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# Lewes District Council Statement of Accounts 2016/17

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# Introduction

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Welcome to Lewes District Council's Statement of Accounts for 2016/17.

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

## **The Key Accounting Standards and Statements**

The Council has followed the Chartered Institute of Public Finance and Accountancy's Code of Practice on Local Authority Accounting in the UK 2016/17 (the 'Code') in putting together the Statement of Accounts for 2016/17. The accounts present a true and fair view of Lewes District Council's financial position for the financial year ended 31 March 2017. The Council's accounting policies are outlined in this document and have been fairly and consistently applied. Proper and up to date accounting records have been kept and all reasonable steps to prevent and detect fraud and other irregularities have been taken.

The Deputy Chief Executive is the statutory officer responsible for the proper administration of the Council's financial affairs. He is required by law to confirm that the Council's system of internal control can be relied on to produce an accurate Statement of Accounts. His statement of assurance for 2016/17 appears on page 112 of this document.

## **The Core Financial Statements**

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

### Movement in Reserves Statement

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

# Introduction

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## Comprehensive Income and Expenditure Statement

This shows the accounting cost of providing all operational services in accordance with the Code, which is not the same as the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with statutory regulations. This is different from the accounting cost because, for example, councils do not have to pay for depreciation in the value of their assets out of council tax. The taxation position is shown in the Movement in Reserves Statement.

## Balance Sheet

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

## Cash Flow Statement

This shows the movements in cash and cash equivalents (short term deposits) of the Council during the reporting period. It shows how the Council generates and uses cash by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from fees and charges. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to supporting the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of loan capital to the Council.

## **Supplementary Financial Statements**

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

Housing Revenue Account (HRA) - This Account shows the economic cost of providing housing services in accordance with the Code, which is not the same as the amount to be funded from rents and other charges. Councils charge rents to cover expenditure in accordance with statutory regulations. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

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

# Narrative Report

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

- understand the financial position of Lewes District Council both at the end of the 2016/17 financial year and looking to the future;
- have confidence that the public money with which the Council has been entrusted has been used and accounted for in an appropriate manner; and
- be assured that the financial position of the Council is sound and secure.

The Accounts and Audit Regulations 2015 came into force on 1 April 2015 setting out requirements that local authorities must follow when preparing and publishing their annual accounts. These regulations require the Council to publish draft accounts by 30 June. Members of the public can then inspect the draft accounts (and supporting documents) and raise any questions or concerns with an independent auditor. The Council must publish audited accounts by 30 September.

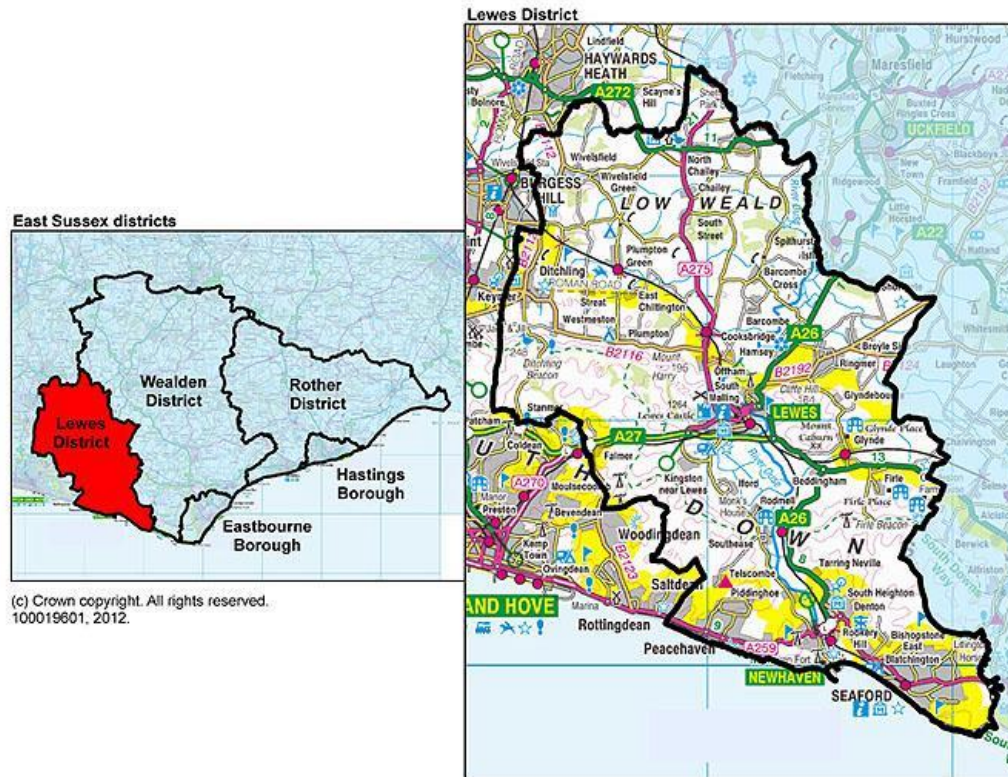
The style and format of the accounts complies with CIPFA standards. As a result, the information presented can be technical and complex to follow. The aim of this Narrative Report is to provide a more straightforward summary of the key issues affecting the Council and its finances. It sets out:

- An Introduction to Lewes District
- Some key facts
- How the Council operates
- The 2016/17 Revenue Budget Process
- Financial Performance of the Council 2016/17 – Revenue spending
- Financial Performance of the Council 2016/17 – Capital spending
- Non-Financial Performance of the Council 2016/17
- Corporate Risks
- Future Plans

# Narrative Report

## An Introduction to Lewes District

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



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

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

# Narrative Report

## Some key facts

Lewes DC has a population of 97,500 (2011 census). 77% of residents live within the five urban areas of Lewes, Newhaven, Peacehaven, Seaford and Telscombe Cliffs/East Saltdean. The rest live in our 23 rural parishes. Our population is projected to grow by 12% by 2030. Life expectancy is higher than the East Sussex average. Around 21% of people are living with a limiting long-term illness or disability and 19% have a disability, with both ratios likely to rise over the next decade or so. There is a higher than average occurrence of ill-health and mental health issues (including dementia) in some of our coastal communities.

