

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

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

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

Eastbourne Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is available on the website (www.eastbourne.gov.uk)

This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The purpose of the governance framework

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

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

The governance framework has been in place at the Council for the year ended 31 March 2010 and up to the date of approval of the Annual Reports on financial Outturn and performance and Statement of Accounts.

The governance framework

Key elements of the systems and processes that comprise the authority's governance arrangements include arrangements for:

Key Elements	Owner	Confirmation that arrangements are in place	Comments
Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users	Heads of Service and Senior Heads of Service. (HOS)	Yes	Set out in the themed sections of the 2008-2011 Corporate Plan

14. Leases

Operating Leases

None of the leases held by the Council fall within the accounting definition of a finance lease, and they are therefore accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

15. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has there is a single rate of interest payable throughout the life of the loan, meaning that the effective rate of the interest is the same as the original repayable rate. The amount presented in the Balance Sheet is therefore the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account 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 Income and Expenditure Account 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 Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/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 Income and Expenditure Account 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 Statement of Movement on the General Fund Balance.

16. Financial Assets

All of the financial assets held by the Council come within the classification of "loans and receivables". These are assets that have fixed or determinable payments but are not quoted in an active market.

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

17. Stocks and Work in Progress

Stocks are included in the Balance Sheet at the lower of cost and net realisable value. Work in progress is subject to an interim valuation at the year-end and recorded in the Balance Sheet at cost plus any profit reasonably attributable to the works.

18. Interests in Companies and Other Entities

The Council has a material interest in one company, Eastbourne Homes Ltd, a wholly owned subsidiary of the Council, and is therefore required to prepare Group Accounts.

INCOME AND EXPENDITURE ACCOUNT FOR YEAR ENDED 31 MARCH 2010
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This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

2008/09		Gross	2009/10	Net
Net		£000	Income	£000
£000			£000	£000
Re-stated				
1,318	Central Services to the Public	11,611	(10,342)	1,269
6,595	Cultural & Related Services	15,718	(9,017)	6,701
5,813	Environmental Services	12,219	(5,900)	6,319
1,122	Planning and Development Services	5,895	(848)	5,047
2,281	Highways, Road and Transport Services	3,678	(1,549)	2,129
1,476	Housing Services	46,803	(45,772)	1,031
31,513	Council Housing	11,953	(15,652)	(3,699)
2,303	Corporate & Democratic Core	1,732	(14)	1,718
2,390	Non Distributed Costs	383	(1)	382
(1,559)	Exceptional item	-	-	-
53,252	Net Cost of Services	109,992	(89,095)	20,897
63	(Gains) / Losses on sale of fixed assets			592
240	Precepts/Levies of local precepting authorities			242
(260)	(Surplus) / deficit of trading operations			(306)
3,371	External Interest payable			3,503
313	Contribution of housing capital receipts to Government Pool			611
(2,786)	Interest and Investment Income			(335)
1,091	Pensions Interest Cost and Expected Return on Pension Assets			1,801
55,284	Net Operating Expenditure			27,005
(7,705)	Income from Council Tax			(8,015)
(1,331)	General Government Grants			(2,111)
(9,030)	Non-Domestic Rates Distribution			(8,399)
37,218	(Surplus) / Deficit for the year			8,480

STATEMENT OF MOVEMENT ON GENERAL FUND BALANCE

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. This does not, however, correspond completely with the charges made each year against Council Tax, and which are reflected in the annual movement on the balance on the General Fund. The statement below summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

2008/09		2009/10
£000		£000
37,218	Increase or decrease in the General Fund Balance for the year: (Surplus) / Deficit on the Income and Expenditure Account	8,480
(38,456)	Net additional amount required by statute and other proper practices to be debited or credited to the General Fund	(10,302)
(1,238)		(1,822)
(1,479)	General Fund brought forward	(2,717)
(2,717)	General Fund balance carried forward	(4,539)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the Authority, and shows the aggregate increase in its net worth. In addition to the deficit generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and the re-measurement of the net liability to cover the cost of retirement benefits.

2008/09		2009/10
£000		£000
37,218	(Surplus) / deficit on Income and Expenditure Account	8,480
8,760	(Gain) / loss on valuation of fixed assets	(3,305)
8,426	Actuarial (Gain) / loss on net pension fund liabilities	22,940
54,404		28,115

The table below shows the change to the net worth of the balance sheet as at 1 April 2009, and the consequent change to the comparative figures in the Statement above.

	Published	Restatement	Restated
	£000	£000	£000
Net Worth at 1 April 2008	(247,263)	179	(247,084)
Gains and Losses in STRGL:			
Collection Fund	(555)	555	-
Income and Expenditure Account	37,418	(200)	37,218
Loss on revaluation of fixed assets	8,760		8,760
Actuarial loss on pension fund assets and liabilities	8,426		8,426
Net Worth at 31 March 2009	(193,214)	534	(192,680)

BALANCE SHEET

The Balance Sheet shows all of the Council's assets and liabilities at the end of the financial year, and analyses the value of its total net worth.

31.3.2009 (Re-stated)	Note	31.3.2010
£000		£000
253	14	146
Intangible Assets		
Tangible Fixed Assets	14	
		Operational Assets
186,742		- Council Dwellings 199,181
37,601		- Other Land & Buildings 64,638
1,302		- Vehicles, Plant & Equipment 1,666
24,865		- Infrastructure 23,920
1,754		- Community Assets 1,918
		Non-Operational Assets
9,296		- Assets under Construction 281
24,152		- Investment Property 4,809
84		- Surplus Assets 82
286,049		296,641
735		Long Term Debtors 47
286,784		296,688
		Current Assets
101		Stocks 149
11,730	25	Debtors 19,954
(2,592)	25	- less provision for doubtful debts (3,089)
15,647		Investments -
460		Cash and Bank 1,869
312,130		315,571
		Current Liabilities
(15)		Short term borrowing (321)
(12,845)	25	Creditors (10,578)
-		Bank Overdraft (720)
299,270		303,952
(50,985)		Long Term Borrowing (61,694)
(1,586)		Other Long Term Liabilities (1,823)
(202)	26	Provisions (191)
(18,432)	17	Government Grants Deferred (17,981)
(8,483)	17	Capital Contributions Deferred (8,515)
(23,270)	28	Pensions Liability (47,152)
(42)		Deferred Credits (39)
(3,590)	17	Grants and Contributions unapplied (1,992)
192,680		164,565
202,672	27	Capital adjustment account 196,817
(1,051)	27	Financial Instruments Adjustment (826)
(112)	27	Collection Fund Adjustment Account (196)
168	27	Revaluation Reserve 3,419
(23,270)	28	Pensions Reserve (47,152)
3,962	27	Capital Receipts Reserve 3,329
6,389	27	Earmarked Reserves 3,211
1,205		Housing Revenue Account 1,424
2,717		General Fund 4,539
192,680		164,565
		Total Net Worth
		164,565

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2010

This statement summarises the inflows and outflows of cash arising from both revenue and capital transactions with third parties.

