



Lewes District Council

Lewes District Council

Annual Financial Report 2011/2012



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Prepared by the Financial Services Division

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Lewes District Council Annual Financial Report 2011/12

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Introduction

Introduction

Welcome to Lewes District Council's Annual Financial Report 2011/12. This document provides a summary of the Council's financial performance in the year and a look forward to 2012/13. The main purpose of the document, however, is to present the Council's formal Statement of Accounts.

The Key Accounting Standards and Statements

We have followed the Chartered Institute of Public Finance and Accountancy's Code of Practice on Local Authority Accounting in the UK (the 'Code') in putting together our Statement of Accounts for 2011/12. The accounts fairly reflect Lewes District Council's financial position for the financial year ended 31 March 2012. Our accounting policies are outlined in this document and have been fairly and consistently applied. We keep proper and up to date accounting records and take all reasonable steps to prevent and detect fraud and other irregularities.

The Director of Finance is the statutory officer responsible for the proper administration of the Council's financial affairs. He is required by law to confirm that the Council's system of internal control can be relied on to produce an accurate Statement of Accounts. His statement of assurance for 2011/12 appears on page 122 of this document.

It is a requirement of the Code of Practice that the Council prepares its Financial Statements in a way which makes them easy to compare with those of other local authorities and private sector bodies. In some years, the accounting 'rules' that we must follow change: for 2011/12 the most significant change is the adoption of a new class of assets, Heritage Assets, which is shown separately on the Balance Sheet. Note 1 to the Financial Statements on page 20 explains how this change has impacted on the figures that we published last year in our Statement of Accounts 2010/11 and Note 2 (11) on page 31 sets out the rules that we now follow.

An explanation of the purpose of the Core Financial Statements follows:

Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those the Council can apply to fund expenditure or reduce local taxation) and other reserves.

Introduction

Comprehensive Income and Expenditure Statement

All local authorities are required to maintain a Comprehensive Income and Expenditure Statement. This records all of the expenditure and income used in the day to day provision of all services including Council housing and also includes any gain or loss from the use and disposal of assets within the period. The Statement also shows how much is received from council-tax payers and from general government grants to help meet the net cost of services.

Balance Sheet

The Balance Sheet provides a snapshot of our financial position as at 31 March 2012 and includes the General Fund and Housing Revenue Account balances. It sets out what we own, what we owe and what is owed to us at that point in time.

Cash Flow Statement

This Statement summarises the total cash movements during the year for both capital and revenue purposes.

Supplementary Financial Statements

In addition to the Core Financial Statements we are legally obliged to maintain the following financial statements separately from our other funds and accounts.

Housing Revenue Account (HRA)

This account shows the transactions that have arisen because we are a local housing authority. We are responsible for collecting money from tenants who rent the houses and flats that we own, and we use that money to manage, maintain and improve those homes. We also have to pay Government a 'negative' amount of housing subsidy which means that part of our tenants' rent is paid into the national housing pot and used elsewhere in the country. The transactions within this account are included within the Comprehensive Income and Expenditure Statement and HRA balances are included within the Balance Sheet.

Collection Fund

This account shows the transactions that have arisen because we are a billing authority. This means that we are responsible for collecting non-domestic rates which we pay over to Government. It also means that we are responsible for collecting council tax which we pay over to the precepting authorities – the Police, the Fire Authority, the County Council, and the Town and Parish councils – as well as to our own General Fund. The transactions within this account are not included within the Comprehensive Income and Expenditure Statement because they do not relate to the day to day operational services we deliver.

Review of 2011/12 and Outlook for 2012/13

Review of 2011/12

This part of the Statement of Accounts provides a summary of what happened in financial terms during the year.

The Council's expenditure and income is categorised as either revenue or capital:

- Revenue expenditure and income represents the money we spend or receive on a day to day basis in delivering operational services, like refuse collection and recycling and parks and open spaces. There is a clear separation between the General Fund (which provides general services for the benefit of all of our residents across the district and is financed from the council tax, government grants and other income such as fees and charges) and the Housing Revenue Account which provides council housing services specifically for our tenants and which is financed mainly by their rent.
- Capital expenditure is the money we spend on assets that last for many years, like buildings and vehicles. We finance this mainly from government and other grants, from the sale of our assets, and from our own revenue resources. Following the HRA reform at the end of 2011/12 we now also finance a significant amount by borrowing which we pay back from our income over time, much as a private homeowner would repay a mortgage.

General Fund

Our Comprehensive Income and Expenditure Statement is shown on pages 15 and 16. It records a deficit for the year of £53.574m after taking into account amounts charged to the accounts in accordance with accounting regulations but which are then reversed through the Movement in Reserves Statement (shown on pages 13 and 14). The most notable example is £56.673m in respect of an exceptional Housing related payment to the Government. Taken together, the two Statements demonstrate an overall £0.207m increase in the General Fund Balance, which increases the amount held to a total of £2.063m at 31 March 2012. In other words, the General Fund Revenue Account (against which council tax is raised) made a surplus of £0.207m after reserve movements and the Council has set this aside for use in the future.

Comparing actual spending to budget - the table on the next page compares our actual net spending for 2011/12 with our original budget for the year. The expenditure analysis by Lead Councillor Portfolio is consistent with the allocation of responsibilities which the new Council agreed following its election in May 2011. The table also shows how net expenditure was financed. Please note that the table excludes the effect of the accounting charges referred to above and which were required to comply with the Code used to prepare the Financial Statements, for example, to reflect depreciation, changes in the value of land and buildings used in the delivery of services, and pension valuations. Due to this, and because different line headings are used to prepare the budget from those required for the Financial Statements, the table cannot be directly agreed to the Comprehensive Income and Expenditure Statement. The excluded items have no net impact on the General Fund Balance.

Review of 2011/12 and Outlook for 2012/13

Services by Lead Councillor Portfolio		2011/12 Net Expenditure		
		Budget	Actual	Variance
		£'000	£'000	£'000
1	Finance and Resources	2,274	2,154	(120)
2	Health and Environment	3,391	3,087	(304)
3	Housing	949	1,009	60
4	Leader of the Council	1,559	1,474	(85)
5	Planning	1,145	887	(258)
6	Waste and Recycling	2,733	2,038	(695)
7	Capital Accounting and Treasury Management	(80)	(130)	(50)
8	National Accounting Requirements	33	13	(20)
9	Environment Agency Levy	126	119	(7)
10	Contingency	50	0	(50)
11	Target for efficiency savings	(257)	0	257
12	Net Cost of Services	11,923	10,651	(1,272)
13	Net transfer to Earmarked Reserves	462	1,341	879
14	Net Revenue Expenditure of Lewes District Council met by Government Grants and Local Taxpayers	12,385	11,992	(393)
15	Non-Domestic Rates redistribution	3,250	3,250	0
16	Revenue Support Grant	1,005	1,005	0
17	Council Tax Freeze Grant	185	185	0
18	New Homes Bonus Grant	0	211	(211)
19	Total Demand on the Collection Fund (Council Tax Precept and Surplus)	7,548	7,548	0
20	Total Funding	11,988	12,199	(211)
21	Deficit/(surplus) for 2011/12 (14 - 20)	397	(207)	(604)

Review of 2011/12 and Outlook for 2012/13

Explaining the differences - In February 2011 the Council set a net expenditure budget of £12.385m to meet the Lewes District Council requirements for delivering services in 2011/12. This represents the net cost of providing our services after taking into account:

- £41.8m of income from specific government grants
- £5.7m of income from fees & charges, rents & sales
- £0.1m of income from investments

The Council agreed to withdraw £0.397m from its General Fund Balance which, together with the Government's new council tax freeze grant of £0.185m, allowed it to set a council tax rate for 2011/12 in line with that set for 2010/11 - that is, no increase.

The actual net expenditure for 2011/12 was £11.992m (on the basis set out on page 4), £0.393m less than forecast in the budget (line 14 in the table above). In addition, the Council received a new Government grant of £0.211m, the 'New Homes Bonus' which had not been anticipated at budget time. The major variances between the budget and the actual results are explained below:

	£m
1 Net Revenue Expenditure – Original Budget 2011/2012	12.385
2 Less: - Exceptional income items arising during the course of the year with prudent provision (including contributions to Reserves) made in the budget at that time	(0.815)
3 Service income received in year in excess of budget	(0.389)
4 Service expenditure in year below budget	(0.559)
5 Add: Service income received in year below budget	0.066
6 Service expenditure in year in excess of budget	0.214
7 Revenue funding of Capital Programme	0.012
8 Add: - Net additional contribution to Reserves. This arises for a number of reasons including:	
• additional income received and held in Reserve pending use (eg the New Homes Bonus)	
• variations in expenditure on projects funded from Reserves (eg the election in May 2011)	
• new initiatives agreed by Cabinet in year and funded from Reserves (eg support for Programme Nexus and IT Upgrade initiative)	0.867
9 Sub-total variations	(0.604)
10 Net Revenue Expenditure – Actual 2011/2012 including New Homes Bonus	11.781

Review of 2011/12 and Outlook for 2012/13

The reduction in Net Revenue Expenditure has been used to top-up the General Fund Working Balance.

Reserves – at the request of Budget holders £0.124m of the reduction in the net cost of services for 2011/12 was carried forward into the 2012/13 financial year to allow work underway to be completed. £0.619m has been added to reserves to support a major programme of updating and investing in the Council's IT resources. The New Homes Bonus, £0.211, has been added to the Service Priority and Change Management Reserve.

The reconciliation between the General Fund Revenue Account, which we keep for budget monitoring and reporting purposes, and the statutory Comprehensive Income and Expenditure Statement (CIES) is as follows:

	£'000
<u>Budget Monitoring and Reporting Summary:</u>	
(Surplus) for year before final transfer to Reserves (page 4 line 21 column 2)	(207)
<u>Statutory Reporting Summary</u>	
Deficit on the provision of all services reported in the CIES (page 16)	53,574
Less Deficit in respect of the Housing Revenue Account included above (page 110)	(54,610)
(Surplus) on provision of General Fund services	(1,036)
Adjustments between accounting basis and financing basis under regulations (page 14)	174
Net transfer from reserves (page 14)	655
Net (surplus) for year	(207)

Housing Revenue Account (HRA)

Income exceeded expenditure by £0.162m in 2011/12, an improvement of £0.390m against the budgeted deficit of £0.228m. The table overleaf analyses the main variations between the budget and outturn. At 31 March 2012 the HRA balance is £2.738m.

Review of 2011/12 and Outlook for 2012/13

	£m
Additional income	
- works recharged to tenants and leaseholders	0.023
Reduced expenditure	
- repairs	0.128
- employee costs	0.084
- uninsured losses (insurance excesses)	0.077
- gas and electricity	0.067
- external support and advice	0.041
- Housing Subsidy payment to Government	0.033
Less increased expenditure	
- Corporate recharge from General Fund (Programme Nexus, etc)	(0.048)
- interest on borrowing	(0.021)
Miscellaneous net variations	0.006
Total variation (increase in net surplus)	0.390

Capital expenditure

Total capital expenditure managed through our 2011/12 Capital Programme was £61.898m. The largest single item was a statutory payment to the Government, £56.673m, required under the national arrangements to move local authority Housing to a self-financing basis. This replaces the previous system of Housing subsidy in England. The following table lists the major areas where capital investment was made. It also shows how this expenditure was funded.