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

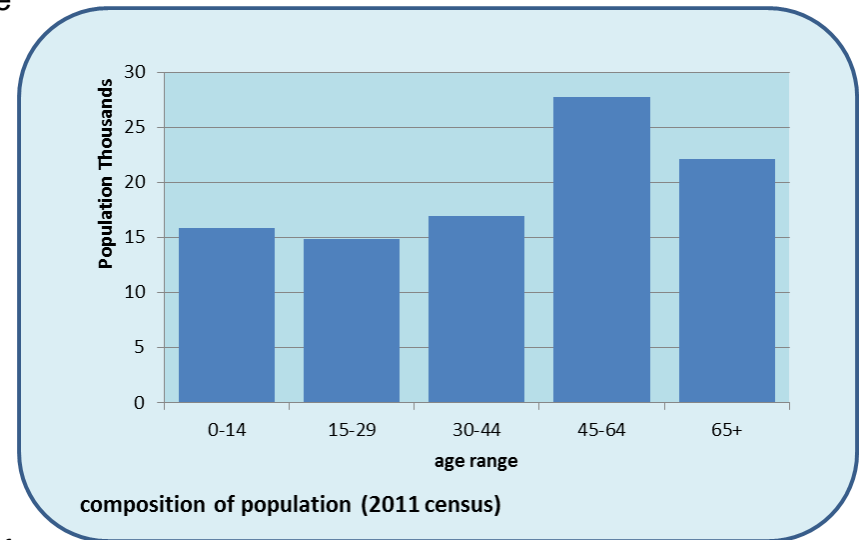
Unemployment is well below the East Sussex average, as is the number of people who are economically inactive but looking for work. There is a higher than average proportion of self-employed people. Average full-time weekly earnings are £560, lower than the average for South East England (£582).

Micro-businesses (between 1 and 10 employees) account for 88% of all local businesses, which is the average for the region.

## How the Council operates

Lewes DC is a complex organisation. Elected councillors direct our policies, which the Corporate Management Team then implements through the officers of the Council. There are 41 councillors representing 21 wards within the district. Full Council elections take place every four years, most recently in May 2015. The Conservative Party is the controlling political group, with 22 councillors.

All councillors meet together as the Council. Meetings of the Council are normally open to the public. Here councillors decide the Council's overall policies and set the budget each year. The Council appoints the members of the Scrutiny Committee and all other council committees – for example, the Audit and Standards Committee and the Planning Applications Committee. The Council





# Narrative Report

considers recommendations made to it by the Cabinet and the Scrutiny Committee as to any changes in policy which might need to be made.

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

At 31 March 2017, Cabinet members were:

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

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

Councillor Bill Giles – Cabinet Member for Finance

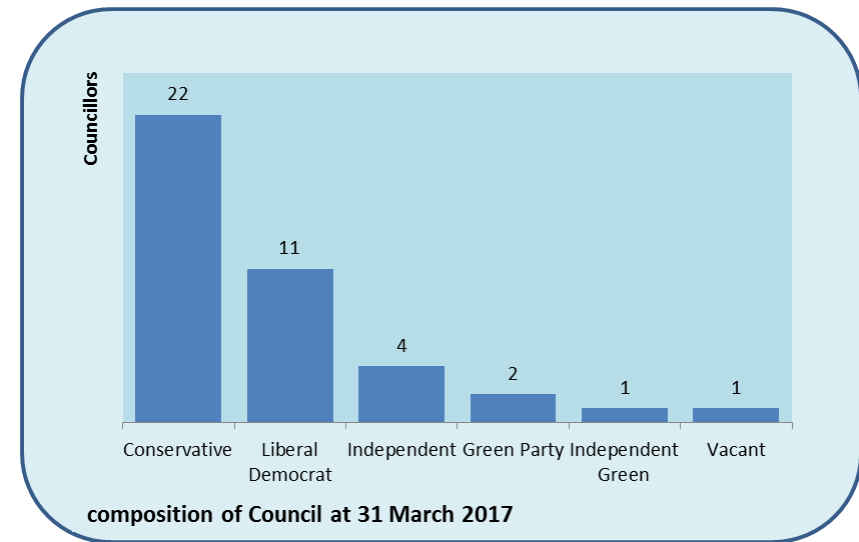
Councillor Paul Franklin – Cabinet Member for Waste and Recycling