2008/09			2009/10		
£000	£000	£000	£000	£000	£000
			Revenue Activities		
			Cash outflows		
17,098			13,582		
40,765			46,821		
28,485			35,243		
<u>320</u>	86,668		<u>271</u>	95,917	
			Cash inflows		
(4,716)			(4,280)		
(7,768)			(8,010)		
(1,257)			(1,939)		
(9,030)			(8,399)		
(43,498)			(46,972)		
(5,559)			(5,227)		
(13,594)			(13,877)		
<u>(7,373)</u>	<u>(92,795)</u>		<u>(6,358)</u>	<u>(95,062)</u>	
		(6,127)	Net revenue activities cash flow		855
			Returns on Investments and Servicing of Finance		
			Cash outflows		
	3,085			3,784	
			Cash inflows		
	(2,935)			<u>(802)</u>	
		150			<u>2,982</u>
		<u>(5,977)</u>			<u>3,837</u>
			Capital Activities		
			Cash outflows		
	18,502			21,949	
			Cash inflows		
(402)			(936)		
(412)			(896)		
<u>(206)</u>	<u>(1,020)</u>		<u>(281)</u>	<u>(2,113)</u>	
		<u>17,482</u>			<u>19,836</u>
		11,505	Net cash (inflow) / outflow before financing		23,673
			Management of Liquid Resources		
2,525				(15,500)	
<u>(1,156)</u>		<u>1,369</u>	Other net increase / (decrease) in liquid resources		<u>2,383</u>
		12,874			<u>(13,117)</u>
					10,556
			Financing		
			Cash outflows		
166			166		
<u>-</u>	166		<u>-</u>	166	
			Cash inflows		
(11,974)			(11,411)		
(1,201)			-		
<u>-</u>	<u>(13,175)</u>		<u>-</u>	<u>(11,411)</u>	
		<u>(13,009)</u>			<u>(11,245)</u>
		<u>(135)</u>	Net (increase) / decrease in cash		<u>(689)</u>

NOTES TO THE ACCOUNTING STATEMENTS

1. EXCEPTIONAL ITEMS, PRIOR PERIOD ADJUSTMENTS AND OTHER ADJUSTMENT TO PRIOR YEAR FIGURES

The balance sheet as at 1 April 2009 and the comparative figures for 2008/09 in the other main accounting statements have been re-stated for the changes relating to the Collection Fund outlined in the Foreword to the Accounts and the Statement of Accounting Policies. The restatements relate to two areas:

Collection Fund: In the Balance Sheet the opening deficit on the Collection Fund (now renamed the "Collection Fund Adjustment Account") has been reduced from £796,900 by £685,000 to £111,900, reflecting the impact of the deficit on the balance sheets of the precepting authorities. This is offset by reductions of £1,127,700 on Creditors and £442,700 on Debtors, which also remove the share of Council Tax debtors and prepayments relating to precepting authorities and consolidates all outstanding balances relating to National Non-Domestic Rates to a single credit balance with the Government. These changes also resulted in re-statements for the other main accounting statements.

Leisure Services Contract: previously the annual payments under the contract were all charged to "Cultural Services" in the Income and Expenditure Account. In the restated accounts this amount has been reduced by £354,000, matched by an increase of £189,000 in interest payable and of £165,000 in the Minimum Revenue Provision on the Statement of Movement in the General Fund Balance. The opening balance sheet has been re-stated to reflect this change, and there are corresponding adjustments to the 2008/09 Cash Flow Statement and to various notes to the accounts. More details of these contracts are given in Note 12.

Amounts included in restated 2008/09 Balance Sheet	£000
Other Land and Buildings	495
Vehicles Plant and Equipment	44
Long Term Liabilities	(1,758)
Assets less liabilities	(1,219)
Capital Adjustment Account	(1,219)
Total Net Worth	(1,219)

No Exceptional Items are included in the Income and Expenditure Account for 2009/10. The amounts in 2008/09 related to a claim for VAT charged on ticket admissions at the council's theatres in the early 1990s. At that time the council charged VAT on such income in line with the requirements of HM Revenue and Customs, but subsequently, in line with a number of other councils, it successfully challenged this interpretation of the law. During 2008/09 the Council was able to recover £1.9m in overcharged VAT, offset by £356,000 in consulting fees, making up the net £1,588,000 shown as an Exceptional Item. The Council also recovered accumulated £1,424,000 in interest on these amounts (shown under Interest and Investment Income), offset by £285,000 in fees, which was charged as a treasury management cost to the Corporate and Democratic Core.

In 2008/09 there was also an unusual credit of £2,639,000 to Non-Distributed Costs. This was the income received from Stagecoach as a one-off payment settling the pension liabilities of the council's holding in Eastbourne Buses. As mentioned below in Note 28, there was a corresponding charge to Non-Distributed Costs of £1,566,000 as a Past Service Cost relating to the same transaction (this amount was reversed in the Statement of Movement and replaced by the payment of employer's contributions, including the amount of £2,639,000 paid to the Pension Fund).

2. EVENTS AFTER THE BALANCE SHEET DATE

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index rather than the retail prices index will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 (Events after the balance sheet date), this change is deemed to be a non-adjusting post balance sheet event. It is estimated that this change will reduce the value of the employer's FRS17 liabilities by around 7% (£8.6M) and the FRS17 balance sheet deficit by around 18%

3. AUTHORISATION OF ACCOUNTS FOR ISSUE

Under the Accounts and Audit Regulations there are the following 3 stages when the Accounts can be regarded as issued:

Action	Date
Certification by the responsible Finance Officer	18 June 2010
Statement is approved for publications	30 June 2010
When the audit of the Statement is certified closed	

4. TRADING OPERATIONS

The Council maintains trading accounts for the following:

- Corporate Property – the costs and income relating to the Council’s holdings of investment property, not related to the provision of services.
- Printing Services – these costs are charged to internal users and some external customers on a trading basis.

2008/09		2009/10			
Net		Gross Expenditure	Internal Income	External Income	Net
£000		£000	£000	£000	£000
(290)	Corporate Investment Property	0	0	(313)	(313)
30	Printing Services	177	(105)	(65)	7
(260)	Total Surplus	177	(105)	(378)	(306)

5. AGENCY ARRANGEMENTS

The Council acts as an agent in collecting National Non-Domestic Rates on behalf of the Government. The amounts collected and paid over are shown in the Collection Fund account below.

The Council also collects council tax on behalf of itself and of other precepting authorities (East Sussex County Council, Sussex Police Authority and East Sussex Fire and Rescue Service). In 2009/10 it collected £49.6m on behalf of these authorities, compared to £48.3m in 2008/09.

6. LEASES

Activities as Lessee

Expenditure under operating leases was as follows:

2008/09		2009/10	
£000		£000	
191	Land and buildings	197	
101	Vehicles	84	
21	Equipment	20	
313	Total	301	

The Council has obligations of £209,000 payable for 2010/11 under operating leases, the expiry dates of which are shown below. There are no obligations under finance leases:

	Property	Vehicles	Equipment	Total
	£000	£000	£000	£000
Expiring in 2010/11	187	20	2	209
Expiring between 2011/12 and 2015/16	-	142	34	176
Expiring after 2015/16	10	-	-	10
Total	197	162	36	395

Activities as Lessor

In 2009/10 the Council received £1,156,000 from operating leases of property. The net book value of assets leased out at 31 March 2010 was £14,762,000, made up of £14,901,000 gross value, less £139,000 depreciation.

7. GOVERNMENT GRANT INCOME

The total shown as "General Government Grants" being grants that are not attributable to specific services, in the Income and Expenditure Account is built up as shown in the table below.