Review of 2011/12 and Outlook for 2012/13

Type of project	£m
HRA Housing self-financing reform payment	56.673
HRA Housing Investment Programme	2.426
General Fund Housing Investment Programme	0.571
General Fund Services Capital Programme	2.228
Total Capital Expenditure	61.898
Type of funding	
Major Repairs Allowance: a Government grant wholly given to maintain the value of the Council's housing stock	2.167
Capital receipts: money from the sale of Council property	0.641
Grants and Contributions: from external partners, like the Government (£1.012m), English Heritage (£0.050m) and property developers (£0.162m)	1.324
Reserves: money set aside from revenue in previous years	0.854
Revenue Financing: contributions from the Housing Revenue Account (paid for by tenants' rent) and General Fund	0.239
Borrowing: external loans specifically to finance the Housing self-financing reform payment	56.673
Total Capital Financing	61.898

The majority of our capital expenditure was financed from sources outside the Council – for example, from Government and from external partners – and this reliance on financial support from outside the Council to maintain a substantial and sustainable capital programme will continue into the future.

Reserves and Balances Summary

Sound financial management and a proven track record of striking the right balance between spending and the need to maintain a core level of resources to support the General Fund and the Housing Revenue Account means that our finances are in a healthy state.

Our financial wellbeing is evidenced by combined balances totalling £4.801m held by the General Fund and the Housing Revenue Account that will be used to support our future spending plans. A further £9.281m held in earmarked General Fund reserves, and £0.573m in the HRA within the Major Repairs Reserve will be used to support our specific and one-off spending priorities. £2.098m in capital receipts is available to support our forward capital programme, along with £0.583m of capital grants and contributions.

Review of 2011/12 and Outlook for 2012/13

Treasury Management

Our external loan debt at 31 March 2012 stood at £56.7m, all of which was long-term and is associated with our Housing stock. This increased by £51.7m during 2011/12 because of the need to finance the payment to the Government due as a result of the housing self-financing reform programme. Our Treasury Strategy of using revenue cash balances as an alternative to 'external' borrowing means that the Council's actual long-term debt is £13.5m less than the underlying amount which could have been borrowed over the years to fund capital investment. The total invested at the year end, including cash on deposit at the bank, was £4.4m (excluding a deposit made with Landsbanki hf, the Icelandic Bank, which is currently in administration – see Note 38 on page 99 for further details).

Asset Values

A formal review of the value of the Council's property assets has taken place. In some cases the value of individual assets has increased significantly. In accordance with accounting requirements, the overall increase in value of Property has been credited (total £3.1m) to the Comprehensive Income and Expenditure Statement shown on page 15 and page 16.

Pensions

Accounting regulations require Councils to show any deficit or surplus on the Pension Fund within the Balance Sheet. The Lewes share of the Pension Fund administered by East Sussex County Council was assessed at 31 March 2012 by the actuary as having a deficit of £13.93m compared with a deficit of £9.60m at 31 March 2011. This represents a liability incurred now which is payable over many years in the future as pensionable employees retire. The significant increase in the liability in the year reflects the fact that the financial assumptions at 31 March 2012 are less favourable than a year previously (see page 104).

Looking ahead –outlook for 2012/13 and beyond

General Fund

In October 2010, the Government published its Spending Review which fixed the budgets for all Government departments for four years through to 2014/2015. The spending review put in place a deficit reduction plan, with the Government's priority being to secure economic stability at a time of continuing uncertainty in the global economy and to put Britain's public services on a sustainable long term footing. The consequence of the Spending Review for local authorities has been significant reductions in Government funding. In order to close the gap between spending need and the diminished resources available, local authorities are driving efficiency improvements and re-prioritising services.

We have set ourselves a savings target of £1.6m over the next three years, with £1.2m of that to be found in 2012/2013 and 2013/2014. We have already identified potential savings of £0.7m and will aim to achieve them by working more efficiently,

Review of 2011/12 and Outlook for 2012/13

reducing operating costs further, looking at new ways of working, 'investing to save' and making better use of procurement and IT. These are key elements within the Programme Nexus initiative that the Council has adopted.

Our core grant funding from the Government for 2012/2013 is £0.5m lower than the amount that we received in the previous year on a like-for-like basis. The Government offered every local authority a special grant equal to a 2.5% rise in council tax, if it agreed to freeze its council tax at the 2011/2012 level. A key promise of the Council is to save money and where possible put money back into our residents' pockets and so we have taken up this offer. As a result will receive a grant of £0.186m.

The Council set a net General Fund budget of £7.443m for 2012/2013, with a savings target of £0.336m. The Council Tax for a Band D property is £192.48, which, as noted above, is unchanged from 2011/2012. £0.468m of the General Fund working balance will be used, to leave £1.595m at 31 March 2013. The General Fund will also hold £6.666m in Earmarked reserves at the same date. The amount of Council Tax collected in previous years has exceeded previous forecasts, generating an estimated surplus of £0.060m which is to be used to finance spending in 2012/2013. The overall movement in the budget is summarised below:

	£'000
2011/2012 Service portfolio base	12,049
Less Savings identified and implemented before and during the year	(724)
Adjusted base budget	11,325
Pay and price increases	287
Lower car park income	77
Reduction in income received from investments	102
Other Increases in costs or reductions in income	104
Receipt of New Homes Bonus Grant	(519)
Increased income from sale of Recycling materials	(130)
Other Increases in income or reductions in costs	(160)
2012/2013 Service portfolio base	11,086
Less Savings incorporated in budget	(400)
Less Savings target for 2012/2013	(336)
Adjusted Base Budget 2012/2013	10,350
Changes in use of reserves, balances and one-off items	1,291
Special grant from Government to support Council Tax freeze	(371)
Net Revenue Budget Requirement for 2012/2013	11,270
Less: external support from Government (Formula Grant)	(3,767)
Less: use of Collection Fund surplus	(60)
2012/13 Net General Fund Budget to be funded from Council Tax	7,443

Review of 2011/12 and Outlook for 2012/13

Housing Revenue Account

The budgets in respect of the Council's housing stock are kept separate from other services. Spending is paid for by tenants' rents and service charges – there is no general contribution from the Council Tax. As noted above, before 2012/2013 a system of Government subsidy was in operation, but from 1 April 2012, the Housing Revenue Account (HRA) is entirely self-financing.

For 2012/2013 the average projected rent for all Council dwellings is £80.57 per week, an increase of 7.3% when compared with 2011/2012. The average rent increase was agreed after detailed discussion with representatives of the 'Tenants of Lewes District' (TOLD) organisation. The actual average rent is £3.85 lower than the formula rent target under the Government's 'rent restructuring' system which local authorities and registered social landlords are required to follow. As rent restructuring is phased in over future years, the gap between actual average rents and the target will close. Tenants also pay a range of service charges, depending on the property in which they live. All tenants pay a Special Services Charge which will be an average of £0.25 per property per week. Total income generated from rents, service charges and other contributions towards expenditure in 2012/2013 is estimated to be £15.6m. We plan to add £0.4m to the HRA working balance during the course of the year, and can make a £2.0m contribution towards the cost of capital projects. Following self-financing reform, the HRA needs to service long-term borrowing of £67.6m. Interest payments are projected to be £2.2m.

We continue to plan for the repair and management of the housing stock over the longer term. By using up to date survey data concerning the condition of our housing stock, we can estimate how spending needs will develop over the next 30 years, as well as make projections as to the resources that will be available to fund them. Our 30 year Housing Business Plan is sustainable.

Capital Programme

Under the 'Prudential Framework' within which all local authorities are required to operate, the Council's capital expenditure plans are required to be both affordable and sustainable in the longer term. The impact of financing the capital programme on the council tax in future years is a key element in assessing affordability. Although the Council is free to borrow to fund capital projects, borrowing brings a long term cost in terms of both paying back the loan itself and the interest which is charged and is not a viable option – unless the cost of this borrowing is supported by Government grants or income which is generated from the projects when complete.

The Capital Programme represents the allocation of funding to specific projects – in some cases those projects will be completed over a number of years. The overall Capital Programme for 2012/2013 is split into 3 distinct elements.

- *General Fund Capital Programme*- £5.75m, including £2.2m for our Agile Working and office rationalisation project, £0.61m for a major parks development project in Peacehaven and £0.59m for the replacement of vehicles.

Review of 2011/12 and Outlook for 2012/13

- *HRA Housing Investment Capital Programme* - £5.81m in respect of major repairs and improvements to the Council's housing stock, of which £3.65m will be funded from a Major Repairs Reserve, and £2.16m from revenue resources.
- *General Fund Housing Investment Programme* £1.49m, consisting predominantly of Private Sector Housing grants, to be funded from capital receipts and Government grant.

Conclusion

With careful planning over recent years, we have given ourselves a sound financial base, but there are many challenges ahead. Our spending plans, levels of balances and reserves, along with our capital resources, all need to be carefully projected to make sure we have access to sufficient resources for the future.

John Magness, Director of Finance, September 2012

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those the Council can apply to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting and to the Housing Revenue Account for rent 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 are made to or from earmarked reserves.

	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 2010	1,573	8,800	2,475	2,844	460	555	16,707	204,967	221,674
Movement in Reserves during 2010/11									
Surplus or (deficit) on the provision of services	3,665	0	(44,878)	0	0	0	(41,213)	0	(41,213)
Other comprehensive income and expenditure	0	0	0	0	0	0	0	17,613	17,613
Total comprehensive income and expenditure	3,665	0	(44,878)	0	0	0	(41,213)	17,613	(23,600)
Adjustments between accounting basis and funding basis under regulations (p51)	(3,556)	0	44,979	(292)	(159)	(36)	40,936	(40,936)	0
Net increase or decrease before transfers to earmarked reserves	109	0	101	(292)	(159)	(36)	(277)	(23,323)	(23,600)
Transfers to or from earmarked reserves (p56)	174	(174)	0	0	0	0	0	0	0
Increase or (decrease) in 2010/11	283	(174)	101	(292)	(159)	(36)	(277)	(23,323)	(23,600)
Balance at 31 March 2011	1,856	8,626	2,576	2,552	301	519	16,430	181,644	198,074

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 2011	1,856	8,626	2,576	2,552	301	519	16,430	181,644	198,074
Movement in Reserves during 2011/12									
Surplus or (deficit) on the provision of services	1,036	0	(54,610)	0	0	0	(53,574)	0	(53,574)
Other comprehensive income and expenditure	0	0	0	0	0	0	0	(1,633)	(1,633)
Total comprehensive income and expenditure	1,036	0	(54,610)	0	0	0	(53,574)	(1,633)	(55,207)
Adjustments between accounting basis and funding basis under regulations (p48)	(174)	0	54,772	(454)	272	64	54,480	(54,480)	0
Net increase or decrease before transfers to earmarked reserves	862	0	162	(454)	272	64	906	(56,113)	(55,207)
Transfers to or from earmarked reserves (p56)	(655)	655	0	0	0	0	0	0	0
Increase or (decrease) in 2011/12	207	655	162	(454)	272	64	906	(56,113)	(55,207)
Balance at 31 March 2012	2,063	9,281	2,738	2,098	573	583	17,336	125,531	142,867

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover net expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2010/11			2011/12			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
9,946	8,820	1,126	Central services to the public	9,881	8,816	1,065
4,495	566	3,929	Cultural and related services (Note 1 p20)	3,420	579	2,841
7,939	2,412	5,527	Environmental and regulatory services (Note 1 p20)	7,080	2,452	4,628
2,549	924	1,625	Planning services (Note 1 p20)	1,717	730	987
1,102	93	1,009	Highways and transport services – concessionary travel scheme (Note 1 p20)	0	0	0
774	1,033	(259)	Highways and transport services - other services (Note 1 p20)	767	952	(185)
14,224	13,824	400	Local authority housing (Housing Revenue Account)	11,939	14,390	(2,451)
0	0	0	Local authority housing – exceptional item: payment to the Secretary of State in order to exit the HRA subsidy system (Note 6 p45)	56,673	0	56,673
46,633	0	46,633	Local authority housing – exceptional item: impairment loss/(reversals) of HRA property assets (Note 6 p45)	0	0	0
34,723	33,162	1,561	Other housing services	36,210	34,771	1,439
2,268	92	2,176	Corporate and democratic core	2,356	119	2,237
0	7,987	(7,987)	Non distributed costs - exceptional item: change in inflation factor for retirement benefits (Note 6 p45)	0	0	0
0	0	0	Non distributed costs - other	144	0	144
124,653	68,913	55,740	Cost of Services (carried forward to page 16)	130,187	62,809	67,378

Comprehensive Income and Expenditure Statement

2010/11			2011/12			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
124,653	68,913	55,740	Cost of Services (brought forward from page 15)	130,187	62,809	67,378
3,682	1,427	2,255	Other operating expenditure (Note 10 p57)	3,523	1,297	2,226
865	355	510	Financing and investment income and expenditure (Note 11 p57)	128	282	(154)
0	17,292	(17,292)	Taxation and non-specific grant income (Note 12 p57)	0	15,876	(15,876)
129,200	87,987	41,213	(Surplus) or deficit on the provision of services	133,838	80,264	53,574
	(946)		(Surplus) or deficit on revaluation of property, plant and equipment assets			(3,089)
	(16,667)		Actuarial (gains) or losses on pension assets and liabilities			4,722
	(17,613)		Other comprehensive income and expenditure			1,633
	23,600		Total comprehensive income and expenditure			55,207

Balance Sheet

The Balance Sheet shows the value as at the end of the accounting period of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held which are reported in two categories:

- usable reserves, i.e. those that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (e.g. the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt).
- unusable reserves, i.e. those that the Council is not able to use to provide services. This includes reserves that hold unrealised gains and losses where amounts only become available to provide services if the assets are sold; and reserves that hold timing differences.