Councillor Tom Jones – Cabinet Member for Planning

Councillor Isabelle Linington – Cabinet Member for Environmental Impact

Councillor Ron Maskell – Cabinet Member for Housing

Councillor Tony Nicholson – Cabinet Member for Customers and Partners



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

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

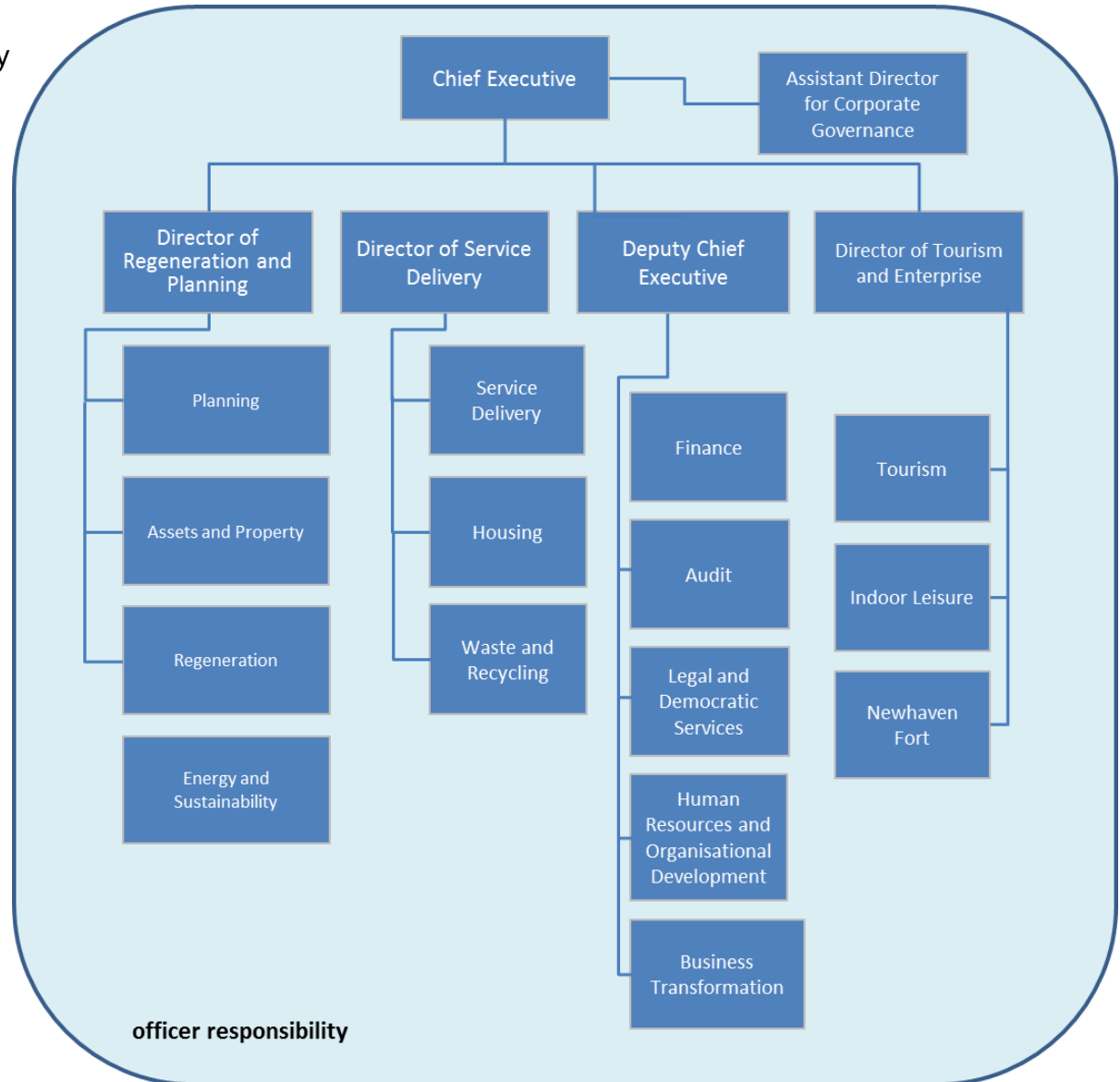
A member of the Minority Group chairs the Scrutiny Committee.

# Narrative Report

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

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

Lewes DC is engaging in a Joint Transformation Programme (JTP). Under the JTP we are integrating our staff and services with Eastbourne Borough Council (EBC) to provide more flexible, customer-focussed and cost-effective services. Together, both councils will roll out smarter technology and smoother business processes enabling us to serve customers as speedily and efficiently as possible. Local democratic accountability will be maintained – the elected Councils will remain separate and set their own priorities.

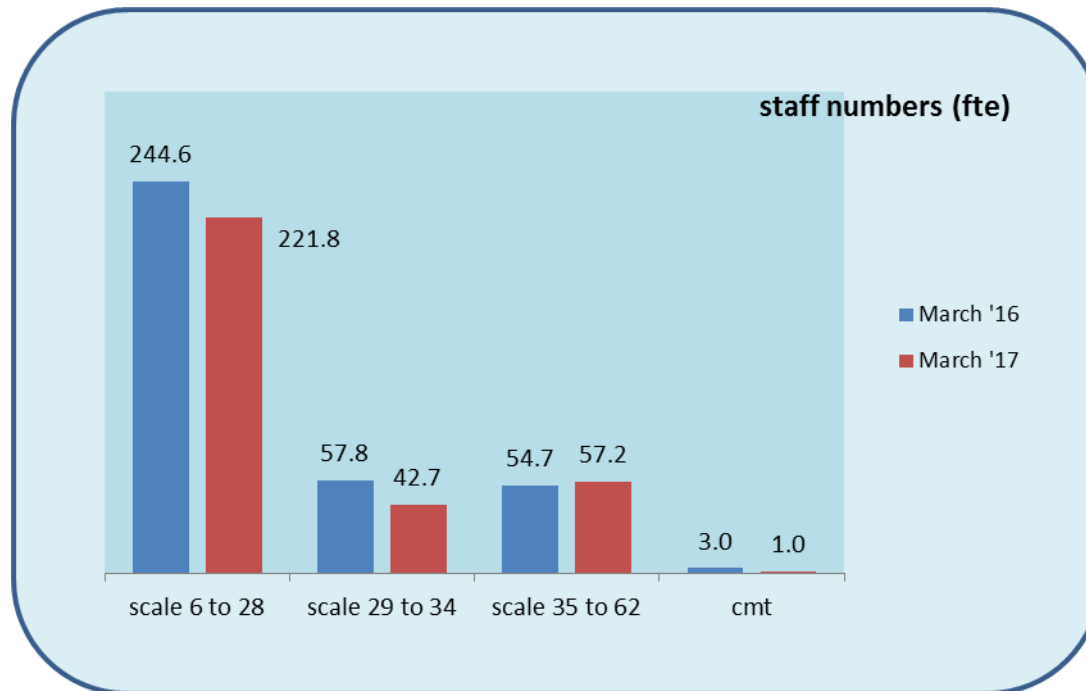




## Narrative Report

Over time, all services will be delivered by a joint workforce. In July 2016 appointments were made to a shared CMT, with the next level of management roles (Heads of Service) filled in March/April 2017. On 1 February 2017, EBC became the sole employer for both councils, with the majority of this Council's staff transferring on that day. The existing terms and conditions of employees were protected on transfer. Staff in two teams (Legal and Building Control) did not transfer to EBC and the Council continues as their employer.