2008/09		2009/10
£000		£000
1,257	Revenue Support Grant	(1,939)
-	- New Burdens Grant	(4)
-	- LAA Performance Reward Grant	(87)
74	LA Business Growth Incentive Scheme	(41)
-	- Habitats Grant	(17)
-	- Area Based Grant	(23)
<u>1,331</u>		<u>(2,111)</u>

8. MEMBERS' ALLOWANCES

Allowances and expenses paid to Eastbourne's 27 Councillors during the year amounted to:

2008/09		2009/10
£000		£000
112	Members' allowances	115
<u>2</u>	Conference and Travelling Expenses	<u>4</u>
<u>114</u>		<u>119</u>

9. OFFICERS' REMUNERATION

The number of employees whose remuneration, excluding pension contributions, exceeded £50,000 is shown below in bands of £5,000.

2008-09	Remuneration Band	2009-10	Left During year
Number of Employees		Number of Employees	
5	£50,000 - £54,999	3	
1	£55,000 - £59,999	3	1
3	£60,000 - £64,999	2	
1	£80,000 - £84,999	-	
1	£85,000 - £89,999	-	
1	£90,000 - £94,999	1	
-	£95,000 - £99,999	1	1
1	£100,000 - £104,999	-	
-	£120,000 - £124,999	1	1
-	£125,000 - £129,999	1	1
-	£130,000 - £134,999	1	1
13	Total	13	

The table below sets out the remuneration payable to senior officers for the year. This table only includes remuneration for individuals while serving in their senior capacity, and thus excludes any remuneration in less senior posts, whereas the table above is based on the whole of the salary for each individual.

	Salary	Expenses	Benefits	Remuneration	Pension Contribs	Total
	£	£	£	£	£	£
Chief Executive	103,181	3,718	-	106,899	22,891	129,790
Deputy Chief Executive (from October 2009)	39,017	1,541	-	40,558	8,518	49,076
Director of Economy Tourism & Environment (to October 2009)	60,017	-	1,700	61,717	8,929	70,646
Director of Housing Health Community Services (to December 2009)	61,701	232	3,370	65,303	13,251	78,554
Chief Finance Officer (from May 2009)	63,656	344	-	64,000	13,818	77,818
Senior Head of Community (from October 2009)	25,417	1,223	-	26,640	5,566	32,206
Senior Head of Tourism and Leisure (from March 2010)	2,788	129	-	2,917	610	3,527
Senior Head of Development and Planning (from March 2010)	492	23	-	515	108	623
	356,269	7,210	5,070	368,549	73,691	442,240

The senior management structure of the Council was subject to a major restructuring during 2009/10, involving the deletion of the two previous director posts. Of the posts listed above, only the Chief Executive post was filled completely during the year. The table below shows the equivalent figures for 2008/09:

	Salary	Expenses	Benefits	Remuneration	Pension Contribs	Total
Chief Executive	97,869	3,351	-	101,220	21,737	122,957
Director of Economy Tourism & Environment	81,063	25	-	81,088	17,426	98,514
Director of Housing Health Community Services	81,063	310	5,210	86,583	5,210	91,793
Assistant Director, Financial Management	42,200	1,672	-	43,872	7,200	51,072
Solicitor to the Council (to July 2008)	17,080	826	-	17,906	3,044	20,950
	319,275	6,184	5,210	330,669	54,617	385,286

10. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The Council is required to disclose material transactions with related parties, that is, bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. These transactions are disclosed in order to indicate the extent to which the Council might have been constrained in its ability to operate independently, or to have secured the ability to limit another party's ability to bargain freely with the Council

Related Parties includes central government, authorities for whom the Council collects and distributes Council Tax and related companies, as well as any financial relationships with members and chief officers other than payments of salaries, expenses, etc.

The central government provides much of the Council's funding and determines its statutory framework. Details of transactions with central government are shown in the Income and Expenditure Account, the Cash Flow Statement, the Collection Fund, and Notes 17 and 34. The Collection Fund statements outline transactions with the precepting authorities.

The Council's relationship with Eastbourne Homes Ltd and with Wealden and Eastbourne Lifeline are outlined in 24.

The Eastbourne Leisure Trust was set up to oversee the management and operation of the Sovereign Centre and Motcombe Pool, on which it holds a 15-year lease starting in 2004 (see also Note 12). Prior to April 2009 the Council had a 20% representation on the Trust, but it is now set up as an Independent Provident Society, without any local authority members. The staff employed at these centres are jointly employed by the trust and the contractor, Serco.

Members of the Council have direct control over the Council's financial and operating policies. The Council also nominates members to sit on outside bodies. Seven members are also members of East Sussex County Council. Grants totalling £152,000 were paid to voluntary organisations in which five members had an interest. The relevant members did not take part in any discussion or decision relating to the grants. Members had no other interests in any related party transactions during the year. The Register of Members' Interests is held at the Town Hall and is open to public inspection.

During 2009/10 works and services to the value of £40,000 were commissioned from a company in which one officer had an interest.

11. AUDIT FEES

The Council incurred the following fees relating to statutory external audit and inspection:

2008/09		2009/10
£000		£000
125	Fees payable to PKF (UK) LLP with regard to external audit services carried out by the appointed auditor	141
8	Fees payable to Audit Commission in respect of statutory inspection	9
64	Fees payable to PKF (UK) LLP for the certification of grant claims and returns	61
8	Fee payable in respect of other services provided by the appointed auditor	3
8	Additional fees payable to PKF (UK) LLP to respond to questions asked by local electors under Section 15 of the Audit Commission Act 1998	-
213		214

12. OBLIGATIONS UNDER LONG TERM LEISURE CONTRACTS

The Sovereign Centre and Motcombe Pool are leased out, as set out above in Note 10, to Eastbourne Leisure Trust for a period of 15 years from 2004. The Leisure Trust employs SERCO Leisure to manage the centres on a day to day basis. The Council retains the ownership of the centres, and also retains responsibility for their maintenance and improvement. These functions are also contracted to SERCO Leisure under contracts expiring in 2019/20. The Council has entered into three long term credit sale agreements with SERCO to renovate and improve the centres and to purchase items of capital equipment. The table below sets out the movements in the Council's obligations up to the end of 2009/10, and shows the projected repayments and amounts scheduled to be drawn down for 2010/11.