1 April 2010 restated	31 March 2011 restated			31 March 2012
£000	£000			£000
245,810	198,333	Property, Plant and Equipment	Note 13 p58	203,087
3,049	2,996	Heritage Assets	Note 14 p62	3,187
3,252	3,252	Investment Property	Note 15 p64	3,013
631	500	Intangible Assets	Note 16 p65	402
735	775	Long Term Investments	Note 17 p67	464
119	121	Long Term Debtors	Note 17 p67	91
253,596	205,977	Long Term Assets		210,244
5,219	7,123	Short Term Investments	Note 17 p67	4,334
85	121	Inventories	Note 18 p73	130
5,843	3,795	Short Term Debtors	Note 19 p73	8,008
3,239	2,872	Cash and Cash Equivalents	Note 20 p74	0
14,386	13,911	Current Assets		12,472
0	0	Cash and Cash Equivalents	Note 20 p74	(1,262)
(109)	(109)	Short Term Borrowing	Note 17 p67	(126)
(5,067)	(4,704)	Short Term Creditors	Note 21 p74	(3,393)
0	0	Capital Grants Receipts in Advance	Note 34 p93	(141)
(5,176)	(4,813)	Current Liabilities		(4,922)
(258)	(421)	Long Term Creditors		(1,416)
(5,000)	(5,000)	Long Term Borrowing	Note 17 p67	(56,673)
(33,615)	(9,601)	Defined Pension Scheme Liability	Note 39 p100	(13,929)
(302)	(286)	Other Long Term Liabilities	Note 37 p97	(112)
(1,957)	(1,693)	Capital Grants Receipts in Advance	Note 34 p93	(2,797)
(41,132)	(17,001)	Long Term Liabilities		(74,927)
221,674	198,074	Net Assets		142,867

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the financial year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery and cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

2010/11		2011/12
Restated		
£000		£000
(41,213)	Net surplus or (deficit) on the provision of services	(53,574)
(268)	Cash flows from interest paid	(246)
381	Cash flows from interest received	138
47,742	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 24 p81)	(1,424)
(1,792)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 25 p81)	(1,749)
<u>4,850</u>	Net cash flows from operating activities	<u>(56,855)</u>
(4,559)	Investing activities (Note 26 p82)	1,173
(658)	Financing activities (Note 27 p82)	51,548
<u>(367)</u>	Net increase or (decrease) in cash and cash equivalents	<u>(4,134)</u>
3,239	Cash and cash equivalents at the beginning of the reporting period.	2,872
<u>2,872</u>	Cash and cash equivalents at the end of the reporting period (Note 20 p74)	<u>(1,262)</u>

Notes to the Financial Statements

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

Change to Accounting Policy

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 has adopted Financial Reporting Standard 30 Heritage Assets which is a change in accounting policy. Heritage assets are now to be recognised, measured at valuation, and reported as a separate class of non-current asset on the Balance Sheet retrospectively back to 1 April 2010.

For 2011/12 the Council is required to change its accounting policy for Heritage Assets and recognise them at valuation. Previously, Heritage Assets were recognised within the Property, Plant and Equipment classification in the Balance Sheet as either Other Land and Buildings at fair value, or as Community Assets at cost or insurance valuation. The Council's accounting policies for the recognition and measurement of Heritage Assets are set out in Note 2 (11) on page 31.

In applying the new accounting policy, the Council has identified that two assets previously held as Other Land and Buildings should now be recognised as Heritage Assets at the same valuation as each has been independently assessed by the Council's external valuer at market value. The Council has also identified that the assets that were previously held as Community Assets should now be recognised as Heritage Assets at the same valuation – i.e. at cost or insurance valuation – as the cost of seeking specialist independent valuations outweighs the benefits to users of the financial statements.

The Council has not identified any Heritage Assets that were not previously recognised in the Balance Sheet.

The effect of the change in accounting policy is to reclassify assets in the Balance Sheet at 1 April 2010 and 31 March 2011 from Property, Plant and Equipment to Heritage Assets at the same valuations held at those two dates. There is no effect on other parts of the Balance Sheet, neither is there any effect on the Comprehensive Income and Expenditure Statement nor on the Movement in Reserves Statement because there is no change in the depreciation policy for these assets.

	Opening Balances as at 1 April 2010	Restatement required	Restated Opening Balances as at 1 April 2010
	£000	£000	£000
Effect on Opening Balance Sheet at 1 April 2010			
Property, Plant and Equipment	248,859	(3,049)	245,810
Heritage Assets	0	3,049	3,049
	248,859	0	248,859

Notes to the Financial Statements

Effect on Balance Sheet at 31 March 2011	As previously stated at 31 March 2011 £000	Restatement required £000	As restated at 31 March 2011 £000
Property, Plant and Equipment	201,329	(2,996)	198,333
Heritage Assets	0	2,996	2,996
	201,329	0	201,329

Changes to Prior Period Figures in the Comprehensive Income and Expenditure Statement

Cultural, environmental, regulatory and planning services

The 2011/12 Service Reporting Code of Practice (SeRCOP), published by the Chartered Institute of Public Finance and Accountancy, has introduced a presentational change which allocates the previous service line 'Cultural, environmental, regulatory and planning services' into three separate service lines on the face on the Comprehensive Income and Expenditure Statement.

For comparative purposes in 2011/12, this requires a corresponding reallocation of the figures set out in the Comprehensive Income and Expenditure Statement within the audited Statement of Accounts 2010/11 as follows:

	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Statement of Accounts 2010/11			
2010/11 Comprehensive Income and Expenditure Statement:			
Cultural, environmental, regulatory and planning services	14,983	3,902	11,081
Statement of Accounts 2011/12			
2010/11 Comprehensive Income and Expenditure Statement:			
Cultural and related services	4,495	566	3,929
Environmental and regulatory services	7,939	2,412	5,527
Planning services	2,549	924	1,625
Total of reallocations	14,983	3,902	11,081

Notes to the Financial Statements

Highways and transport services

Until 31 March 2011, the Council was statutorily responsible for operating a Concessionary Travel Scheme (free bus passes for persons either of a pensionable age or with a qualifying disability). From 1 April 2011, statutory responsibility for operating a Concessionary Travel Scheme transferred to East Sussex County Council.

For comparative purposes in 2011/12, the Highways and transport service line set out in the Comprehensive Income and Expenditure Statement within the audited Statement of Accounts 2010/11 has been reallocated. This allows the figures for the concessionary travel scheme to be shown separately so that the figures for all other Highways and transport services are comparable between 2010/11 and 2011/12.

The reallocation of the 2010/11 figures is as follows:

	Gross Expenditure £000	Gross Income £000	Net Expenditure £000
Statement of Accounts 2010/11			
2010/11 Comprehensive Income and Expenditure Statement:			
Highways and transport services	1,876	1,126	750
Statement of Accounts 2011/12			
2010/11 Comprehensive Income and Expenditure Statement:			
Highways and transport services – concessionary travel scheme	1,102	93	1,009
Highways and transport services – other services	774	1,033	(259)
Total of reallocations	1,876	1,126	750

Notes to the Financial Statements

Note 2. ACCOUNTING POLICIES

1) General Principles

The Financial Statements summarise the Council's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Accounts and Audit (England) Regulations 2011 require the Council to be prepare annual Financial Statements in accordance with proper accounting practices.

Proper accounting practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 'Code') and the Service Reporting Code of Practice 2011/12 (SeRCOP), both of which are published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The accounting convention adopted in the Financial Statements is historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

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 in 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.

Notes to the Financial Statements

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 investments that are short-term, highly liquid investments held at the Balance Sheet date that are readily convertible to known amounts of cash on the Balance Sheet date and which are subject to an insignificant risk of changes in value. 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) Exceptional Items

Where items of income and expense are material, their nature and amount is disclosed separately on the face of the Comprehensive Income and Expenditure Statement and also in the notes to the Financial Statements.

5) 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.

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.

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

Notes to the Financial Statements

6) 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 fixed assets attributable to the service

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

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

7) 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.

Notes to the Financial Statements

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, 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 is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Post-Employment Benefits

Employees of the Council are members of the Local Government Pensions Scheme, 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 in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc and projections of earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate of 4.8%. This is consistent with accounting requirements to use a rate equivalent to the current rate of return available on a high quality corporate bond of equivalent term to the scheme liabilities. Measurement of the discount rate is based on the nominal spot yields for a Government backed loan at various maturities averaged over 20 years, plus an additional yield (the credit spread) which reflects the extra risk involved in using AA corporate bond yields within the iBoxx over 15 years index.
- 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

Notes to the Financial Statements

- The change in the net pensions liability is analysed into seven 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 or gain - the increase or decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – charged or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
 - interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid – charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
 - expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
 - gains or losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - charged or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
 - actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve.
 - 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 appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and 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.

Notes to the Financial Statements

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.

8) 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:

- 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
- 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.

9) Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (long-term borrowing) plus the accrued interest (short-term borrowing), and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. For the Council's outstanding long-term Lender's Option Borrower's Option (LOBO) loan agreement, which has provision for stepped interest rates, the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable based on the rates which are expected to prevail over the full term of the loan, presuming no exercise of options.

Notes to the Financial Statements

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

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

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For loans that the Council has made which are repayable within the following financial year, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus the accrued interest (short-term investments), and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year according to the loan agreement. The position is the same for any loans made which are repayable beyond the following financial year (long-term investments), except that outstanding interest receivable within the next year is included under “short-term investments”.

Notes to the Financial Statements

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

10) 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 in 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.

Notes to the Financial Statements

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.

11) Heritage Assets

Tangible heritage assets

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

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

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

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

Works of art and museum exhibits comprises museum exhibits and military artefacts held at Newhaven Fort and various Works of Art items held at separate locations. These items are carried in 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.

The 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 Council's general policies on impairment.

Intangible heritage assets

The Council has no intangible heritage assets.

Notes to the Financial Statements

12) Intangible Assets

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

Internally generated assets (not including websites intended to promote or advertise the Council's goods and services) are capitalised only where it is demonstrable that the project is technically feasible and is intended to be completed, with adequate resources being available, and the Council will be able to generate future economic benefits or service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset, and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

13) Inventories

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

Notes to the Financial Statements

14) Investment property

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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.

15) 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.