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



In total, Lewes DC engaged (through direct employment or via EBC) 363 employees at the end of March 2017, compared with 399 at the close of the previous year. Not all employees work full-time. The number of full-time equivalent posts was 322.7 (previous year 360.1).

Much, but not all, of the Council's policies on pay, benefits and pensions is based on the National Agreement on Pay and Conditions of Service agreed by the National Joint Council for Local Government Services.

For most staff there is a nationally negotiated pay scale consisting of a large number of scale pay rates. We add a pay supplement to the national rates to reflect the higher cost of living in the South East and to keep our salaries competitive.

The Council Plan sets out our priorities and key projects. Most recently updated to cover the period 2016 to 2020, the four year plan sets out the key outcomes the Council will deliver with its partners for our District. The Plan has been informed and developed in consultation with our residents, partners and other stakeholders. We monitor the Plan and report progress to Cabinet each quarter. It is a 'living plan' that responds to changing times, and the financial context within which we operate, whilst keeping a focus on the needs of our local communities. We will refresh the Plan annually. We publish the Plan on our website

<http://www.lewes.gov.uk/council/1991.asp>

# Narrative Report

## The 2016/17 Revenue Budget Process

The 2016/17 revenue budget process was heavily influenced by the continued need to make significant reductions in expenditure in the medium term whilst progressing Council priorities.

In December 2015, the Government released provisional details of the amounts of funding that would be available to councils in 2016/17. It confirmed that, nationally, council 'spending power' would reduce by an average of 2.8% compared with the previous year. Lewes DC's reduction was 3.5%. The most significant reduction in spending power facing the Council would come as a result of the Government tailing back the Revenue Support Grant that it pays to the Council, from £1.70m to £0.99m. The Government moved away from its previous policy of encouraging councils to freeze the council tax. It signalled that any district council could approve a maximum increase of 2% without having to seek approval of local taxpayers in a referendum. The Government also offered each council the opportunity to agree to a 4-year grant settlement, to give certainty of funding in the medium-term. The Council accepted this offer, which will see the Revenue Support Grant that it receives phased out entirely by 2019/20.

In January 2016, the Scrutiny Committee considered the context of the 2016/17 budget setting round, including the reduction in Government funding. It noted the working assumption of a 1.9% council tax increase and the continuing need to make recurring savings in expenditure.

Cabinet met in February 2016, agreeing the core elements of the budget including a future savings plan, and proposals for the use of reserves and balances. On 25 February 2016, the Council approved the 2016/17 budget, including the amounts of Council Tax that would apply across the district, and the rent increase that would apply to council-owned homes. The Council continued with its policy of charging a general council tax applicable district-wide supplemented by an additional amount of council tax to recover 'special expenses'. These special expenses are the cost of managing and maintaining parks and open spaces. The special expenses element of the council tax varies between towns and villages, depending on the location of each park or open space.

	2014/15	2015/16	2016/17
	£	£	£
District wide	172.11	172.11	175.41
Special expenses	20.37	17.50	15.20
Total tax requirement	192.48	189.61	190.61

### Council Tax amounts (for a Band D property)

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

# Narrative Report

In setting the budget, the Council also confirmed a savings plan spanning the 4 years from 2016/17 to 2019/20.

In total, the savings target for this period was set at £2.8m. Planned savings, categorised as delivered, deliverable or requiring significant work or investment to deliver, were valued at £3.2m, exceeding the target.

<b>The 2020 Savings Plan</b>	<b>'16/17</b>	<b>'17/18</b>	<b>'18/19</b>	<b>'19/20</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Savings Requirement</b>	<b>685</b>	<b>763</b>	<b>756</b>	<b>617</b>	<b>2,821</b>
<b>The plan</b>					
Wave Leisure service fee reduction	100	100	100	100	400
Phasing out grant to Town and Parish Councils	35	67	67	67	236
Joint Transformation Programme (JTP)	400	400	400	400	1,600
Income generation – solar programme	150				150
Income generation – waste and recycling		300			300
Income generation - Regeneration			300	200	500
<b>Total Savings Target</b>	<b>685</b>	<b>867</b>	<b>867</b>	<b>767</b>	<b>3,186</b>
<b>Surplus target over Savings Requirement</b>	<b>0</b>	<b>104</b>	<b>111</b>	<b>150</b>	<b>365</b>

Delivered
Deliverable
Requires significant work/investment to deliver

In 2016/17, the JTP was expected to deliver savings of £0.4m, and £1.6m in total by 2019/20.

Enhanced budget monitoring arrangements introduced in 2015/16 in response to the challenging savings targets ahead of the Council continued: Cabinet received Quarterly budget monitoring information, highlighting key variation, alongside performance reports setting out progress against the non-financial targets in the Council Plan.