	Agreement 1	Agreement 2	Agreement 3	Total
Starting Date	October 2004	June 2008	June 2009	
Completion Date	May 2019	April 2019	April 2019	
	£000	£000	£000	£000
Total credit sales facility	2,614	350	250	3,214
Drawn down to 1 April 2008	(1,910)	-	-	(1,910)
Net repayments to 1 April 2008	467	-	-	467
Liability outstanding 1 April 2008	(1,443)	-	-	(1,443)
Drawn down 2008/09	(44)	(299)	(137)	(480)
Interest charge for 2008/09	(172)	(17)	-	(189)
Gross repayments for 2008/09	315	39	-	354
Liability outstanding 1 April 2009	(1,344)	(277)	(137)	(1,758)
Drawn down 2009/10	(265)	(42)	(102)	(409)
Interest charge for 2009/10	(181)	(23)	(24)	(228)
Gross repayments for 2009/10	315	46	31	392
Liability outstanding 31 March 2010	(1,475)	(296)	(232)	(2,003)
Projections for 2010/11				
Liability 1 April	(1,475)	(296)	(232)	(2,003)
Estimated draw-down	(56)	(8)	(11)	(75)
Interest charge	(178)	(22)	(18)	(218)
Gross repayments for the year	315	46	37	398
Liability 31 March 2011	(1,394)	(280)	(224)	(1,898)
Remaining facility 31 March 2011	337	-	-	337

13. EXPLANATION OF STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

The Income and Expenditure account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise Council Tax on a different accounting basis, the main differences being :

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- The payments of a share of housing capital receipts to the government is treated as a loss in the Income and Expenditure Account, but is met from usable capital receipts balance rather than Council Tax.
- Retirement benefits are charged as amounts become payable to the Pension Fund and Pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

The following reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance:

2008/09		2009/10
£000		£000
Amounts included in the Income and Expenditure Account, but legally excluded from the Movement on the General Fund Balance for the year		
(39,474)	Depreciation and Impairment of Fixed Assets	(6,970)
686	Release from Government Grants Deferred and Capital Contributions Deferred	779
(215)	Revenue Expenditure Financed from Capital under Statute	(365)
(63)	Gain / (loss) on sale of fixed assets	(592)
301	Premiums and discount balance to Financial Instruments Adjustment A/c	225
407	Difference between pension costs and amounts legally chargeable to General Account	(942)
79	Difference between Council Tax income and amount taken to General Fund	(84)
(38,279)		(7,949)
Items not included in I&E account, but legally chargeable to the General Fund		
523	Statutory provision for repayment of debt	509
927	Capital expenditure charged to revenue account	707
(313)	Transfer from Usable Capital Receipts equal to amount payable to Government Pool	(611)
1,137		605
Items not included in I&E Account, but also charged to General Fund		
(840)	Transfer surplus / (deficit) on Housing Revenue Account	220
(474)	Transfer to or from earmarked reserves	(3,178)
(1,314)		(2,958)
(38,456)		(10,302)

14. MOVEMENTS IN ASSET BALANCES

All Assets

	Operational Assets	Non- Operational Assets	Intangible Assets	Revenue Expenditure Capitalised under Statute	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2009	252,264	33,532	253	-	286,049
Additions	18,217	281	41	365	18,904
Depreciation for the year	(4,813)	-	-	-	(4,813)
Write-down intangible assets	-	-	(148)	-	(148)
Revenue expenditure capitalised under statute:					
Charge to I&E account	-	-	-	(365)	(365)
Disposals	(1,573)	-	-	-	(1,573)
Impairments	(4,720)	-	-	-	(4,720)
Reclassifications	28,735	(28,735)	-	-	-
Revaluations	3,213	94	-	-	3,307
Balance at 31 March 2010	291,323	5,172	146	-	296,641

In the context of local authority accounting, Intangible Assets represent software licences; these are valued at acquisition cost and written off over the period of the licence.

Operational Assets

	Council Dwellings	Land & Buildings	Vehicles, Plant & Equipment	Infra-structure	Community Assets	Total
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
Balance at 1 April 2009	192,270	40,180	2,408	34,359	2,317	271,534
Additions	16,723	702	623	6	163	18,217
Disposals	(1,643)	-	(225)	-	-	(1,868)
Impairments	-	(4,720)	-	-	-	(4,720)
Reclassifications	-	28,810	26	(102)	1	28,735
Revaluations	-	635	-	-	-	635
Balance at 31 March 2010	207,350	65,607	2,832	34,263	2,481	312,533
Depreciation						
Balance at 1 April 2009	(5,528)	(2,579)	(1,106)	(9,494)	(563)	(19,270)
Charge for the year	(2,712)	(968)	(284)	(849)	-	(4,813)
Disposals	71	-	224	-	-	295
Reclassifications	-	-	-	-	-	-
Revaluations	-	2,578	-	-	-	2,578
Balance at 31 March 2010	(8,169)	(969)	(1,166)	(10,343)	(563)	(21,210)
Net Balance Sheet at 1 April	186,742	37,601	1,302	24,865	1,754	252,264
Net Balance Sheet at 31 March	199,181	64,638	1,666	23,920	1,918	291,323

Non-Operational Assets

	Assets under Construction	Investment Properties	Surplus Assets	Total
	£000	£000	£000	£000
Cost or Valuation				
Balance at 1 April 2009	9,296	24,152	84	33,532
Additions	281	-	-	281
Disposals	-	-	-	-
Impairments	-	-	-	-
Reclassifications	(9,296)	(19,439)	-	(28,735)
Revaluations	-	96	(2)	94
Balance at 31 March 2010	281	4,809	82	5,172

The methods of accounting for tangible fixed assets and intangible assets are set out in paragraphs 9 and 10 of the Statement of Accounting Policies.

A review of accounting practices identified that a number of properties previously classified as Investment Properties ought to have been treated as operational (Other Land and Buildings), and this adjustment is included in the "Reclassification" line above.

None of the operational, non-operational or intangible assets analysed above are held under finance leases, or under the Private Finance Initiative.

15. CAPITAL COMMITMENTS

Capital commitments as at 31 March 2010

	2010/11	2011/12	2012/13	Total
Improvement of Council Dwellings	8,600	8,400	6,000	23,000
New House Building	3,558			3,558
	12,158	8,400	6,000	26,558

16. CAPITAL INVESTMENT AND FINANCING

The Capital Financing Requirement represents the Council's net need to borrow to finance its capital investment, made up of all funding of capital from loan in previous years, less amounts set aside each year for the redemption of debt.

2008/09			2009/10	
£000	£000		£000	£000
	43,652	Opening Capital Financing Requirement		56,294
72		Intangible assets	41	
18,832		Operational assets	18,217	
886		Non-operational assets	281	
215		Revenue Expenditure Financed from Capital under Statute	4,753	
<u>20,005</u>		Total capital investment	<u>23,292</u>	
(1,888)		Capital receipts	(1,003)	
(568)		Government grants	(3,130)	
(869)		Other contributions	(1,616)	
(2,617)		Major Repairs Reserve	(2,712)	
(927)		Revenue financing	(707)	
<u>(6,869)</u>		Total financing other than from loan	<u>(9,168)</u>	
	13,136	Net investment financed from loan		14,124
	(494)	Revenue provision for repayment of loans		(509)
	56,294	Closing Capital Financing Requirement		69,909

The concept of "Revenue Expenditure Financed from Capital under Statute" is explained in paragraph 12 in the Statement of Accounting Policies.

The capital investment financed from loan relates entirely to borrowing categorised as being supported by Government financial assistance, through Revenue Support Grant.

The Capital Financing Requirement reflects various items in the Balance Sheet, as shown below:

2008/09		2009/10
£000		£000
253	Intangible Assets	146
285,796	Fixed Assets	296,495
(18,432)	Government Grants Deferred	(17,981)
(8,483)	Capital Contributions Deferred	(8,515)
(168)	Revaluation Reserve	(3,419)
(202,672)	Capital Adjustment Account	(196,817)
<u>56,294</u>		<u>69,909</u>

The Council accounts fully for depreciation of assets in line with accounting standards, but it is legally obliged to provide for the repayment of a proportion of its outstanding loan debt (the Minimum Repayment Provision). As the provision for repayment of debt is less than the amount of depreciation, an adjustment is made by a transfer from revenue to the Capital Adjustment Account. The Council's provision for repayment of loans was £509,000, compared with £494,000 in 2008/09

17. CAPITAL GRANTS AND CONTRIBUTIONS

The Council frequently receives grants and contributions towards capital investment some time before it is actually spent, particularly in the case of planning contributions. These are held in the "Long Term Liabilities" section of the Balance Sheet until they are used for financing capital schemes, at which point they are transferred to the Government Grants Deferred or Capital Contributions Deferred accounts. The table below shows the movement in unapplied grants and contributions. The line for "Adjustment with current Creditors" represents contributions expected to be used for financing the capital programme in the subsequent financial year: the estimated balance is shown as a current liability at the balance sheet date.