Notes to the Financial Statements

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 in 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) in 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)

Notes to the Financial Statements

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

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

Operating Leases

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

16) Overheads and Support Services

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

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

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

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

Notes to the Financial Statements

17) 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. They exclude assets which are held purely for investment purposes (Investment properties) and Heritage Assets.

Property, Plant and Equipment consists of the following categories:

- Council Dwellings - properties owned by the Council used for social housing
- Other Land and Buildings – land and properties owned by the Council used for the provision of services
- Vehicles, Plant and Equipment – individual items or groupings of items used for the provision of services and which are purchased from capital resources.
- Infrastructure Assets – e.g. coast protection works, estate roads and lay-bys
- Community Assets – assets which are used for the community as a whole, with no determinable market value in their present use, and which are not likely to be sold e.g. allotments, amenity land, flint walls, open spaces

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 secures 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

Notes to the Financial Statements

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

Donated assets are measured initially at fair value.

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

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

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains, unless the gains arise from the reversal of a loss previously charged to a service in which case the gain will be credited to the Comprehensive Income and Expenditure Statement.

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

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

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

Notes to the Financial Statements

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

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

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

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.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to Non-Current Assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

Notes to the Financial Statements

When an asset is disposed of or decommissioned, the carrying amount of the asset in 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 (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement (MiRS).

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Land – not subject to depreciation
- Dwellings and other buildings – straight-line allocation over the life of the property as estimated by the valuer
- Vehicles, plant, furniture and equipment - a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- Infrastructure - straight line allocation over 20 years
- Community assets – not subject to depreciation

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, except for Council Dwellings where individual components are aggregated due to the nature, scale and materiality of this class of asset.

Notes to the Financial Statements

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.

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

Notes to the Financial Statements

Contingent Assets

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

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

19) 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.

20) 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.

Notes to the Financial Statements

21) Value Added Tax (VAT)

The Council's income and expenditure excludes any amounts related to VAT.

VAT collected on income is payable to Her Majesty's Revenue and Customs (HMRC) and VAT paid on expenditure is recoverable from HMRC.

22) Council Tax and Non-Domestic Rates

The Council in its capacity as a billing authority for council tax acts as an agent on behalf of the major preceptors (East Sussex County Council, Sussex Police Authority and East Sussex Fire Authority). The Council collects all of the income due from Council Tax payers, pays each major preceptor according to its own precept, and accounts for the income and expenditure in the separate statutory Collection Fund. However, within the Comprehensive Income and Expenditure Statement the Council accounts only for its own share of the council tax income due for the year. The Council's Balance Sheet records only its own share of the amounts of Council Tax debtors less the adjustments for doubtful debts as short-term debtors, its own share of income in advance as short-term creditors and its own share of any surplus or deficit on the Collection Fund as an adjustment within Unusable Reserves. The corresponding shares of debtors, creditors and Collection Fund adjustment that relate to the three major preceptor authorities are shown as a single net creditor or debtor in the Council's Balance Sheet.

Cash transactions relating to the collection of council tax and the payments over to the major preceptors are recorded in net terms as a Financing Activity within the Council's Cash Flow Statement.

Similarly, the Council collects income from payers of Non-Domestic Rates (business rates) on behalf of the Government under what is, in substance, an agency arrangement. It pays all of the income, less an allowance for the cost of collection, direct to Government. The Council accounts for all transactions within the separate statutory Collection Fund but does not account for the income or the payment over of business rates within its Comprehensive Income and Expenditure Account. The Council's Balance Sheet records a single creditor or debtor representing the net amount of Non-Domestic Rate debtors, adjustments for doubtful debts, income in advance, and other amounts due to or from the Government.

Cash transactions relating to the collection of business rates and the payments over to Government are recorded in net terms as a Financing Activity within the Council's Cash Flow Statement.

23) Group Accounts

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.

Notes to the Financial Statements

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

The 2012/13 Code has adopted amendments to IFRS 7 *Financial Instruments: Disclosures* (issued October 2010) that will result in a change of accounting policy effective from 1 April 2012. From this date the Council is required to provide disclosures for all transfers of financial assets that are not derecognised and for any continuing involvement in a transferred asset existing at the reporting date, irrespective of when the related transfer transaction occurred. The initial application of this IFRS has no material impact in the 2011/12 Financial Statements.

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 £0.73m deposited with Landsbanki Islands hf which is in administration. The Council is assuming that the administrators will be able to realise sufficient value from the Bank's assets to repay in full the Council along with all of those creditors which the Icelandic Supreme Court has determined to have priority status.
- the preparation of Group Accounts is not required to reflect the Council's relationship with Wave Leisure Trust. Although the Council reviews the Trust's business plan each year to ensure that it meets the terms of a funding agreement between the two parties, it does not control the majority of the voting rights and does not have a right or the ability to direct the financial or operating policies of the Trust.
- a grant given to the Council for a specific purpose which must be used by a given date or otherwise returned is treated as having a condition attached and is not credited to the Comprehensive Income and Expenditure Statement (CIES) until the condition is met. A grant given to the Council which does not have a specified date for use is treated as having a restriction and is credited to the CIES when received.

Notes to the Financial Statements

Note 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Financial Statements contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

- **Pensions 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 pensions 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 £6.8 million. The effects of other changes in individual assumptions made by the actuary are set out within the sensitivity analysis section of Note 39 p105
- **Allowance for Doubtful Debts:** the Council has included in its accounts a provision for the impairment of doubtful debts of £0.8 million at 31 March 2012 (Note 19 p73) based on an assessment of future recoverability. However, if this allowance proves to be insufficient a further charge would be made to services within the Comprehensive Income and Expenditure Statement.
- **Property, Plant and Equipment:** the Council estimates the useful lives of Property, Plant and Equipment based on the period over which the assets are expected to be available for use. In addition, the estimation of the useful lives of Property, Plant, and Equipment is based on external technical evaluation and experience with similar assets. The estimated useful lives of Property, Plant and Equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the relevant assets. A reduction in the estimated useful lives of the Property, Plant and Equipment would increase the cost of depreciation charged to services within the Comprehensive Income and Expenditure Statement and decrease the Balance Sheet Value. In 2011/12, the total depreciation charge to services was £5 million (Note 13 p58).

Notes to the Financial Statements

Note 6. MATERIAL ITEMS OF INCOME AND EXPENSE

Three items of income and expense are separately identified within the Comprehensive Income and Expenditure Statement rather than incorporated within the cost of specific service areas. This approach has been adopted because of their exceptional nature or value. Details are:

- Local authority housing – exceptional item: payment to the Secretary of State in order to exit the HRA subsidy system. For details of this charge to the Housing Revenue Account in 2011/12 see Note 6 to the HRA p115.
- Local authority housing – exceptional item: impairment loss/(reversals) of HRA property assets. For details of this charge to the Housing Revenue Account in 2010/11 see Note 4 to the HRA p114.
- Non distributed costs - exceptional item: change in inflation factor for retirement benefits. For details of this gain in 2010/11 see Note 39 p100.

Note 7. EVENTS AFTER THE BALANCE SHEET DATE

The Financial Statements were authorised for issue by the Director of Finance on 29 June 2012. Events taking place after this date are not reflected in the Financial Statements or notes

Notes to the Financial Statements

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

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

Adjustments between accounting basis and funding basis under regulations	Movement in Usable Reserves					
	General Fund Balance	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
2011/12	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	892	1,432				(2,324)
Movements in the market value of Investment Properties	242					(242)
Amortisation of intangible assets	195					(195)
Capital grants and contributions applied	(1,171)					1,171
Revenue expenditure funded from capital under statute	593	56,673				(57,266)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss to the Comprehensive Income and Expenditure Statement	69	285				(354)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(154)					154
Capital expenditure charged against the General Fund and HRA balances	(842)	(251)				1,093

Notes to the Financial Statements

Adjustments between accounting basis and funding basis under regulations (continued)	Movement in Usable Reserves					
	General Fund Balance	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
2011/12	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(217)				217	
Application of grants to capital financing transferred to the Capital Adjustment Account					(153)	153
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(26)	(640)	666			
Use of the Capital Receipts Reserve to finance new capital expenditure			(641)			641
Contribution from the Capital Receipts Reserve to finance the administrative costs of non-current asset disposals		2	(2)			
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	478		(478)			
Transfer from Deferred Capital Receipts Reserve upon receipt of cash			1			(1)
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA		(2,439)		2,439		
Use of the Major Repairs Reserve to finance new capital expenditure				(2,167)		2,167

Notes to the Financial Statements

Adjustments between accounting basis and funding basis under regulations (continued)	Movement in Usable Reserves					
	General Fund Balance	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
2011/12	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Financial Instruments						
Adjustment Account:						
Amortisation of premiums and discounts		(213)				213
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	1,353	208				(1,561)
Employer's pensions contributions payable in the year	(1,670)	(285)				1,955
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated in accordance with statutory requirements	79					(79)
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in accordance with statutory requirements	5					(5)
TOTAL ADJUSTMENTS FOR 2011/12	(174)	54,772	(454)	272	64	(54,480)

Notes to the Financial Statements

Adjustments between accounting basis and funding basis under regulations (continued)	Movement in Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
2010/11 comparative figures	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment/reversals of non-current assets	1,999	50,338				(52,337)
Movements in the market value of Investment Properties	35					(35)
Amortisation of intangible assets	333					(333)
Capital grants and contributions applied	(1,278)	(24)				1,302
Revenue expenditure funded from capital under statute	1,012					(1,012)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss to the Comprehensive Income and Expenditure Statement	2	279				(281)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(166)					166
Capital expenditure charged against the General Fund and HRA balances	(609)	(206)				815

Notes to the Financial Statements

Adjustments between accounting basis and funding basis under regulations (continued)	Movement in Usable Reserves					
	General Fund Balance	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
2010/11 comparative figures	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(171)				171	
Application of grants to capital financing transferred to the Capital Adjustment Account					(207)	207
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(11)	(733)	744			
Other cash proceeds recorded as capital receipts	(16)		16			
Use of the Capital Receipts Reserve to finance new capital expenditure			(495)			495
Contribution from the Capital receipts Reserve to finance the administrative costs of non-current asset disposals			2	(2)		
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	558		(558)			
Transfer from Deferred Capital Receipts Reserve upon receipt of cash				3		(3)
Adjustment primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA		(2,074)		2,074		
Use of the Major Repairs Reserve to finance new capital expenditure				(2,233)		2,233

Notes to the Financial Statements

Adjustments between accounting basis and funding basis under regulations (continued)	Movement in Usable Reserves					
	General Fund Balance	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
2010/11 comparative figures	£000	£000	£000	£000	£000	£000
Adjustment primarily involving the Financial Instruments Adjustment Account:						
Amortisation of premiums and discounts	2	(213)				211
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(265)					265
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(3,244)	(2,151)				5,395
Employer's pensions contributions payable in the year	(1,713)	(239)				1,952
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(13)					13
Adjustment primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in accordance with statutory requirements	(11)					11
TOTAL ADJUSTMENTS FOR 2010/11	(3,556)	44,979	(292)	(159)	(36)	(40,936)

Notes to the Financial Statements

Note 9. TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund Balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2011/12.