# Narrative Report

## Financial Performance of the Council in 2016/17 – Revenue spending

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

(a)	(b)	(c)	(d)
	2016/17	2016/17	= (c)–(b)
	budget	actual	variance
	£’000	£’000	£’000
<b>Management area</b>			
Director of Regeneration and Planning	44	(483)	(527)
Director of Service Delivery	9,151	8,873	(278)
Director of Tourism	759	781	22
Deputy Chief Executive	4,489	4,889	400
Corporate costs and income	662	1,167	505
Netting-off of reallocated costs included above	(3,288)	(3,581)	(293)
<b>Net cost of service provision</b>	<b>11,817</b>	<b>11,646</b>	<b>(171)</b>
Net Transfers to Reserves	780	1,180	400
<b>Total cost to be financed</b>	<b>12,597</b>	<b>12,826</b>	<b>229</b>

### General Fund – budget and actual spend

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

We budgeted to spend £11.817m on services in 2016/17. The actual cost was lower than this at £11.646m, a saving against the budget of £0.171m.

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

*Important note: The Financial Performance information given on pages 11 to 15 has been prepared on a management accounting basis. It excludes technical accounting entries (eg in respect of General Fund depreciation, finance lease accounting) and items where the Council is acting as an agent (eg collecting council tax to fund Town and Parish Council precepts). As a result, amounts shown will vary from those in the formal Financial Statements set out on page 26 onwards which are prepared on a financial accounting basis. The Expenditure and Funding Analysis (page 53), in which activities are grouped in a similar but not identical way to those in the table above, identifies the adjustments between management and financial accounts. The Council’s underlying financial position, including usable Reserves, is identical in its management and financial accounts.*

## Narrative Report

	£'000	£'000
One-off costs associated with voluntary severance	383	
Reduced cost of salaries	<u>(156)</u>	
Net reduction in employee costs		227
Additional expenditure:		
- Joint Transformation Programme (net of HRA)	317	
- Housing Benefits	277	
- Operating costs	399	
- Regeneration portfolio	137	
- Energy Joint Venture	48	
- Business engagement	<u>22</u>	1,200
Reduced Service income:		<u>192</u>
Sub-total to next column		<b>1,619</b>

	£'000	£'000
Sub-total from previous column		<b>1,619</b>
Reduced Service expenditure and efficiency savings		(677)
Increased Service income		
- Government funding for new initiatives, etc	(253)	
- Waste and recycling	(147)	
- Investment properties	(157)	
- Other services	<u>(556)</u>	(1,113)
<b>Total</b>		<u><b>(171)</b></u>

### General Fund variations against budget 2016/17

The £0.400m increase in the net amount transferred to Reserves shown in the table on page 11 comprises £0.618m additional transfers into Reserves (primarily the result of activities where balances are retained to smooth out costs between years and the transfer of Government grants received in 2016/17 ahead of future years' spending) offset by £0.218m increased use (primarily due to the phasing of the JTP programme).

Ref	Reserve	Balance at 1 April 2016 £'000	Contribution/ transfer 2016/17 £'000	Use 2016/17 £'000	Balance at 31 March 2017 £'000
1	Strategic Change	(3,657)	(2,642)	2,631	(3,668)
2	Asset Maintenance	(2,653)	(418)	480	(2,591)
3	Vehicle and Equipment Replacements	(2,440)	(320)	169	(2,591)
4	Economic Regeneration	(351)	0	77	(274)
5	Revenue Grants and Contributions pending use	(253)	(243)	96	(400)
6	Unallocated Reserve	(3,105)	813	4	(2,288)
7	<b>General Fund total</b>	<b>(12,459)</b>	<b>(2,810)</b>	<b>3,457</b>	<b>(11,812)</b>

## General Fund Reserves 2016/17

The General Fund's most significant sources of funding are from the Council Tax, Government Grants and Business Rates. Business Rates are shared with the Government, East Sussex County Council and East Sussex Fire Authority under a complex national 'retention' mechanism. In order to smooth the impact of business rates movements between years, we set aside £0.123m of additional business rates income received in 2016/17 by adding it to the Strategic Change Reserve.

At the end of March 2017, the total amount held in General Fund Reserves was £11.812m. All but £2.288m has been committed as funding for specific initiatives that will take place in future years including the JTP; the replacement of vehicles and equipment at the end of life; or major cyclical property works eg the replacement of a swimming pool tank.

(a)	(b) 2016/17 Budget £'000	(c) 2016/17 Actual £'000	(d) =(c) - (b) Variance £'000
Retained Business Rates	(2,430)	(2,638)	(208)
Non-specific Government Grants	(3,171)	(3,188)	(17)
Council Tax	(6,996)	(6,996)	0
Use of Uncommitted Reserve	0	(4)	(4)
<b>Total Financing</b>	<b>(12,597)</b>	<b>(12,826)</b>	<b>(229)</b>

## General Fund financing variations 2016/17



# Narrative Report

The HRA financial performance for 2016/17 (after financing specific one-off costs from balances set aside in previous years as planned) was a £0.542m net surplus of income over expenditure, compared with a surplus of £0.519m projected at the time that the Council approved the budget, a net positive variation of £0.023m.

	£'000
Reduced income from rents and service charges	36
Increase income from other sources	(37)
Increased expenditure:	
- employees including severance costs	186
- external advice	77
- Joint Transformation Programme	254
Reduced expenditure	(249)
Use of Special Projects element of HRA balance	(396)
Increase in contribution to Major Repairs Reserve	206
Miscellaneous net variations	(100)
<b>Total variation</b>	<b>(23)</b>

## Housing Revenue Account variations against budget

We actively managed planned and responsive repairs (which are accounted for as revenue expenditure) alongside major repairs, replacements and improvements (which fall within the HRA capital programme).

We allocated an appropriate share (£0.305m in total) of JTP costs to the HRA. The HRA holds funding for these one-off costs within the Special Projects element of the HRA balance. This was also used to finance the cost of a stock condition survey which had been deferred from 2015/16.

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

At 31 March 2017, we held £7.805m in HRA Reserves.