2008/09		2009/10
£000		£000
	Grants	
(1,451)	Balance in hand, 1 April	(1,356)
(473)	Receivable during year	(751)
568	Applied to finance capital investment	219
<u>(1,356)</u>	Balance in hand, 31 March	<u>(1,888)</u>
	Contributions	
(3,174)	Balance in hand, 1 April	(2,234)
(865)	Receivable during year	1,990
869	Applied to finance capital investment	140
936	Adjustment with current Creditors	-
<u>(2,234)</u>	Balance in hand, 31 March	<u>(104)</u>
<u>(3,590)</u>	Total Grants and Contributions	<u>(1,992)</u>

As noted above, grants and contributions used for financing capital are transferred to the Government Grants Deferred or the Capital Contributions Deferred account. These accounts form part of the Capital Financing Requirement (note 16 above) and are not available for either revenue or capital spending. Individual grants and contributions are released annually to the Income and Expenditure Account, on the same basis as depreciation, but this credit to Income and Expenditure is reversed by a transfer from the Statement of Movement on the General Fund Balance to the Capital Adjustment Account. The table below shows the movement in grants and contributions deferred.

2008/09		2009/10
£000		£000
	Grants	
(16,950)	Balance in hand, 1 April	(18,432)
(568)	Applied to finance capital investment	(219)
588	Released to Income and Expenditure Account	670
(1,502)	Movement between Grants & Contributions	-
<u>(18,432)</u>	Balance in hand, 31 March	<u>(17,981)</u>
	Contributions	
(9,214)	Balance in hand, 1 April	(8,483)
(869)	Applied to finance capital investment	(140)
98	Released to Income and Expenditure Account	108
1,502	Movement between Grants & Contributions	-
<u>(8,483)</u>	Balance in hand, 31 March	<u>(8,515)</u>
<u>(26,915)</u>	Total Grants and Contributions Deferred	<u>(26,496)</u>

18. INFORMATION ON ASSETS HELD BY THE COUNCIL

Fixed assets held by the Council in its Balance Sheet include:

	Number as at 31 March 2009	Number as at 31 March 2010
Council Dwellings		
Houses	1,812	1,803
Flats	1,947	1,918
Other Buildings & Assets		
Cafes and retail Outlets	26	26
Cemeteries	2	2
Community Centres	5	5
Dotto Road Trains	3	3
Farms	4	4
Office Buildings	6	6
Off-Street Car Parks	14	14
Public Conveniences	29	29
Seafront Chalets (at Holywell)	69	69
Sports and Recreational Facilities	48	48
Stores	24	24
Theatres	4	4
Crematorium	1	1
Museum	1	1
Bandstand	1	1
Community Assets		
Parks and Open Spaces (hectares)	279	279
Allotments (acres)	42	42
Downland (acres)	4,100	4,100
Infrastructure Assets		
Seafront Groynes	94	94
Promenade (miles)	4.3	4.3

19. DEPRECIATION

Depreciation is calculated on a straight-line basis over the expected life of the assets, on the difference between the book value and any estimated residual value. Depreciation is charged on all classes of assets, with the exception of land and community assets. The life expectancies for various classes of assets are shown in paragraphs 9 and 10 of the Statement of Accounting Policies.

20. MINIMUM REVENUE PROVISION

The council is legally obliged to provide for the repayment of a proportion of its outstanding loan debt (the Minimum Revenue Provision). As the provision for repayment of debt is less than the amount of depreciation, an adjustment is made by a transfer from revenue to the Capital Adjustment Account. The Council's provision for repayment of loans was £523,000, compared to £494,000 in 2008/09.

21. VALUATION OF FIXED ASSETS

The freehold and leasehold properties which comprise the Council's property portfolio (excluding Council Dwellings) were valued by the Council's own qualified surveyor as at 1 April 2006. Valuations have been carried out in accordance with the Statements of Asset Valuation Practice Guidance Notes of the Royal Institution of Chartered Surveyors. The following basis of valuations are used:

- Operational Land and Buildings: Depreciated Replacement Cost is used for specialised buildings if there is insufficient evidence of market values; Existing Use Value in all other cases.
- Non-Operational Investment properties and Surplus Properties – Market Value.

As mentioned above in Note 14, a number of properties previously treated as Investment Properties were reclassified as at 1 April 2009 as Operational Land and Buildings. Mainly because of this change the Council's surveyor carried out a comprehensive desktop revaluation as at 1 April 2009, using valuation techniques in line with the previous paragraph and a more accurate assessment of the useful

life of individual buildings. In comparison with previous asset lives, those of 40 properties were reduced from the previous 35 years to periods of between 10 and 30 years, 15 remained at 35 years, and the lives of 113 assets were increased to periods of between 40 and 75 years.

A full revaluation is scheduled to take place as at 1 April 2011.

The Council's stock of council dwellings was re-valued by the District Valuer as at 1 April 2006. The valuation was carried out by inspection using beacon properties on which to base the valuation. A review of movements in values is carried out at the end of each financial year, and this resulted in a considerable impairment to dwelling values for 2008/09.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

All loans and investments are included in the accounts at carrying amount, but the fair value of each class of financial asset is also shown in the table below. Note that the Fixed Term Deposits at 31 March 2009 included £2m in bank call accounts, but these are now shown as part of the cash balance.

2008/09	2008/09		2009/10	2009/10
Carrying	Fair Value		Carrying	Fair Value
Amount			Amount	
£000	£000		£000	£000
2,000	2,000	Cash	1,850	1,850
13,647	13,702	Fixed Term Deposits	-	-
15,647	15,702	Total Assets	1,850	1,850
43,250	49,512	Public Works Loan Board	51,194	55,529
7,735	11,246	Loan Stock	7,500	10,487
-	-	Lancashire County Council	3,000	3,021
-	-	SERCO Paisa Loans	2,480	3,435
50,985	60,758	Total Liabilities	64,174	72,472

The fair value has been determined by calculating the Net Present Value of future cash flows, which provides an estimate of the value of payments in the future in today's terms. The discount rate used is equal to the current rate in relation to the same instrument with the same duration from a comparable lender on the date of valuation – 31 March 2010. The rates quoted in this valuation were obtained from Sector Treasury Services Ltd (the Council's Advisors).

The fair value of loans as at 31 March 2010 is higher than the carrying value because these loans were taken out at fixed interest rates when interest rates were significantly higher than rates for similar loans at the Balance Sheet date. The greater that the interest payable is above current market rates increases the amount that the Council would have to pay if it agreed to early repayment of the loans.

23. NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

The Authority'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 Authority
- liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the Annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch, Moody's or Standard and Poor's Ratings Services. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

Liquidity risk

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. All trade and other payables are due to be paid in less than one year.