Earmarked General Fund Reserve <i>(purpose of reserve)</i>	Balance at 1 April 2010 £000	Transfers Out 2010/11 £000	Transfers In 2010/11 £000	Balance at 31 March 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Balance at 31 March 2012 £000
Budget Carry Forward <i>(Where a project or service, which was to have been funded from a revenue budget, has not been completed at the year end, the unspent budget can, if required, be carried forward to fund that project or service in the following year)</i>	335	(335)	317	317	(317)	124	124
Building Control Charging Scheme <i>(Regulations require defined elements of building control function to break-even over time. A trading account is prepared to cover these items, with the annual surplus/(deficit) added to or funded from this reserve)</i>	45	0	9	54	0	41	95
Service Priority <i>(Two elements: to support the Council's flexible retirement policy and assist with the budget realignment exercise, and to support Programme Nexus)</i>	1,903	(205)	290	1,988	(426)	358	1,920
Clean and Green <i>(Supports the Council's 'clean and green' initiatives)</i>	118	(49)	0	69	(36)	22	55

Notes to the Financial Statements

Transfers to/from earmarked reserves (continued)	Balance at 1 April 2010 £000	Transfers Out 2010/11 £000	Transfers In 2010/11 £000	Balance at 31 March 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Balance at 31 March 2012 £000
Concessionary Travel <i>(For the settlement of any claims for additional operator reimbursement as provided for in legislation)</i>	266	(291)	80	55	(8)	0	47
Corporate Building Repairs <i>(Supports the repairs programme for Council buildings)</i>	159	(50)	50	159	(52)	50	157
Financial Systems <i>(Supports the replacement or upgrade of financial systems)</i>	9	(9)	0	0	0	0	0
Housing Benefits Standards and Improvements <i>(Supports improvements to the quality of the Benefits service)</i>	407	(128)	119	398	(45)	147	500
Housing Development <i>(Supports the costs of a housing transfer if that were to be the choice of tenants' in any future housing options appraisal)</i>	195	0	0	195	0	0	195
IT Replacement Equipment <i>(Supports the IT replacement programme)</i>	24	(85)	62	1	0	62	63

Notes to the Financial Statements

Transfers to/from earmarked reserves (continued)	Balance at 1 April 2010 £000	Transfers Out 2010/11 £000	Transfers In 2010/11 £000	Balance at 31 March 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Balance at 31 March 2012 £000
Insurance <i>(Meets the excess element of insurance claims and provides for the settlement of any liability arising from an insolvent run-off of Municipal Mutual Insurance)</i>	140	(37)	28	131	(17)	36	150
Leisure Buildings Repairs <i>(Supports works to Council operated parks, leisure and open space facilities)</i>	113	(63)	67	117	(41)	50	126
Leisure Trust <i>(Supports future obligations under the operational arrangement with Wave Leisure Trust)</i>	160	(30)	80	210	(53)	50	207
All Weather Pitch <i>(Supports future replacement)</i>	41	0	20	61	0	20	81
Leisure Trust Buildings Maintenance <i>(Supports the Council's maintenance obligations with Wave Leisure Trust)</i>	34	(47)	120	107	(58)	80	129
Newhaven Enterprise Centre <i>(Supports the future replacement of equipment)</i>	27	0	13	40	0	13	53
Community Safety Partnership Fund <i>(Supports projects where the Council is lead partner and/or for working with external agencies, community organisations, etc)</i>	13	(5)	0	8	(5)	67	70

Notes to the Financial Statements

Transfers to/from earmarked reserves (continued)	Balance at 1 April 2010 £000	Transfers Out 2010/11 £000	Transfers In 2010/11 £000	Balance at 31 March 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Balance at 31 March 2012 £000
Housing and Planning Delivery Grant <i>(Supports specific Planning service initiatives over a number of years)</i>	244	(140)	0	104	(33)	0	71
Major Planning Applications <i>(Supports the processing of any major planning applications as and when they arise)</i>	56	0	0	56	0	0	56
Private Sector Leasing and Homelessness Initiatives <i>(Supports repairs to properties prior to return at the end of the lease period and homelessness initiatives throughout Lewes district)</i>	8	(40)	46	14	(25)	34	23
Recycling <i>(Supports the expansion of the recycling service and to smooth out any fluctuations in recycling income within the annual budget)</i>	319	(18)	126	427	(47)	0	380
Southover Grange Improvements <i>(Supports future improvement works)</i>	41	0	0	41	0	0	41
Vehicle Replacement <i>(Supports the vehicle replacement programme)</i>	1,324	(66)	311	1,569	(100)	311	1,780

Notes to the Financial Statements

Transfers to/from earmarked reserves (continued)	Balance at 1 April 2010 £000	Transfers Out 2010/11 £000	Transfers In 2010/11 £000	Balance at 31 March 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Balance at 31 March 2012 £000
Revenue Equalisation and Asset Maintenance <i>(Supports the backlog asset maintenance needs of the Council's non-housing property as well as items of regular but not annual expenditure e.g. 4 yearly District elections)</i>	2,396	(787)	490	2,099	(651)	990	2,438
Denton Island Reclamation <i>(Supports the regeneration project)</i>	74	0	0	74	0	1	75
Newhaven Fort Refurbishment <i>(Supports the refurbishment programme)</i>	15	0	0	15	0	0	15
West Quay Development <i>(Supports the regeneration programme)</i>	48	0	0	48	0	0	48
Specific Maintenance Funds <i>(Comprises amounts paid to the Council by third parties for specific maintenance purposes e.g. parks and open spaces)</i>	286	(44)	27	269	(15)	20	274
Revenue Grants and Contributions Unapplied <i>(Comprises amounts paid to the Council by Government departments and by third parties for specific service initiatives e.g. preventing repossessions)</i>	0	0	0	0	0	108	108
Total Earmarked Reserves	8,800	(2,429)	2,255	8,626	(1,929)	2,584	9,281

Notes to the Financial Statements

	Gross Expenditure £000	Gross Income £000	2010/11 Net Expenditure £000	Gross Expenditure £000	Gross Income £000	2011/12 Net Expenditure £000
Note 10. OTHER OPERATING EXPENDITURE						
Town and Parish Council Precepts	2,741	0	2,741	2,765	0	2,765
Payments to the Government Housing Capital Receipts Pool	558	0	558	478	0	478
(Gains)/losses on the disposal of non-current assets	0	461	(461)	0	310	(310)
(Surplus)/deficit from Trading Operations	383	966	(583)	280	987	(707)
Total Other Operating Expenditure	3,682	1,427	2,255	3,523	1,297	2,226
Note 11. FINANCING AND INVESTMENT INCOME AND EXPENDITURE						
Interest payable and similar charges	263	0	263	282	0	282
Impairment of deposit	9	0	9	(78)	0	(78)
Pensions interest cost and expected return on pensions assets	558	0	558	(355)	0	(355)
Interest receivable and similar income	0	233	(233)	0	155	(155)
Income and expenditure in relation to investment properties and changes in fair value	35	122	(87)	279	127	152
Total Financing and Investment Income and Expenditure	865	355	510	128	282	(154)
Note 12. TAXATION AND NON SPECIFIC GRANT INCOME						
Council Tax Income	0	10,189	(10,189)	0	10,234	(10,234)
Non Domestic Rates	0	5,628	(5,628)	0	3,250	(3,250)
Non-ringfenced Government Grants	0	874	(874)	0	1,443	(1,443)
Capital Grants and Contributions	0	601	(601)	0	949	(949)
Total Taxation and Non Specific Grant Income	0	17,292	(17,292)	0	15,876	(15,876)

Notes to the Financial Statements

Note 13. PROPERTY, PLANT AND EQUIPMENT

Movement on Balances

Movements in 2011/12

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Total Property, Plant and Equipment
Cost or Valuation:	£000	£000	£000	£000	£000	£000
At 1 April 2011	206,535	46,510	6,913	10,250	1,462	271,670
Additions	2,040	1,099	732	574	76	4,521
Revaluation increases recognised in Revaluation Reserve	905	2,266	0	0	0	3,171
Revaluation increases recognised in Surplus/Deficit on Provision of Services	4,455	649	0	0	0	5,104
Revaluation decreases recognised in Surplus/Deficit on Provision of Services	(119)	0	0	0	0	(119)
Reclassifications within Property, Plant and Equipment	(102)	102	0	0	0	0
Reclassification to Intangible Assets	0	0	(33)	0	0	(33)
Derecognition - disposals	(314)	(65)	(121)	0	0	(500)
At 31 March 2012	213,400	50,561	7,491	10,824	1,538	283,814
Accumulated Depreciation and Impairment:						
At 1 April 2011	52,626	7,831	4,254	8,623	3	73,337
Depreciation charge	3,259	1,024	564	216	0	5,063
Impairment losses recognised in Revaluation Reserve	(4)	108	(2)	0	0	102
Impairment losses (reversals) recognised in Surplus/Deficit on Provision of Services	2,044	336	2	0	0	2,382
Reclassifications within Property, Plant and Equipment	(14)	14	0	0	0	0
Reclassification to Intangible Assets	0	0	(11)	0	0	(11)
Derecognition - disposals	(29)	(7)	(110)	0	0	(146)
At 31 March 2012	57,882	9,306	4,697	8,839	3	80,727
Net book value at 31 March 2012	155,518	41,255	2,794	1,985	1,535	203,087

Notes to the Financial Statements

Property, Plant and Equipment

Movement on Balances, continued

Comparative movements in 2010/11

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Total Property, Plant and Equipment
	restated £000	restated £000	£000	£000	restated £000	restated £000
Cost or Valuation:						
At 1 April 2010	203,553	44,164	6,689	10,250	1,497	266,153
Additions	2,715	1,091	369	0	(35)	4,140
Revaluation increases recognised in Revaluation Reserve	571	3,180	0	0	0	3,751
Revaluation (decreases) recognised in Revaluation Reserve	0	(1,647)	0	0	0	(1,647)
Revaluation (decreases) recognised in Surplus/Deficit on Provision of Services	0	(278)	0	0	0	(278)
Derecognition - disposals	(304)	0	(113)	0	0	(417)
Derecognition - other	0	0	(32)	0	0	(32)
At 31 March 2011	206,535	46,510	6,913	10,250	1,462	271,670
Accumulated Depreciation and Impairment:						
At 1 April 2010	2,896	5,255	3,825	8,367	0	20,343
Depreciation charge	3,266	975	570	256	0	5,067
Impairment losses recognised in Revaluation Reserve	54	1,104	0	0	0	1,158
Impairment losses (reversals) recognised in Surplus/Deficit on Provision of Services	46,435	497	2	0	3	46,937
Derecognition - disposals	(25)	0	(111)	0	0	(136)
Derecognition - other	0	0	(32)	0	0	(32)
At 31 March 2011	52,626	7,831	4,254	8,623	3	73,337
Net book value at 31 March 2011	153,909	38,679	2,659	1,627	1,459	198,333

Notes to the Financial Statements

Net book value of Property, Plant and Equipment analysed between the Housing Revenue Account (HRA) and the General Fund	Council Dwellings £000	Other Land and Buildings £000	Vehicles, Plant, Furniture, Equipment £000	Infrastructure Assets £000	Community Assets £000	Total Property, Plant and Equipment £000
Net book value at 31 March 2012						
- property, plant and equipment held by the HRA	154,846	8,921	514	974	34	165,289
- property, plant and equipment held by the General Fund	672	32,334	2,280	1,011	1,501	37,798
	155,518	41,255	2,794	1,985	1,535	203,087
Net book value at 31 March 2011						
- property, plant and equipment held by the HRA	153,230	8,881	314	1,076	34	163,535
- property, plant and equipment held by the General Fund	679	29,798	2,345	551	1,425	34,798
	153,909	38,679	2,659	1,627	1,459	198,333

Depreciation - the following useful lives have been used in the calculation of depreciation

- Council Dwellings:
 - Land - not depreciated
 - Building main structure - 100 years
 - Building components (e.g. kitchen, bathroom, windows, roof) - 15-60 years
- Vehicles, Plant, Furniture & Equipment:
 - Small and medium vehicles - 5-7 years
 - Large and heavy vehicles - 10 years
 - General equipment - 5-15 years
 - Computer equipment - 5 years
- Other Land and Buildings:
 - Land - not depreciated
 - Buildings - individual asset lives determined as part of an independent valuation exercise
 - Fixtures and fittings - 10 years
- Infrastructure:
 - Coast defences - 20 years
 - Car parks - 20 years

Capital Commitments - at 31 March 2012, the Council has entered into two contracts for the construction or enhancement of Property, Plant and Equipment in future years budgeted to cost £70,000 (commitments at 31 March 2011 were £800,000).