Ref	Reserve	Balance at 1 April 2016 £'000	Contribution/ transfer 2016/2017 £'000	Use 2016/2017 £'000	Balance at 31 March 2017 £'000
1	Major Repairs Reserve	(2,157)	(5,160)	2,384	(4,933)
2	HRA Balance	(2,726)	(542)	396	(2,872)
3	<b>HRA total</b>	<b>(4,883)</b>	<b>(5,702)</b>	<b>2,780</b>	<b>(7,805)</b>

## HRA Reserves 2016/17

# Narrative Report

## Financial Performance of the Council in 2016/17 – Capital spending

Capital programme spending relates to the major repair, enhancement, construction or purchase of long-term property assets such

as land, buildings and vehicles. The Council's Capital Programme is an allocation of financial resources (principally capital receipts from selling assets, grants or contributions received with specific conditions attached, and reserves) to these projects. In many cases these projects will span financial years, from initial design through to final completion.

The Council increased the General Fund Capital Programme in the year to include the acquisition of commercial properties which will generate rent income to support the budget in future years (£5.325m); the grant-funded purchase of sites in

	HRA housing £'000	Non-HRA housing £'000	General Fund £'000	Total £'000
Original allocation for year	5,252	735	6,217	12,204
Variations agreed in year including allocations c/fwd from 2015/16	4,378	347	8,616	13,341
Revised allocation for the 2016/17 year and beyond	<b>9,630</b>	<b>1,082</b>	<b>14,833</b>	<b>25,545</b>
Further variations	223	(51)	(173)	(1)
Final allocation	<b>9,853</b>	<b>1,031</b>	<b>14,660</b>	<b>25,544</b>
Less: Actual spend in 2016/17	(6,093)	(695)	(12,451)	(19,239)
Remaining allocations to be used in 2016/17 and beyond	<b>3,760</b>	<b>336</b>	<b>2,209</b>	<b>6,305</b>

### Capital Programme 2016/17

the North Street Quarter (£0.672m) to facilitate its redevelopment and in the Newhaven Enterprise Zone (£1.580m).

We spent £19.239m in total in the year. HRA spending included £3.6m on the construction of new homes on former garage sites.

Reserves constituted the largest single source of finance. We left £8.712m unfinanced, using our ability to borrow for capital projects provided it is prudent and affordable to do so.

	£'000
Unfinanced (Borrowing to be repaid)	8,712
Capital Receipts	1,907
Reserves	4,201
Capital Grants	2,125
Developer Contributions	151
Other Capital Contributions	2,138
Capital Expenditure Financed from Revenue (General Fund)	5
<b>Total</b>	<b>19,239</b>

### Capital programme financing 2016/17

# Narrative Report

## Non-financial Performance of the Council in 2016/17

Lewes DC's financial performance does not stand alone from service delivery. It is of fundamental importance that the Council monitors and assesses its performance on a regular basis, to ensure we continue to deliver excellent services to our communities in line with planned targets. Alongside this, it is also vital to monitor progress with key strategic projects, to ensure the Council is delivering what it has committed to or has set out to achieve.

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

The Council has an annual cycle for the preparation, delivery and monitoring of its corporate and service plans. This cycle enables us regularly to review the Council's work, and the targets it sets for performance, to ensure these continue to reflect customer needs and Council aspirations.

In 2016/17:

- 93% of the Council's key projects were either completed or on track at the end of the year
- 86% of the Council's performance targets were either met, exceeded or within acceptable levels during the year as a whole
- only 3 performance indicators did not meet the planned targets for the year

### Delivery of key projects 2016/17

#### *Regeneration and Business portfolio*

- The strategic regeneration projects (the North Street Quarter, the Newhaven Flood Alleviation Scheme, and the Newhaven Enterprise Zone) have all now launched and are currently on track with no significant risks arising.
- Third annual event took place on 14 July 2016 and was again very successful, attracting around 160 people, helping to promote and support local business.
- Arts and Culture Brand now proposed for progression through developing a new arts and culture brand and tourism offer in conjunction with Eastbourne Borough Council as a shared service.

## Delivery of key projects 2016/17

### *Housing portfolio*

- Project to extend use of temporary accommodation in the District through an expanded Private Sector Leasing scheme is now complete, delivering 24 additional leasehold properties.
- Development of Council owned sites (formerly used for garages) for the construction of 22 new Council homes for rent, using Local Growth Fund funding of £2.3m either completed or substantially completed by the end of March 2017.

### *Waste and Recycling portfolio*

- Waste strategy moved forward with decisions regarding future recycling and waste collection methods, including the decommissioning of the materials recycling facility at North Street, Lewes which was no longer fit for purpose and located in the North Street Quarter development site.
- Continued roll-out of Garden Waste collection service, with 1,300 new users in Lewes town, Ringmer and Kingston.
- Through partnership working with East Sussex County Council, Sussex Police and others, we have been very active in the past year tackling environmental crime. We have undertaken initiatives such as Paws on Watch and the fly-tipping reduction campaign which have positively reduced environmental crime across the district by engaging with our communities to increase reporting, change behaviour and encourage community participation to tackle the issues.

### *Customers and Partners portfolio*

- Continued to work with Wave Leisure to ensure they deliver the business plan we have agreed with them. In 2016/17 84% of users were satisfied against a target of 85%. Of the 213,087 visitors to leisure centres over the year, 2,389 were older people and 25,643 from rural areas.
- Continued to support key voluntary sector organisations in the district with grants of over £200,000. This enables our voluntary sector partners to enable and support other parts of the community and voluntary sector (3VA and AiRS) and to provide advice and support to those experiencing hardship or disadvantage (CAB and Sompriti).
- In 2016 we launched our new email alert service. This enables local residents to sign up to receive regular information on topics of their choice. 5,500 users were registered at the end of March 2017. Using this system we have undertaken simple

## Delivery of key projects 2016/17

surveys to gauge residents' views on a range of topics, including; recycling and food waste, our anti-social behaviour policy, developing online housing services, the redesign of a Lewes skate-park, playground improvements, the Newhaven air quality action plan, affordable housing policy guidance, tenant cleaning services.