Market risk

Interest rate risk

The Authority is exposed to 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 Authority. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Income and Expenditure Account 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 on fixed rate borrowings would not impact on the Income and Expenditure Account or the Statement of Recognised Gains and Losses (STRGL). However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and affect the General Fund Balance pound for pound. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the STRGL.

Price risk

The Authority does not invest in equity shares, and disposed of its shareholding in Eastbourne Buses during the previous year (see Note 24). It is consequently no longer exposed to losses arising from movements in the prices of the shares.

Foreign exchange risk

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

24. INTEREST IN COMPANIES

Eastbourne Homes Limited

The responsibility for the management of Eastbourne's council housing stock was transferred to Eastbourne Homes Ltd, an arms length management company, on 1 April 2005. Eastbourne Homes Ltd is a company limited by guarantee without a share capital and is wholly owned by Eastbourne Borough Council. Its principal activities are to manage, maintain and improve the Council's housing stock.

The Company's key financial results are:

2008/09		2009/10
£000		£000
(6,988)	Turnover	(7,164)
<u>7,031</u>	Operating Costs	<u>7,184</u>
43	Operating (surplus)/deficit	20
(37)	Interest Receivable	(3)
<u>(7)</u>	Other Finance (Income)/Expenditure	<u>31</u>
(1)	(Surplus)/deficit on ordinary activities before tax	48
<u>10</u>	Tax on ordinary activities	<u>6</u>
9	(Surplus)/deficit on ordinary activities after tax	54

Throughout the year, the Council paid Eastbourne Homes Ltd a fee in accordance with the management agreement. In addition, Eastbourne Homes Ltd obtained services from the Council under various Service Level Agreements. At the end of the year the balances the Council owed Eastbourne Homes Ltd £1,007,000 (£5,766,000 at 31 March 2009), while Eastbourne Homes Ltd owed the Council £60,000 (£327,000 at 31 March 2009).

The company's accounts are consolidated into the Group Accounts on pages 56-62

Copies of Eastbourne Homes Ltd's annual report and accounts can be obtained from their registered office at Ivy House, Ivy Terrace, Eastbourne, BN21 4QU.

Eastbourne Buses Ltd

This company was formed under the provisions of the Transport Act 1985. Its principal activities were the operation of bus and coach services, and the provision of garage and parking services. The Council disposed of its majority shareholding in the company during 2008/09, and there were therefore no transactions relating to the company in 2009/10. The disposal of the council's interest, as discussed above under Note 1, is included in the comparative figures in the Income and Expenditure Account, and the company's results until the point of disposal are included in the comparative figures in the Group Income and Expenditure account.

Wealden and Eastbourne Lifeline

This company works to support vulnerable people in their own homes. It is a company limited by guarantee, Eastbourne and Wealden Councils each holding 24% of the voting rights. The company's key financial results are:

2008/09		2009/10
£000		£000
(2,047)	Turnover	(2,431)
<u>1,909</u>	Operating Costs	<u>2,247</u>
(138)	Operating (surplus)/deficit	(184)
(5)	Interest Receivable	(1)
<u>-</u>	Other Finance (Income)/Expenditure	<u>6</u>
(143)	(Surplus)/deficit on ordinary activities before tax	(179)
<u>31</u>	Tax on ordinary activities	<u>39</u>
(112)	(Surplus)/deficit on ordinary activities after tax	(140)

25. ANALYSIS OF DEBTORS AND CREDITORS

Debtors – money owed to the Council

31 March 2009		31 March 2010
£000		£000
559	Council Taxpayers (Eastbourne Borough Council share)	680
657	Council House Tenants	637
2,946	Government Departments	9,312
194	Payments in Advance	237
1,582	Owed by major preceptors	2,809
2,582	Housing Benefit overpayments	2,841
3,210	Sundry Debtors	3,438
11,730		19,954
	Less: Provision for impairment of Debts	
(167)	Council Tax payers (Eastbourne Borough Council share)	(222)
(419)	Council House Tenants	(354)
(2,006)	General (including Housing Benefit)	(2,513)
9,138		16,865

The amount owed to the Council by Government Department has increased by £6.2m, which is mainly due to the Housing Benefit Subsidy claim outstanding as at 31 March 2010.

Creditors – money owed by the Council

31 March 2009		31 March 2010
£000		£000
(1,379)	Government Departments, including Tax, VAT and NNDR	(969)
(223)	East Sussex County Council	(184)
(2,412)	Income Received in Advance	(4,678)
(5,102)	Capital Creditors	(1,697)
(3,557)	Sundry Creditors	(3,050)
(12,673)		(10,578)

Capital creditors have reduced by £3.4m mainly due to the reduction in the accruals required for works on Council Dwellings as at 31 March 2010.

26. PROVISIONS

The only provision is for former council flat redecoration which was established to provide funding for the painting of sold council flats.

	Balance 1 April	Additions	Reductions	Spent	Balance 31 March
	£000	£000	£000	£000	£000
Painting of sold council houses	(202)	(3)	-	14	(191)
Total	(202)	(3)	-	14	(191)

27. SUMMARY OF MOVEMENTS IN RESERVES

This note summarises the movements in each of the classes of reserves set out in the "Net Worth" section of the Balance Sheet. The "Gains and Losses" column equals the Statement of Recognised Gains and Losses.

	1 April	Gains/Losses	Transfers	31 March
	£000	£000	£000	£000
Capital Adjustment account	202,672	-	(5,855)	196,817
Financial Instruments Adjustment	(1,051)	-	225	(826)
Collection Fund Adjustment Account	(112)	-	(84)	(196)
Revaluation Reserve	168	3,305	(54)	3,419
Pensions Reserve	(23,270)	(22,940)	(942)	(47,152)
Capital Receipts Reserve	3,962	-	(633)	3,329
Earmarked Reserves	6,389	-	(3,178)	3,211
Housing Revenue Account	1,205	-	219	1,424
General Fund	2,717	(8,480)	10,302	4,539
Total	192,680	(28,115)	-	164,565

The purpose of and movements on each reserve is outlined below.

CAPITAL ADJUSTMENT ACCOUNT

The Capital Adjustment Account contains a number of items as shown in the table below. This account forms part of the Capital Financing Requirement, and is therefore not available for further investment by the Council.

2008/09		2009/10
£000		£000
238,730	Balance at 1 April	202,672
	Capital financing	
927	Revenue	707
1,888	Usable Capital Receipts	1,003
2,617	Major Repairs Reserve	2,712
686	Grants & contributions deferred written off	779
(215)	Adjust for Revenue Expenditure Financed from Capital under Statute	(365)
(42,092)	Reversal of Depreciation and Impairments	(9,681)
523	Minimum Revenue Provision	508
(392)	Disposal of fixed assets	(1,573)
-	Adjust depreciation on revalued assets	55
202,672	Balance at 31 March	196,817

FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT

This account contains the difference between financial instruments measured at fair value and the balances required to comply with legislation. The balance relates to premiums incurred in previous years when restructuring debt in order to reduce the interest payable over the term of the loan. Under a change of accounting policy dating from 2007/08 the whole of the outstanding premiums were charged to the Income and Expenditure Account, but a corresponding transfer was made to the Housing Revenue Account (to which all the premiums related) from the Financial Instruments Adjustment Account. An annual transfer from the Housing Revenue Account to this adjustment account is now made, in line with the length of the replacement loans.