Notes to the Financial Statements

Effects of Changes in Estimates – at 31 March 2012 the Council changed its accounting estimates for the Lewes and Meridian Leisure Centres from historic cost to fair value based on depreciated replacement cost. These two Leisure Centres are dual use facilities shared with East Sussex County Council (ESCC) and the basis of the new valuation is consistent with that employed by ESCC. The net book values held at 31 March 2012 reflect the appropriate share of each facility used by the Council.

Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. Valuations of land and buildings were carried out by an independent valuer (DVS - the commercial arm of the Government's Valuation Office Agency) in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Council dwellings were revalued by DVS on 1 April 2010 and are subject to annual desktop revaluation reviews as at 31 March each year until the next full valuation review due by 1 April 2015. Other Land and Buildings and Investment Properties were revalued by DVS on 1 April 2009 and fall due again by 1 April 2014. Valuations of vehicles, plant, furniture and equipment are based on using depreciated replacement cost (DRC) as an estimate of fair value.

The significant assumptions applied in estimating the fair values are:

- that the properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoings and that good titles can be shown
- that the 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 the land and properties are not contaminated nor adversely affected by radon
- that inspection of those parts which have not been inspected would not cause the valuer to alter his opinion

	Council Dwellings £000	Other Land and Buildings £000	Total £000
Carried at historical cost	-	1,239	1,239
Valued at fair value as at:			
- 31 March 2012	154,846	18,403	173,249
- 31 March 2011	-	1,379	1,379
- 31 March 2010	672	20,234	20,906
Total Cost or Valuation	155,518	41,255	196,773

Notes to the Financial Statements

Note 14. HERITAGE ASSETS

Reconciliation of carrying value of heritage assets held by the Council	Land and Buildings £000	Civic Regalia £000	Works of Art and Museum Exhibits £000	Total Assets £000
Cost or Valuation:				
At 1 April 2011	2,593	6	776	3,375
Additions	33	0	0	33
Revaluations recognised in Revaluation Reserve	7	13	0	20
Revaluation increases recognised in Surplus/Deficit on Provision of Services	225	0	0	225
At 31 March 2012	2,858	19	776	3,653
Depreciation and Impairment:				
At 1 April 2011	379	0	0	379
Depreciation charge	54	0	0	54
Impairment losses recognised in Surplus/Deficit on Provision of Services	33	0	0	33
At 31 March 2012	466	0	0	466
Net Book Value at 31 March 2012	2,392	19	776	3,187
Cost or Valuation:				
At 1 April 2010	2,593	6	776	3,375
Additions	0	0	0	0
Revaluations recognised in Revaluation Reserve	0	0	0	0
At 31 March 2011	2,593	6	776	3,375
Depreciation and Impairment:				
At 1 April 2010	326	0	0	326
Depreciation charge	53	0	0	53
Impairment losses recognised in Revaluation Reserve	0	0	0	0
	379	0	0	379
Net Book Value at 31 March 2011	2,214	6	776	2,996

Notes to the Financial Statements

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

Civic regalia are carried in 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 are carried in 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 has no intangible heritage assets.

Five-year summary of transactions

During the five year period from 1 April 2007 to 31 March 2012 there were no material additions to the Council's stock of heritage assets, either through acquisition or donation, nor were there any disposals. In addition, no heritage assets were impaired during this period.

Further information on Works of Art and Museum Exhibits

The bulk of the Council's collection of works of art and museum exhibits are housed at Newhaven Fort. At any time, given the volume of exhibits, only 10 per cent of the collection is on display to the public but each season the display is refreshed so that each exhibit is shown at least once every ten years. The remaining pieces of the collection are held in storage but access is permitted to scholars and others for research purposes on request. An admission charge to Newhaven Fort is payable in order to view the collection.

Notes to the Financial Statements

Note 15. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (Note 11 p57):

	2010/11	2011/12
	£000	£000
Rental income from investment property	(122)	(127)
Direct operating expenses arising from investment property	0	37
Net gains or (losses) from fair value changes	35	242
Net (gain)/loss	(87)	152

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:

	2010/11	2011/12
	£000	£000
Balance at 1 April	3,252	3,252
Additions - capitalised refurbishment expenditure	35	3
Disposals	0	0
Net gains or (losses) from fair value changes	(35)	(242)
Balance at 31 March	3,252	3,013

The fair value of investment properties held at 31 March comprises:

	2010/11	2011/12
	£000	£000
18 sites of land and buildings held to earn rental income	1,452	1,513
Land at rear of Lewes House held for capital appreciation	1,800	1,500
	3,252	3,013

The Council has reached an agreement with a developer for the sale of the land at the rear of Lewes House, dependent upon the market value of the land reaching a certain level.

Notes to the Financial Statements

Note 16. INTANGIBLE ASSETS

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

Amortisation of £195,000 was charged to revenue in 2011/12. £26,000 was charged direct to service lines within Cost of Services in the Comprehensive Income and Expenditure Statement as set out in the table below, whereas £169,000 was charged to the Information Technology section and then absorbed as an overhead across all the service headings within Cost of Services in the Comprehensive Income and Expenditure Statement.

	£000
Central services to the public	2
Cultural and related services	2
Environmental and regulatory services	8
Planning services	2
Local authority housing	1
Other housing services	5
Corporate and democratic core	6
Charged direct to services	<u>26</u>
Charged indirectly to services as an Information technology overhead	<u>169</u>
	<u>195</u>

The Council previously accounted for the treatment of contaminated land, the marketing of the Lewes House site and certain other costs as intangible assets, but because no useful lives were assigned the costs were amortised in full to revenue in the year that the expenditure was incurred. In effect, this expenditure was treated as revenue expenditure financed from capital under statute (REFCUS) and no value was held on the Balance Sheet. In 2011/12 the gross carrying amounts and amortisation balances for this expenditure shown within 'Other Assets' in the table below has been derecognised as it has been fully consumed. Since no values were held as net carrying amounts at any time previously there has been, and is, no effect on the Council's Balance Sheet and no restatements are required.

Notes to the Financial Statements

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

	Software Licences £000	Wave Leisure £000	Sea Defences £000	Other Assets £000	Total 2011/12 £000
Gross carrying amounts at 1 April 2011	1,412	55	110	943	2,520
Additions	75	0	0	0	75
Reclassification from Property, Plant and Equipment	33	0	0	0	33
Derecognition - assets fully consumed	0	0	0	(943)	(943)
Gross carrying amounts at 31 March 2012	1,520	55	110	0	1,685
Amortisation balance at 1 April 2011	971	52	54	943	2,020
Charge for year	185	2	8	0	195
Reclassification from Property, Plant and Equipment	11	0	0	0	11
Derecognition - assets fully consumed	0	0	0	(943)	(943)
Amortisation balance at 31 March 2012	1,167	54	62	0	1,283
Net carrying amount at 31 March 2012	353	1	48	0	402

There are no items of capitalised software that are individually material to the Financial Statements.

Comparative figures for 2010/11 are as follows:

	Software Licences £000	Wave Leisure £000	Sea Defences £000	Other Assets £000	Total 2010/11 £000
Gross carrying amounts at 1 April 2010	1,487	55	110	817	2,469
Additions	76	0	0	126	202
Derecognition - assets fully consumed	(151)	0	0	0	(151)
Gross carrying amounts at 31 March 2011	1,412	55	110	943	2,520
Amortisation balance at 1 April 2010	924	50	47	817	1,838
Charge for year	198	2	7	126	333
Derecognition - assets fully consumed	(151)	0	0	0	(151)
Amortisation balance at 31 March 2011	971	52	54	943	2,020
Net carrying amount at 31 March 2011	441	3	56	0	500

Notes to the Financial Statements

Note 17. FINANCIAL INSTRUMENTS

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

	Long-term		Current	
	31 March 2011 £000	31 March 2012 £000	31 March 2011 £000	31 March 2012 £000
Investments:				
- loans and receivables	775	464	7,123	4,334
Total Investments	775	464	7,123	4,334
Debtors				
- loans and receivables	121	91	3,906	6,686
Total Debtors	121	91	3,906	6,686
Cash and cash equivalents	0	0	2,872	0
Total Financial Assets	896	555	13,901	11,020
Borrowing				
- financial liabilities at amortised cost	5,000	56,673	109	126
Total Borrowing	5,000	56,673	109	126
Other Long Term Liabilities				
- finance lease liabilities at amortised cost	286	112	0	0
Total Other Long Term Liabilities	286	112	0	0
Creditors				
- financial liabilities at amortised cost	0	0	3,350	2,729
Total Creditors	0	0	3,350	2,729
Cash and cash equivalents	0	0	0	1,262
Total Financial Liabilities	5,286	56,785	3,459	4,117

Notes to the Financial Statements

Items of expense, income, gains or losses	Financial liabilities measured at amortised cost	Financial assets: loans and receivables	Total 2010/11	Financial liabilities measured at amortised cost	Financial assets: loans and receivables	Total 2011/12
	£000	£000	£000	£000	£000	£000
Interest expense	263	0	263	282	0	282
Impairment losses	0	9	9	0	(78)	(78)
Total expense in Surplus or Deficit on the Provision of Services	263	9	272	282	(78)	204
Interest income	0	(186)	(186)	0	(155)	(155)
Interest income accrued on impaired financial assets	0	(47)	(47)	0	0	0
Total income in Surplus or Deficit on the Provision of Services	0	(233)	(233)	0	(155)	(155)

Fair Values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors, and long-term creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- estimated fair values have been calculated using the equivalent market interest rates at 31 March 2012
- no early repayment or impairment is recognised
- fair values are based on the comparable new borrowing/deposit rate for the same financial instrument from a comparable lender. A consistent approach has been applied to assets and liabilities.
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

Notes to the Financial Statements

The fair values calculated are as follows:

	31 March 2011		31 March 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Investments	7,898	7,898	4,798	4,799
Long-term Debtors	121	121	91	91
Cash and Cash Equivalents	2,872	2,872	0	0
Total Financial Assets	10,891	10,891	4,889	4,890
Borrowings – market loan	5,109	5,564	5,109	6,522
Borrowings – Public Works Loan Board (PWLB)	0	0	51,690	53,524
Other Long-term Liabilities – finance leases	286	286	112	112
Total Financial Liabilities	5,395	5,850	56,911	60,158

The fair value of the Council's long-term 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 2012) from a commitment to pay interest to the lender above current market rates. The fair value on the market loan has been calculated with reference to the nearest equivalent SWAP rate (source Bloomberg) based on the mid rate for 31 March - the lender was unable to provide a fair value directly. The fair value on the PWLB loans has been provided directly by the PWLB and is based on the equivalent interest rates in place on 30 March 2012.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value and they are therefore excluded from the tables above.

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.

Notes to the Financial Statements

The Council's annual Treasury Management Strategy (last updated in February 2012) focuses on these risks and seeks to minimise potential adverse effects on the resources available to fund services. The Council provides written principles for overall risk management as well as written statements within its treasury management strategy covering interest rate risk, security of capital, and liquidity of investments.

Credit Risk

Credit Risk arises from deposits with banks and other financial institutions, as well as credit exposure to the Council's customers.

Investments are not placed with credit rated banks and other financial institutions unless certain criteria are met at the time that the deposit is made. During 2011/12 deposits in banks and building societies were limited to UK banks and building societies that had minimum Fitch (or equivalent) credit ratings of 'A+' long term and 'F1' short term. Deposits are allowed for periods up to 3 years' duration with a £3m exposure limit per institutional group.

The following table lists outstanding fixed term deposits and investments at 31 March 2012. The table excludes the Council's deposit with Landsbanki Islands hf, an Icelandic bank which entered administration in October 2008. For an explanation of this deposit see Note 38 p99.

