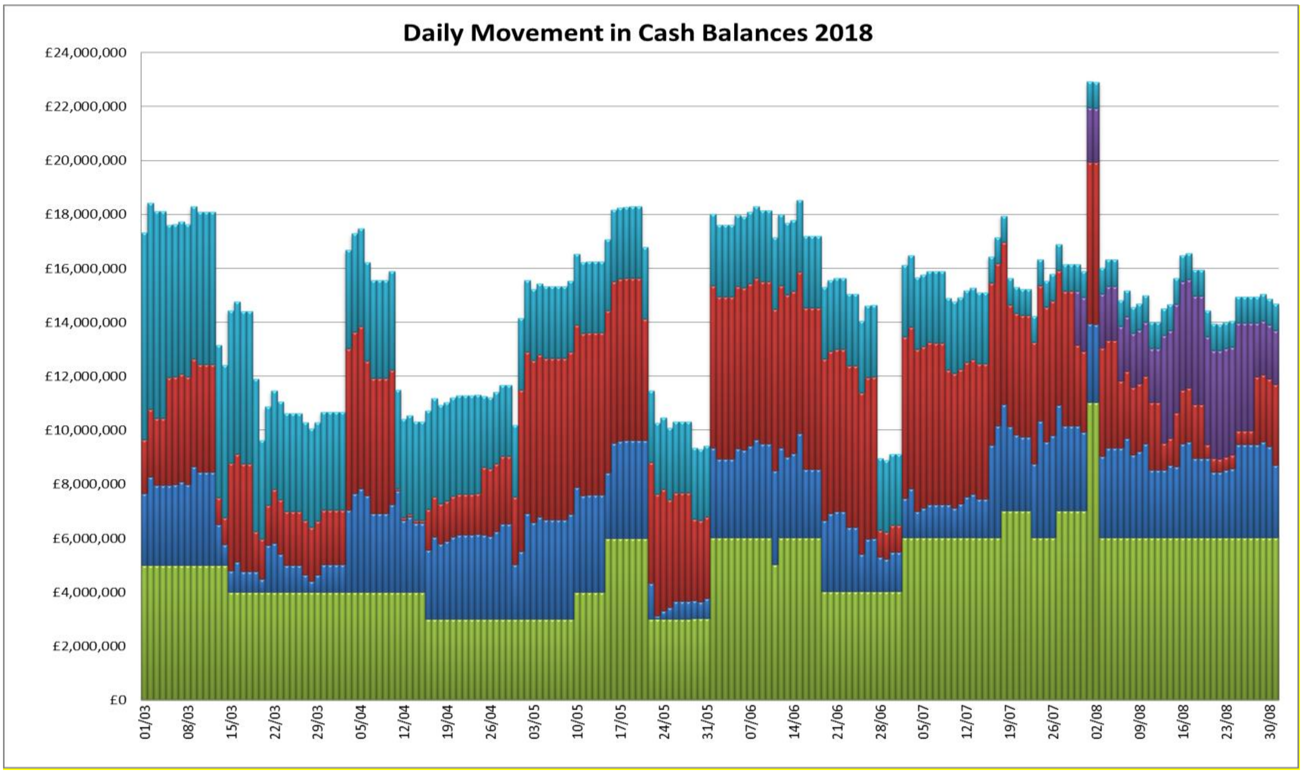
The table shows the Tradeable Investments held at 31 August 2018. It is the Council's intention to hold investments until maturity.

Ref	Counterparty		Date From	Date To	Days	Principal £	Rate %	Long Term Rating
Held at 31 August 2018								
XS0739933421	BMW Finance NV	FB	19 Dec 17	14 Dec 18	360	1,000,000	0.691	A+
						1,000,000		
Matured in Period								
XS1015890210	Daimler AG	FB	04 Oct 17	16 Jul 18	285	1,000,000	0.805	A-
XS1015890210	Daimler AG	FB	14 Sep 17	16 Jul 18	305	650,000	0.690	A-
GB00BDXF3B48	Danske Bank	CD	18 Dec 17	05 Mar 18	77	2,000,000	0.340	A
GB00BXRH7N61	Barclays	CD	20 Jan 18	20 Mar 18	57	2,000,000	0.493	A+
GB00BDXFTR27	Nordea AB	CD	25 Oct 17	25 Apr 18	182	1,000,000	0.440	AA-
						6,650,000		

FB – Fixed Bond CD – Certificate of Deposit

2.9 Overall investment position

The chart below summarises the Council's investment position over the period 1 March to 31August 2018. It shows the total sums invested each day as Fixed Term deposits, T-Bills, amounts held in Deposit accounts, MMFs and Tradeable Investments.



2.10 Borrowing

The current account with Lloyds Bank remained in credit throughout the period. No temporary borrowing for cash-flow management purposes took place.

There has been no change in the total value of the Council's long term borrowing in the reporting period, which remains at £56.673m.

3 Non-treasury investments

3.1 At its previous meeting, the Committee requested that information should be included in this report about the Council's 'non-treasury' investment activity eg loans to Council-owned companies or the purchase of property assets for the purpose of income generation.

3.2 At the time of drafting this report, no loans have yet been advanced to Lewes Housing Investment Company or Aspiration Homes

3.3 On 18 June 2018, the Council completed the purchase of an office building in Lewes at a total cost of £2.73m, which is expected to generate an annual rent income of £197,980. After providing for the repayment of borrowing costs, the net annual return from this property is expected to be 4.68%

4 Annual Treasury Management Report

4.1 As well as reviewing details of Treasury transactions during the course of the year, the Audit and Standards Committee is required to review a formal summary report after the year end before it is considered by Council in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

4.2 The Annual Report is attached at Appendix 1. It should be noted that this report has been drafted prior to the final closure of the Council's accounts and, as a result, some minor changes may be necessary. If so, the changes will be reported verbally at the meeting.

4.3 Cabinet reviewed the Annual Report when it met on 2 July 2018..

Financial Implications

5 All relevant implications are referred to in the above paragraphs.

Risk Management Implications

6 The risk management implications associated with this activity are explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

Equality Screening

7 This is a routine report for which detailed Equality Analysis is not required to be undertaken.

Legal Implications

8 None arising from this report.

Appendix

9 Appendix 1: Annual Treasury Management Report 2017/2018

Background Papers

Treasury Strategy Statements 2017/2018 and 2018/2019