2008/09		2009/10
£000		£000
(1,352)	Balance at 1 April	(1,051)
301	Release to General Fund	225
(1,051)	Balance at 31 March	(826)

COLLECTION FUND ADJUSTMENT ACCOUNT

The Collection Fund accounts are set out on page 53 of this Statement of Accounts. The balances shown in these accounts at the start and end of the financial year represent amounts held or owing to all of the authorities on whose behalf this authority collects Council Tax. This amount is split between the precepting authorities, each of whom shows their share of the fund as the Collection Fund Adjustment Account.

The preceptors share of the deficit on the Collection Fund is shown on the Council's balance sheet as part of the debtors figure. See note 4 to Collection Fund

REVALUATION RESERVE

The Revaluation Reserve was established at 1 April 2007, the net book values of fixed assets at that date being effectively defined as historic cost. Revaluation gains since that date are credited to this reserve, and reductions in asset values on individual assets are debited to the reserve to the extent that it does not take the value below depreciated historic cost. If a downward revaluation takes the value of an asset below depreciated historic cost it is treated as an impairment.

2008/09		2009/10	
£000		£000	
9,039	Balance at 1 April	168	
(8,760)	Revaluations during the year	3,305	
(111)	Disposals of fixed assets	-	
-	Adjustment for depreciation on re-valued assets	(54)	
168	Balance at 31 March	3,419	

CAPITAL RECEIPTS RESERVE

Proceeds from the sale of fixed assets are credited to the Income and Expenditure Account, but transferred to this reserve through the Statement of Movement on the General Fund Balance. A proportion of the receipts from the sale of council houses is payable to a national pool, and the remainder of the reserve is available for capital investment (it may not be used for revenue purposes).

2008/09			2009/10		
General	HRA	Total	General	HRA	Total
£000	£000	£000	£000	£000	£000
3,950	1,772	5,722	2,045	1,917	3,962
(17)	458	441	1	980	981
-	-	-	2,286	(2,286)	-
-	(313)	(313)	-	(611)	(611)
(1,888)	-	(1,888)	(1,003)	-	(1,003)
2,045	1,917	3,962	3,329	-	3,329
		Balance at 31 March			

EARMARKED RESERVES

Earmarked Reserves are set aside from the Statement of Movement on the General Fund Balance for estimated future liabilities.

	Balance 1 April	Added	Withdrawn	Consolidated into General Fund Balances	Balance 31 March
	£000	£000	£000	£000	£000
Eastbourne Buses Realisation Account	1,097	-	(8)	(1,089)	-
Cemeteries and Crematorium	85	-	-	(85)	-
General Reserve	1,861	1,159	(1,653)	-	1,367
Insurance	78	-	(65)	(13)	-
Section 106	1,012	-	(645)	-	367
Maintenance of Grassed Areas	25	-	-	(25)	-
Towner Art Gallery capital	25	-	(16)	-	9
Benefits and Council Tax Review	704	-	(350)	(354)	-
Strategic Change Reserve	1,427	-	(465)	-	962
Earmarked Sums Commutation	-	130	-	-	130
Riverbourne House Leaseholders	75	1	-	-	76
Capital Programme	-	300	-	-	300
Total	6,389	1,590	(3,202)	(1,566)	3,211

General Reserve: this reserve is used where the Council carries forward under spent departmental budgets to the new financial year. This reserve will be reviewed and distributed between General Fund and Strategic Change Fund as appropriate, as part of the budget setting process.

Section 106: this represents contributions from developers for expenditure on playgrounds and open spaces.

Riverbourne House leaseholders: this reserve is for future maintenance of Riverbourne House.

Strategic Change Reserve has been set up to finance one off investments under the Council's DRIVE programme that are required for development or the release of ongoing efficiencies.

28. RETIREMENT BENEFITS

Participation in pension scheme

As part of the terms and conditions of employment of its employees, the Council offers retirement benefits. Although these will not actually be payable until employees retire, the Council has a commitment to make the payments, and this needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme, and therefore in the East Sussex Pension Scheme, which is administered by East Sussex County Council. The Council also has liabilities for discretionary payments for added years, etc. These are charged directly to the accounts of the Council, as they are not a charge upon the Pension Fund.

Transactions relating to retirement benefits

We recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge we are required to make against Council Tax is based on the contributions payable in the year. To adjust for this statutory requirement, the estimated cost of retirement benefits arising during the year is included in the Income and Expenditure Account, but the net effect is removed through the Statement of Movement on the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and in the Statement of Movement on the General Fund Balance:

2008/09		2009/10
£000		£000
	Income and Expenditure Account:	
	Net cost of Services:	
1,019	Current Service Cost	864
2,012	Past Service Cost	36
135	Settlements and Curtailments	339
	Net Operating Expenditure:	
5,265	Interest Cost	5,454
(4,174)	Expected Return on Assets	(3,653)
4,257	Net Charge to Income and Expenditure Account	3,040
	Statement of Movement on the General Fund Balance:	
(4,257)	Reversal of net charges made in Income and Expenditure account in accordance with FRS 17	(3,040)
	Actual amount charged to General Fund Balance for pensions in the year:	
(4,664)	Employer's contributions	(2,098)
(4,664)	Net charge to General Fund Balance	(2,098)

The Past Service Cost for 2009/10 relates to £36,000, arising from early retirements. In comparison the figure for 2008/09 comprised £8,000 for early retirements, £438,000 for retrospective changes to employee benefits and £1,566,000 for the additional liability arising as a result of the sale of the Council's share in Eastbourne Buses (see below).

In addition to the gains and losses recognised in the Income and Expenditure Account, a net actuarial loss of £22,940,000 is included in the Statement of Total Recognised Gains and Losses. The cumulative amount of actuarial gains and losses since 2004/05 recognised in this statement is £33,947,000.

Assets and Liabilities in relation to retirement benefits

The table below shows separately the movements in scheme assets and liabilities.

2008/09				2009/10		
Liabilities	Assets	Net		Liabilities	Assets	Net
£000	£000	£000		£000	£000	£000
(76,348)	61,097	(15,251)	Liabilities / Assets at 1 April	(80,270)	57,000	(23,270)
(1,019)	-	(1,019)	Current Service Cost	(864)	-	(864)
(2,012)	-	(2,012)	Past Service Cost	(36)	-	(36)
(135)	-	(135)	Settlements and Curtailments	(339)	-	(339)
(5,265)	-	(5,265)	Interest Cost	(5,454)	-	(5,454)
-	4,174	4,174	Expected Return on Assets	-	3,653	3,653
6,530	(14,956)	(8,426)	Actuarial gains and losses	(39,563)	16,623	(22,940)
-	4,664	4,664	Employer contributions	-	2,098	2,098
(509)	509	-	Contributions by scheme participants	(516)	516	-
3,766	(3,766)	-	Benefits paid	4,233	(4,233)	-
(5,278)	5,278	-	Adjustment for Eastbourne Buses	-	-	-
(80,270)	57,000	(23,270)	Liabilities / Assets at 31 March	(122,809)	75,657	(47,152)

The comparative figures for 2008/09 contained several adjustments relating to the sale of the Council's share of Eastbourne Buses:

- The share of the Pension Fund assets, totalling £5,278,000 was transferred to the Council.
- Corresponding liabilities of £6,844,000 were also transferred, the shortfall of £1,566,000 being shown above as part of the Past Service Cost.
- As part of the sale conditions, Stagecoach paid the Council £2,639,000, which was then paid to the Pension Fund as part of the employer's contribution of £4,664,000. This payment was based on an "ongoing basis" calculation, which results in a lower figure than the FRS 17 figures.