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

	Hinkley & Bosworth Borough Council	West Yorkshire Fire & Rescue Authority	UK Government Debt Management Office	Total
Credit rating:				
- Country	UK	UK	UK	
- Long-term rating	*	*	*	
- Short-term rating	*	*	*	
Maturity period:	£000	£000	£000	£000
- 0 to 3 months	2,600	1,000	600	4,200
- 3 to 6 months				0
- 6 to 12 months				0
- over 12 months				0
Total invested	2,600	1,000	600	4,200

Notes to the Financial Statements

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 (98.4% for council tax collection, for example). Each year an assessment is made of the potential maximum level of default against the amount owed for each class of debt (council tax, business rates, rents, sundry debtors). This assessment takes into account both age and value of individual debts. Note 19 p73 shows the total value of customer debt at the year end, along with the allowance for non-collection. The aggregate of investments, mortgages, debtors and cash shown above represents the Council's maximum exposure to default.

Liquidity Risk

As the Council has ready access to borrowings from the Public Works Loans Board (PWLB), there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council may be required to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The maturity analysis of financial liabilities at 31 March is as follows:

	2011 £000	2012 £000	Interest rate range
Less than one year	0	0	-
Between one and two years	0	0	-
Between two and five years	0	0	-
Between five and ten years	0	5,000	variable rate loan
Between ten and fifteen years	0	18,000	2.63% - 3.01%
Between fifteen and twenty years	0	12,000	3.05% - 3.30%
Between twenty and twenty five years	0	10,000	3.43% - 3.44%
Between twenty five and thirty years	0	6,673	3.5%
More than thirty years	5,000	5,000	4.5%
	<u>5,000</u>	<u>56,673</u>	

The liabilities shown as maturing between 5 and 30 years consist of 12 separate loans totalling £51.673m taken from the PWLB on 28 March 2012, each of which has a different maturity date and carries a different interest rate. These loans were used towards financing the payment of £56.673m to the Secretary of State on the same date in order to exit the HRA subsidy system (see Note 6 to the HRA on p115).

Notes to the Financial Statements

The liability which is shown as maturing after 30 years is a single loan. This is a Lenders Option Borrowers Option loan, which has a final maturity date in April 2054. The rate of this loan is currently 4.5% and the lender has the option to review and increase the loan rate every four years from 2012. If, at a review date, the lender proposes to increase the rate, then the Council can exercise its option to repay the loan. The Council would either take a replacement loan from the PWLB or bank or reduce the money available for investment at that time. (After the end of 2011/12 at the review date of 5 April 2012 the Lender did not exercise the option to vary the interest rate and the loan will continue at 4.5% until the next review date in 2016).

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

Market Risk

Interest rate risk

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

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

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

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

The Council carries out its borrowing and investment activity within parameters set out in its Treasury and Investment Strategies, which assess interest rate exposure to feed into the annual budget process. The Council assumed an interest rate of 0.5% for new deposits within its base budget and holds an Interest Equalisation Reserve to smooth out fluctuations in the rate achieved. 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. Some new long-term borrowing may take place in 2012/13 to finance capital projects, although the total will be small compared with the value of loans outstanding at 31 March 2012.

Price and foreign exchange risk

The Council does not invest in equities and is not, therefore, exposed to losses arising from movements in share prices. Other than the outstanding investment in Landsbanki (Note 38 p99) where a sum of £8,000 is held in Icelandic krona, the Council has no financial assets or liabilities denominated in foreign currencies, and therefore has little exposure to loss arising from movements in exchange rates.

Notes to the Financial Statements

Note 18. INVENTORIES

	Consumables		Resale		Total	
	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000	2010/11 £000	2011/12 £000
Balance at 1 April	50	74	35	47	85	121
Purchases	434	427	175	186	609	613
Recognised as an expense in year	(410)	(412)	(163)	(192)	(573)	(604)
Balance at 31 March	74	89	47	41	121	130

Note 19. DEBTORS

	31 March 2011		31 March 2012	
	£000	£000	£000	£000
Operational Debtors:				
Central Government Bodies		560		1,545
Other Local Authorities		488		533
Other Entities and Individuals:				
Sundry Debtors	2,547		4,285	
less allowance for non-collection	(448)		(459)	
Sundry Debtors net of impairment		2,099		3,826
Housing Rents	311		323	
less allowance for non-collection	(229)		(234)	
Housing Rents net of impairment		82		89
Operational Debtors net of impairment		3,229		5,993
Non-Operational Debtors				
Central Government Bodies - HM Revenue and Customs		370		380
Other Entities and Individuals:				
Council Taxpayers	276		295	
less allowance for non-collection	(80)		(88)	
Council Taxpayers net of impairment		196		207
Payments in Advance to Town and Parish Councils		0		1,428
Non-Operational Debtors net of impairment		566		2,015
Total Debtors net of impairment		3,795		8,008

Notes to the Financial Statements

Note 20. CASH AND CASH EQUIVALENTS

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

	31 March 2011	31 March 2012
	£000	£000
Cash held by the Council	7	7
Bank current accounts	214	(1,334)
Short-term deposits	2,651	65
Total Cash and Cash Equivalents	2,872	(1,262)

Note 21. CREDITORS

	31 March 2011	31 March 2012
	£000	£000
Operational Creditors:		
Other Local Authorities	1,010	466
Other Entities and Individuals	2,228	2,146
Short-term Employee Benefits (value of untaken leave)	112	117
Operational Creditors	3,350	2,729
Receipts in Advance and Non-Operational Creditors:		
Central Government Bodies	1,079	342
Other Local Authorities	0	51
Council Taxpayers	144	137
Housing Rents	131	134
Receipts in Advance and Non-Operational Creditors	1,354	664
Total Creditors	4,704	3,393

Notes to the Financial Statements

Note 22. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement (page 13).

Note 23. UNUSABLE RESERVES

The Council's unusable reserves consist of:

	31 March 2011	31 March 2012
	£000	£000
Revaluation Reserve	8,411	11,172
Capital Adjustment Account	183,041	128,367
Financial Instruments Adjustment Account	(256)	(43)
Pension Reserve	(9,601)	(13,929)
Deferred Capital Receipts	1	0
Collection Fund Adjustment Account	160	81
Accumulated Absences Account	(112)	(117)
Total Unusable Reserves	181,644	125,531

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

Revaluation Reserve

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

The balance is reduced when assets with accumulated gains are:

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

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

Notes to the Financial Statements

Revaluation Reserve

	2010/11	2011/12	
	£000	£000	£000
Balance at 1 April	7,669		8,411
Upward revaluation of assets	3,751	3,191	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(2,805)	(102)	
Surplus on the revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	946		3,089
Difference between fair value depreciation and historical cost depreciation	(204)	(200)	
Accumulated gains on assets sold or scrapped	0	(14)	
Accumulated gains on Investment Properties	0	(114)	
Amount written off to the Capital Adjustment Account	(204)		(328)
Balance at 31 March	8,411	11,172	

Capital Adjustment Account

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

Notes to the Financial Statements

Capital Adjustment Account

	2010/11	2011/12
	£000	£000
Balance at 1 April	231,617	183,041
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
• Charges for depreciation and impairment/(reversals) of non-current assets	(52,337)	(2,324)
• Amortisation of Intangible Assets	(333)	(195)
• Revenue expenditure funded from capital under statute (REFCUS)	(1,012)	(57,266)
• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(281)	(354)
	<u>(53,963)</u>	<u>(60,139)</u>
Adjusting amounts written out of the Revaluation Reserve	204	328
Net written out amount of the cost of non-current assets consumed in the year	<u>(53,759)</u>	<u>(59,811)</u>
Capital financing applied in the year:		
• Use of the Capital Receipts Reserve to finance new capital expenditure	495	641
• Use of the Major Repairs Reserve to finance new capital expenditure	2,233	2,167
• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,302	1,171
• Application of grants to capital financing from the Capital Grants Unapplied Account	207	153
• Statutory provision for the financing of capital investment charged against the General Fund and Housing Revenue Account balances	166	154
• Capital expenditure charged against the General Fund and Housing Revenue Account balances	815	1,093
	<u>5,218</u>	<u>5,379</u>
Movements in the market value of Investment Properties (debited) or credited to the Comprehensive Income and Expenditure Statement	(35)	(242)
Balance at 31 March	<u><u>183,041</u></u>	<u><u>128,367</u></u>

Notes to the Financial Statements

Financial Instruments Adjustment Account

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

The Council uses the Account to manage premiums paid and discounts received on the early redemption of loans, and, in 2010/11, to manage its investment with Landsbanki Islands hf.

Premiums and discounts are taken to the Comprehensive Income and Expenditure Statement when they are incurred, but are reversed out of the General Fund Balance to this Account in the Movement in Reserves Statement. Over time, the income and/or expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden over more than one financial year. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

The impairment of the Council's investment with Landsbanki Islands hf was charged to the FIAA in accordance with regulations until 31 March 2011, at which date the balance was transferred to the General Fund.

Financial Instruments Adjustment Account	2010/11	2011/12	
	£000	£000	£000
Balance at 1 April	(732)		(256)
Proportion of premiums and discounts incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements	211	213	
Impaired investment with Landsbanki Islands hf charged against the General Fund Balance in accordance with statutory requirements	265	0	
	476		213
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	0		
Balance at 31 March	<u>(256)</u>		<u>(43)</u>

Notes to the Financial Statements

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to the pension fund or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

More detailed pension information is included within Note 39, Post Employment Benefits.

	2010/11 £000	2011/12 £000
Balance at 1 April	(33,615)	(9,601)
Actuarial gains or (losses) on pensions assets and liabilities	16,667	(4,722)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	5,395	(1,561)
Employer's pension contributions payable in the year	1,952	1,955
Balance at 31 March	(9,601)	(13,929)

Deferred Capital Receipts Reserve

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

	2010/11 £000	2011/12 £000
Balance at 1 April	4	1
Transfer to Capital Receipts Reserve upon receipt of cash	(3)	(1)
Balance at 31 March	1	0

Notes to the Financial Statements

Collection Fund Adjustment Account

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

	2010/11 £000	2011/12 £000
Balance at 1 April	147	160
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	13	(79)
Balance at 31 March	<u>160</u>	<u>81</u>

Accumulated Absences Account

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

	2010/11 £000	2011/12 £000	£000
Balance at 1 April	(123)	112	(112)
Settlement or cancellation of accrual made at the end of the preceding financial year	123	112	
Amounts accrued at the end of the current financial year	<u>(112)</u>	<u>(117)</u>	
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in accordance with statutory requirements	11		(5)
Balance at 31 March	<u>(112)</u>	<u>(117)</u>	

Notes to the Financial Statements

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

	2010/11 restated £000	2011/12 £000
Depreciation	5,120	5,088
Impairment and (reversal) of impairment and valuation movements	47,215	(2,723)
Amortisation	333	195
Increase/(decrease) in impairment for bad debts	34	24
Increase/(decrease) in Creditors	(200)	(316)
(Increase)/decrease in Debtors	2,046	(4,183)
(Increase)/Decrease in Inventories	(36)	(9)
Movement in pension liability	(7,256)	(301)
Carrying amount of non-current assets sold or derecognised	281	354
Other non-cash items	205	447
Adjustments for non-cash movements	47,742	(1,424)

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

	2010/11 restated £000	2011/12 £000
Proceeds from sales of property, plant & equipment, investment property and intangible assets	(742)	(658)
Capital grants	(1,362)	(1,388)
Reduction of outstanding liabilities relating to finance leases	95	85
Other items for which the cash effects are investing or financing cash flows	217	212
Adjustments for items that are investing and financing activities	(1,792)	(1,749)

Notes to the Financial Statements

Note 26. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2010/11	2011/12
	£000	£000
Purchase of property, plant and equipment, investment property and intangible assets	(4,452)	(4,327)
Purchase of short-term and long-term investments	(123,625)	(157,400)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	759	658
Proceeds from short-term and long-term investments	121,525	160,605
Other receipts from investing activities	1,234	1,637
Net cash out flows from investing activities	(4,559)	1,173

Note 27. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2010/11	2011/12
	£000	£000
Other receipts from financing activities – increase/(decrease) in preceptors' share of council tax cash collected net of precepts and surpluses paid	(128)	136
Cash payments for the reduction of the outstanding liabilities relating to finance leases	(95)	(85)
Other payments for financing activities - increase in cash paid into the NNDR pool net of cash collected from non-domestic ratepayers	(435)	(176)
Cash receipts of short and long-term borrowing	0	51,673
Net cash out flows from financing activities	(658)	51,548

Notes to the Financial Statements

Note 28. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the CIPFA *Service Reporting Code of Practice*.