### *Planning portfolio*

- The Local Plan is progressing to Pre-Submission with the public consultation planned for October 2017.
- East Sussex County Council is continuing to develop the Newhaven Port Access Road detailed design. Procurement documentation is being prepared and the scheme will go out for tender in Spring 2017. Final submission of the business case to Department of Transport is planned for early Summer 2017. Subject to approval of the business case, construction will start in late Summer 2017 financial year with completion anticipated in early 2019.
- Over the past year the Council has been active in lobbying of rail providers, including by the scrutiny committee, to tackle disruption to local rail services. The Council has also, through Team East Sussex and the Greater Brighton Economic Board, supported the establishment of a Sub-National Transport Body for the South East. This body will bring Network Rail, Highways England and the transport providers to the table with local authorities to align infrastructure investments with the priorities and growth plans of the region.









### *People and Performance portfolio*

- The Dementia Friends project has now completed successfully. Two volunteer Dementia Friends Champions within the Council have been recruited so we can offer periodic Dementia Friends Information sessions to staff and councillors into the future. The Havens and Lewes Dementia Action Alliance Groups are now established and are meeting regularly and are in the process of forming their action plans.

Alongside the portfolio specific projects, delivery of the Joint Transformation Programme continued to be a key initiative. Progress made in the year included: shared services established in the year for Property and IT services; an external shared IT supplier appointed to deliver shared network and telephony; Eastbourne BC becoming the sole employer in February 2017; and phase one of staff restructuring completed in March/April 2017.

# Narrative Report






## Key performance indicators 2016/17

KPI Description	2016/17 Target	Q1 Apr to June	Q2 July to Sept	Q3 Oct to Dec	Q4 Jan to Mar	Status	Year End Status
Percentage of invoices paid on time (within 30 days) – Housing	95%	97%	93%	96%	97%		There has been an improvement in the payment of all invoices within target times compared with 2015/16
Percentage of invoices paid on time (within 30 days) – all other	98%	95%	96%	97%	97%		
Percentage of Council Tax collected during the year	98%	29.7%	57.8%	85.6%	98.2%		
Percentage of Business Rates collected during the year	98%	29.8%	56.4%	83.5%	98%		
Percentage of rent collected during the year	95%	94%	94%	98%	98%		
Total number of days that families need to stay in emergency/B&B accommodation	15 days	0 days	0 days	0 days	0 days		
Total number of households living in:							The number in temporary accommodation is above the target due to the Council's decision in Feb 2016 to increase the Private Sector Leased stock to reduce reliance on emergency/B&B accommodation.
a) Emergency accommodation	<= 15	15	13	15	11		
b) Other temporary accommodation	<= 50	47	49	58	55		









# Narrative Report

## Key performance indicators 2016/17

KPI Description	2016/17 Target	Q1 Apr to June	Q2 July to Sept	Q3 Oct to Dec	Q4 Jan to Mar	Status	Year End Status
Average number of days to re-let Council homes (excluding temporary lets)	25 days	21 days	21 days	21 days	19 days		
The number of days taken to process new housing benefit/Council Tax reduction scheme claims	20 days	18.9 days	19.8 Days	18.4 Days	18.1 Days		
Overall Council tenants' satisfaction	90%	88%	90%	98%	88%		
Percentage of household waste sent for re-use, recycling and composting	-	27%	28%	27%	27%	-	No specific target established
Percentage of major planning applications determined within 13 weeks (Lewes District Council only)	80%	100%	100%	88%	33%		Three major planning applications were determined, but each was decided beyond the prescribed timescale, without extensions of time being agreed with the respective applicant. In each case steady progress was made while the application was live, and there was a specific reason for the delay.
Percentage of minor planning applications determined within 8 weeks (Lewes District Council/South Downs National Park combined)	75%	66%	88%	90%	94%		





# Narrative Report

## Key performance indicators 2016/17

KPI Description	2016/17 Target	Q1 Apr to June	Q2 July to Sept	Q3 Oct to Dec	Q4 Jan to Mar	Status	Year End Status
Percentage of <b>all</b> planning appeals allowed (officer/committee decisions)	< 33%	40%	0%	33%	28%		
Number of <b>major</b> applications for new housing granted planning permission following appeal (Lewes District Council only)	0	1	0	1	0		
Percentage of <b>major</b> planning applications allowed on appeal (as a percentage of major applications made to Lewes District Council)	< 10%	50%	0	16%	0%		
Outcome of planning appeals (costs awarded £)	-	£0	£0	£0	£0		No specific target established
Number of appeals where the Inspector has considered that there has been unreasonable behaviour by the Local Planning Authority	0	0	1	0	0		
Average working days lost to sickness per FTE staff	9.0 days	3.0 days	2.0 days	2.7 days	2.9 days		The overall total for the year was 10.6 days. This is a considerable reduction on the 12 days from 2015/16 and many other years prior to that.

# Narrative Report

## Key performance indicators 2016/17

KPI Description	2016/17 Target	Q1 Apr to June	Q2 July to Sept	Q3 Oct to Dec	Q4 Jan to Mar	Status	Year End Status
Number of relevant staff/councillors receiving dementia awareness training	-	7	0	3	5	-	No specific target established
Average time taken to answer telephone calls	< 30 seconds	13 seconds	12 Seconds	10 Seconds	14 Seconds		
Proportion of complaints received by Customer Hub responded to within target (currently 2 working days)	90%	97%	97%	98%	96%		
Number of new sign-ups to the Council's social media channels	-	231	246	171	234	-	No specific target established
Number of people registering for our email service	1,500	766	2,271	1,070	1,379		
Wave Leisure - visitors to leisure centres	945,000	234,787	204,418	213,087	268,824		Last quarter showed improved visitor figures and exceeded the quarterly target. Annual target was missed by 2.5% attributable to functions that did not occur in 2016/17, a risk which Wave is already attempting to mitigate for 2017/18.