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was a gain of £20,276,000, compared with a loss of £10,782,000 in 2008/09.

Scheme History

	2005/06	2006/07	2007/08	2008/09	2009/10
	£000	£000	£000	£000	£000
Present value of liabilities	(89,790)	(88,301)	(76,343)	(80,270)	(122,809)
Fair value of assets	65,440	68,591	61,097	57,000	75,657
Surplus / (Deficit) in the scheme	(24,350)	(19,710)	(15,246)	(23,270)	(47,152)

The net liabilities show the underlying commitments that the Authority has in the long term to pay retirement benefits. The net liability of £47m at 31 March 2010 has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However there are several other points which mitigate the effect of this deficit:

- The interest rate used for discounting the liabilities for future pensions is related to bond yields, and is specified as such for the purposes of this statement. This return is lower than the expected long term returns from the actual investments that the fund manages, and that the actuaries estimate when assessing contributions to the Pension Fund. For 2009/10 the figures are distorted because this discount rate is low compared to the actuary's estimate of future inflation and pay rises.
- The deficit on the funded element of the scheme will be made good by increased employer's contributions over the remaining working life of the employees, as assessed by the scheme actuary.
- Provision is made within the Council's budget for the annual payment of all unfunded pension liabilities.

The total contribution expected to be made by the Council to the East Sussex Pension Fund in the year to 31 March 2011 is £1,757,000. At 31 March 2010 the Council owed £183,000 in respect of employer's and employees' contributions for March 2010.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions on mortality rates, salary levels, etc. The liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, being based on the latest full valuation of the scheme as at 31 March 2007.

The main assumptions used in their calculations are:

2008/09		2009/10
£000	Long term expected rate of return on scheme assets:	£000
7.0%	Equity Investments	7.8%
5.4%	Bonds	5.0%
4.9%	Property	5.8%
4.0%	Cash	4.8%
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
19.6	Men	20.8
22.5	Women	24.1
	Longevity at 65 for future pensioners:	
20.7	Men	22.3
23.6	Women	25.7
3.1%	Rate of inflation	3.8%
4.6%	Rate of increase in salaries	5.3%
6.5%	Rate of increase in pensions	3.8%
6.9%	Rate for discounting scheme liabilities	5.5%
50.0%	Take-up of option to convert annual pension into retirement lump sum	50.0%

The scheme's assets consist of the following categories, by proportion of the total assets held:

2009		2010
%		%
76	Equities	74
10	Bonds	5
8	Property	7
6	Cash	14

History of Experience Gains and Losses

The actuarial gains and losses identified as movements on the Pensions Reserve in 2009/10 can be analysed into the following categories, measured as a percentage of assets and liabilities at 31 March 2010:

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Differences between the expected and actual return on assets	4.00%	14.20%	0.00%	(11.70)%	(26.20)%	22.00%
Experience gains and losses on liabilities	(2.90)%	0.10%	0.10%	(9.30)%	(8.10)%	32.20%

29. ANALYSIS OF NET ASSETS

Net assets employed represent the local taxpayers "equity" in the Council; the main functions are analysed below:

31.3.09		31.3.10
Restated		
£000		£000
53,954	General Fund	21,884
138,662	Housing Revenue Account	142,271
192,616	Total	164,155

30. CONTINGENT LIABILITIES AND ASSETS

Towner Capital Scheme

Towner is a newly constructed art gallery and the leading centre for visual arts in the South East, which opened to the public in April 2009. There is a possible claim, not yet quantifiable, for additional costs to the contractor arising from the construction of the new gallery.

Planning Appeal

There is a possible liability of around £50,000 arising from an appeal against the granting of planning permission for development in Kings Drive.

Eastbourne Buses Ltd

The Council retains a liability of any deficit that may arise in the future from the pension liability of this company.

Municipal Insurance Limited

The Council's former insurers were Municipal Mutual Insurance Limited (MMI) until the company ceased to provide new cover in 1994. A Scheme of Arrangements was set up with the aim of funding any claims that were outstanding at that time. The scheme allows for a claw back of payments already made under the scheme if the outstanding claims cannot be fully funded by the company. The maximum possible claw back for the Council is set at £470,000. MMI's Directors have stated that they still foresee a fully solvent run-off of the Company's business. No provision has been made in the Statement of Accounts for any claw back of payments made to the Council.

32. RECONCILIATION OF CASH FLOW CASH AND BANK BALANCES

The table below shows the movement in the Council's liquid resources, represented by the cash in hand and at the bank, and agrees with the movement in the Cash Flow Statement. The table below shows £1,850,000 as held in bank call accounts as at 31 March 2010: the comparative figure for 31 March 2009 was £2.0m, but this was then shown as investments rather than cash.

	Balance 1 April 2009	Balance 31 March 2010	Movement in year
	£000	£000	£000
Cash at bank	460	19	(441)
Cash held in Call Accounts	-	1,850	1,850
Bank Overdraft	-	(720)	(720)
Total	460	1,149	689

33. RECONCILIATION OF CASH FLOW ITEMS IN FINANCING AND LIQUID ASSETS

The increases in financing can be reconciled to the Balance Sheet as follows:

Movement 2008/09		Balance 1 April 2009	Balance 31 March 2010	Movement in the Year
	£000	£000	£000	£000
2,672	Short Term Investments	15,647	-	(15,647)
(147)	Adjust for accrued interest	(147)	-	147
2,525	Net change in investments	15,500	-	(15,500)
(847)	Net Council Tax related to major preceptors	2,267	2,809	542
(301)	Net NNDR owing to Government	(69)	1,772	1,841
1,377	Movements in Management of Liquid Resources	17,698	4,581	(13,117)
	Long Term Borrowing:			
(12,030)	Public Works Loan Board	(43,250)	(51,194)	(7,944)
(235)	Loan Stock	(7,735)	(7,500)	235
-	Lancashire County Council	-	(3,000)	(3,000)
-	SERCO Paisa Credit Sales Agreements	(1,586)	(1,823)	(237)
(12,265)		(52,571)	(63,517)	(10,946)
291	Adjust for accrued interest	291	-	(291)
(11,974)		(52,280)	(63,517)	(11,237)
-	Short Term Borrowing	(187)	(195)	(8)
(11,974)		(52,467)	(63,712)	(11,245)
(1,201)	Add disposal of investment			-
(13,175)	Movements in Financing			(11,245)

34. ANALYSIS OF GOVERNMENT GRANTS

The table below provides further details of the grant income as shown in the Cash Flow Statement:

2008/09		2009/10
	£000	£000
(787)	Housing Revenue Account subsidy	(1,172)
(1,060)	Housing Benefit Administration	(1,172)
(563)	Concessionary Bus Fares	(493)
(1,794)	Capital grants towards revenue expenditure	(2,911)
(1,355)	Other grants	521
(5,559)		(5,227)
(1,257)	Revenue Support Grant	(1,939)
(43,498)	DWP grants for benefits	(46,972)
(50,314)		(54,138)