However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across portfolios. These reports are prepared on a different basis from the accounting policies used in the Financial Statements.

In particular:

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

The income and expenditure of the Council's six General Fund portfolios and the separate Housing Revenue Account portfolio recorded in the budget reports presented to the Council's Cabinet during 2011/12 is analysed below. The allocation of services by portfolio differs from those reported in 2010/11 because of new reporting arrangements introduced by the new Council elected in May 2011.

Portfolio Income and Expenditure for 2011/12	Finance and Resources £000	Health and Environment £000	Housing £000	Leader of the Council £000	Planning £000	Waste and Recycling £000	Housing Revenue Account £000	Total 2011/12 £000
Fees, charges and other service income	(1,229)	(1,104)	(466)	(2,649)	(1,253)	(2,125)	(14,390)	(23,216)
Government grants	(41,179)	(30)	(114)	(28)	0	0	0	(41,351)
Total Income	(42,408)	(1,134)	(580)	(2,677)	(1,253)	(2,125)	(14,390)	(64,567)
Employee expenses	1,394	1,577	617	911	1,373	2,609	1,433	9,914
Other service expenses	41,236	2,109	707	2,772	289	1,428	9,393	57,934
Support service recharges	1,932	535	265	468	478	126	921	4,725
Total Expenditure	44,562	4,221	1,589	4,151	2,140	4,163	11,747	72,573
Net Expenditure	2,154	3,087	1,009	1,474	887	2,038	(2,643)	8,006

Notes to the Financial Statements

Portfolio Income and Expenditure for 2010/11	Business, Employment & Tourism £000	Community £000	Environment £000	Housing £000	Leader of the Council £000	Planning £000	Housing Revenue Account £000	Total 2010/11 £000
Fees, charges and other service income	(2,591)	(841)	(2,722)	(1,484)	(1,539)	(782)	(13,824)	(23,783)
Government grants	0	0	(158)	(30,990)	(8,608)	0	0	(39,756)
Total Income	(2,591)	(841)	(2,880)	(32,474)	(10,147)	(782)	(13,824)	(63,539)
Employee expenses	627	788	3,738	618	336	1,389	1,571	9,067
Other service expenses	1,434	3,091	2,547	32,047	10,505	338	8,588	58,550
Support service recharges	245	229	491	1,152	2,774	456	858	6,205
Total Expenditure	2,306	4,108	6,776	33,817	13,615	2,183	11,017	73,822
Net Expenditure	(285)	3,267	3,896	1,343	3,468	1,401	(2,807)	10,283

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

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

	2010/11 £000	2011/12 £000
Net expenditure in the Portfolio analysis	10,283	8,006
Net expenditure of services not included in the Analysis	121	(341)
Amounts in the Comprehensive Income and Expenditure Statement not reported to Cabinet in the Analysis	45,575	59,713
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(239)	0
Cost of Services in Comprehensive Income and Expenditure Statement	55,740	67,378

Notes to the Financial Statements

Reconciliation to Subjective Analysis

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

2011/12	Portfolio Analysis	Services & Support Services not in Analysis	Amounts not reported to Cabinet for decision making	Amounts not included in I&E	Cost of Services	Corporate Amounts	Total 2011/12
	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other income	(23,216)	987	0	1,210	(21,019)	(987)	(22,006)
Interest and investment income	0	0	0	0	0	(282)	(282)
Income from Council Tax	0	0	0	0	0	(10,234)	(10,234)
Government grants and contributions	(41,351)	0	(439)	0	(41,790)	(5,642)	(47,432)
Gain or Loss on Disposal of Property, Plant and Equipment	0	0	0	0	0	(310)	(310)
Total Income	(64,567)	987	(439)	1,210	(62,809)	(17,455)	(80,264)
Employee expenses	9,914	59	0	0	9,973	(355)	9,618
Other service expenses	57,934	(1,387)	(72)	(1,210)	55,265	390	55,655
Support Service recharges	4,725	0	0	0	4,725	0	4,725
Depreciation, amortisation and impairment	0	0	3,551	0	3,551	91	3,642
Interest payments	0	0	0	0	0	282	282
Precepts and Levies	0	0	0	0	0	2,765	2,765
Housing finance reform payment	0	0	56,673	0	56,673	0	56,673
Payments to Housing Capital Receipts Pool	0	0	0	0	0	478	478
Total Expenditure	72,573	(1,328)	60,152	(1,210)	130,187	3,651	133,838
(Surplus) or deficit on the provision of services	8,006	(341)	59,713	0	67,378	(13,804)	53,574

Notes to the Financial Statements

2010/11 comparative figures	Portfolio Analysis	Services & Support Services not in Analysis	Amounts not reported to Cabinet for decision making	Amounts not included in I&E	Cost of Services	Corporate Amounts	Total 2010/11
	£000	£000	£000	£000	£000	£000	£000
Fees, charges and other income	(23,783)	0	(4,613)	0	(28,396)	(966)	(29,362)
Interest and investment income	0	0	0	0	0	(355)	(355)
Income from Council Tax	0	0	0	0	0	(10,189)	(10,189)
Government grants and contributions	(39,756)	0	(761)	0	(40,517)	(7,103)	(47,620)
Gain on Disposal of Property, Plant and Equipment	0	0	0	0	0	(461)	(461)
Total Income	(63,539)	0	(5,374)	0	(68,913)	(19,074)	(87,987)
Employee expenses	9,067	0	82	(239)	8,910	558	9,468
Other service expenses	58,550	121	0	0	58,671	397	59,068
Support Service recharges	6,205	0	0	0	6,205	0	6,205
Depreciation, amortisation and impairment / (reversals)	0	0	50,867	0	50,867	30	50,897
Interest payments	0	0	0	0	0	263	263
Precepts and Levies	0	0	0	0	0	2,741	2,741
Payments to Housing Capital Receipts Pool	0	0	0	0	0	558	558
Total Expenditure	73,822	121	50,949	(239)	124,653	4,547	129,200
(Surplus) or deficit on the provision of services	10,283	121	45,575	(239)	55,740	(14,527)	41,213

Notes to the Financial Statements

Note 29. TRADING OPERATIONS

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

The financial performance of these two operations is as follows:

	2010/11			2011/12		
	Turnover £000	Expenditure £000	(Surplus)/Deficit £000	Turnover £000	Expenditure £000	(Surplus)/Deficit £000
Industrial Estates	639	96	(543)	639	94	(545)
Newhaven Business Centre	327	287	(40)	348	259	(89)
	966	383	(583)	987	353	(634)

Note 30. AGENCY SERVICES

The Council entered into an agency agreement under Section 101 of the Local Government Act 1972 on 1 April 2011 with the newly formed South Downs National Park (SDNP), to provide Development Management Services (i.e. the provision of planning services) for a period of 3 years. In 2011/12 costs of £517,000 were recharged to SDNP.

In addition to the agency agreement the Council and SDNP agreed to work in partnership on planning policy in order to complete the Local Development Framework (LDF) Core Strategy for Lewes District which includes areas for which the SDNP is now the planning authority. Under this separate partnership agency arrangement, costs of £83,000 were recharged to SDNP.

The Council has a contract with The Landscape Group to provide grounds maintenance services in parks, open spaces and recreation grounds throughout the District. Included within this contract are parks, open spaces and recreation grounds belonging to a number of town and parish councils where letting and managing individual small contracts directly would not be cost effective. The Council is therefore providing an agency service to the individual town and parish councils which are recharged for the costs relating to their particular shares of the overall contract. In 2011/12 costs of £281,000 were recharged (£261,000 in 2010/11).

In 2011/12 the Council spent £79,000 on facilitating the National Voting Referendum and £70,000 on Town and Parish Council elections, all of which was fully reimbursed.

In 2010/11 £143,000 was spent on Parliamentary, Town and Parish Council elections, all of which was fully reimbursed.

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

Notes to the Financial Statements

Note 31. MEMBERS' ALLOWANCES

The Council paid the following amounts to members of the Council (District Councillors) during the year, in line with the levels of allowances recommended by an Independent Remuneration Panel.

2010/11 Total Allowances £	Council Member	Basic Allowance £	Special Responsibility Allowance £	Travel and Subsistence Allowance £	2011/12 Total Allowances £
0	Sam Adeniji	2,695			2,695
3,472	Bob Allen	2,975	470		3,445
0	Graham Amy	2,695		50	2,745
0	Rob Blackman	2,695	1,683	151	4,529
2,975	Chris Bowers	2,975			2,975
3,087	Carla Butler	2,975			2,975
0	Julie Carr	2,695		32	2,727
8,494	Michael Chartier	2,975	519		3,494
2,975	Melanie Cutress	2,975			2,975
3,472	Sharon Davy	2,975	1,195		4,170
0	Amanda Dean	2,695	423		3,118
0	Donna Edmonds	2,695	1,729		4,424
3,472	Ian Eiloart	2,975	3,575		6,550
0	Paul Franklin	2,695	1,684		4,379
2,975	Paul Gander	2,975			2,975
8,991	Peter Gardiner	2,975	989		3,964
0	Stephen Gaunlett	2,695		336	3,031
3,116	David Gray	2,975			2,975
3,472	Barry Groves	2,975	47		3,022
0	Job Harris	2,695	423	375	3,493
7,273	Jacqueline Harrison-Hicks	2,975	978	319	4,272
2,975	Philip Howson	2,975	3,528	294	6,797
6,448	Tom Jones	2,975	5,438	770	9,183
4,266	Carolyn Lambert	2,975	153	136	3,264

Notes to the Financial Statements

2010/11 Total Allowances £	Council Member	Basic Allowance £	Special Responsibility Allowance £	Travel and Subsistence Allowance £	2011/12 Total Allowances £
8,494	James MacCleary	2,975	4,047		7,022
7,115	Rod Main	2,975	813		3,788
3,586	Ron Maskell	2,975	4,750	750	8,475
0	Elayne Merry	2,695		313	3,008
7,115	Tony Nicholson	2,975	11,221		14,196
2,975	Ruth O'Keeffe	2,975			2,975
0	Sarah Osborne	2,695	2,822	283	5,800
2,975	James Page	2,975	5,631		8,606
2,975	Robbie Robertson	2,975	1,683		4,658
6,286	Eileen Russell	2,975	1,193	587	4,755
2,975	Steve Saunders	2,975			2,975
6,477	Jim Sheppard	2,975	5,015	258	8,248
0	Andy Smith	2,695	4,703	886	8,284
0	John Stockdale	2,695			2,695
2,975	Cyril Sugarman	2,975			2,975
0	Benjamin Warren	2,695	423	180	3,298
3,087	Ian White	2,975			2,975
<u>Council Members retiring on 9 May 2011</u>					
2,975	Patricia Bennett	280			280
2,975	Chris Bishop	280			280
3,062	Susan Bratchie	280			280
8,587	Edward Collicot	280	519	60	859
2,975	Jim Daly	280			280
16,800	Ann De Vecchi	280	1,298	90	1,668
8,596	Jon Freeman	280	519		799
2,975	Lynda Hallett	280			280
4,010	Tom Hawthorne	280	97		377
2,975	Kevin Mayers	280			280