# Narrative Report

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## Corporate Risks

The Council's risk management framework is outlined in its Risk Management Strategy, and it is fully established and embedded within the Council. There are robust systems for identifying and evaluating risk in the decision making and service planning processes. Strategic risks are updated and reported annually to the Audit and Standards Committee and Cabinet. Each risk is owned by a member of the Corporate Management Team. Operational risks are reviewed as part of service planning. Key staff are trained in the assessment, management and monitoring of risk. Risk assessment and management is an integral part of key Council projects.

Our most recent Strategic Risk Register (2016/17) identifies 15 key risks of which the top 5 are:

- Loss of IT services: Long or short term loss of IT and telephone systems through equipment failure, loss of key premises, and data corruption or loss (including cyber-attacks).
- Failure to achieve the Joint Transformation Programme with Eastbourne Borough Council: Failure to integrate our staff and services with Eastbourne Council to provide more flexible, customer focused and cost effective services which deliver the financial savings required.
- Loss of premises: Long term or short term loss of key office buildings or depots due to fire, flood or other damage.
- Major incident or emergency affecting the District or Region: Major incident caused by fire, flood or other disaster resulting in homelessness, disruption to Council services and local business community. Major infectious disease outbreak.
- Failure to achieve the Council's savings target: Inability to achieve planned level of efficiency savings or manage the income streams for those areas where government funding and other income has reduced.

Details of all key risks and the mitigations that are in place can be found in the Annual Report on Risk Management which the Audit and Standards Committee received on 20 June 2016

<https://lewes.cmis.uk.com/cm5/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/505/Meeting/691/Committee/192/Default.aspx>

## Future Plans

The General Fund budget for 2017/18 and the Medium Term Financial Strategy for the years through to 2019/20 were set in February 2017 in the context of the multi-year Government funding settlement which is intended to give participating local authorities increased certainty of funding through to 2019/20. Despite the multi-year settlement, the Government did reform the New Homes Bonus funding stream which it distributes annually to local authorities to provide an incentive to encourage housing

## Narrative Report

growth in their areas – the Council's share reduced from £1.6m in 2016/17 to £1.2m. In our modelling we took into account the potential impact of inflation, pay and pension changes, as well as the delivery of the Joint Transformation Programme. We updated our savings target accordingly. Over the four year period to 2020/21, the General Fund savings requirement is now £2.197m in total. Our savings target is £2.344m of which £0.9m is to come from the Joint Transformation Programme.

In October 2015, the Government announced that by the end of the 5-year Parliament, local authorities will be able to keep 100% of the business rates that they raise locally.

This is a fundamental change in the way that local government is financed. In order to ensure that the reforms are fiscally neutral, the main local government grant will be phased out and additional responsibilities will be devolved to local authorities.

Following the general election in June 2017, uncertainty surrounds the implementation of 100% business rates retention, which may no longer be a priority for the Government. We are not able to measure the impact on the Council until more information becomes available.

The Government legislated to reduce local authority tenants' rents by 1% each year for four years, starting in 2016/17. This reduces HRA income by £0.15m each year or £3.8m in total in real terms over the period.

	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Recurring Net Expenditure	10,625	11,224	10,539	10,165
Inflation	296	228	230	230
<b>Total Budget Requirement with inflation</b>	<b>10,921</b>	<b>11,452</b>	<b>10,769</b>	<b>10,395</b>
Savings targets (corporate)	(300)	(913)	(604)	(38)
Base Contribution to Reserves	603	0	0	0
<b>Sub-total</b>	<b>11,224</b>	<b>10,539</b>	<b>10,165</b>	<b>10,357</b>
<i>Non-recurring items</i>				
New Homes Bonus contribution to Reserve	1,247	771	738	697
New Homes Bonus used to support reduction in Retained Business Rates	(113)	0	0	0
Transition expenditure	84	0	0	0
<b>Net Budget Requirement</b>	<b>12,442</b>	<b>11,310</b>	<b>10,903</b>	<b>11,054</b>
Financed by:				
Council Tax	(7,355)	(7,324)	(7,434)	(7,612)
Retained Business Rates	(2,958)	(2,832)	(2,388)	(2,436)
Government Grants	(2,129)	(1,154)	(1,081)	(1,006)
<b>Sources of Finance</b>	<b>(12,442)</b>	<b>(11,310)</b>	<b>(10,903)</b>	<b>(11,054)</b>

### General Fund Medium Term Finance Strategy projections

## Narrative Report

The Government has also legislated to require every local housing authority to pay an annual levy, with the amount equal to the potential sale proceeds from selling higher value homes each year. Some exemptions may apply (for example the Council has many homes within the South Downs National Park which may be excluded from the levy calculation). Again, implementation of this legislation may no longer be a priority for the Government and we need more details before we can establish the likely impact on our 30-year housing business plan.

We are continuing to allocate significant amounts in our Capital Programme, which (as at June 2017) has a total value of £21m in 2017/18. Of particular importance are investment in commercial property to generate rent income in support of the budget; the continuation of the JTP which is essential to the delivery of budget savings; and changes to the Waste and Recycling Service to improve performance and reduce cost.

to

	<b>2017/18</b>		<b>2017/18</b>
	<b>£'000</b>		<b>£'000</b>
New Homes	910	Borrowing	5,542
Improvements to Council homes	8,003	Capital Receipts from asset sales	674
Recreation and play areas	63	Reserves	13,043
Rooms in Roof conversions	367	Capital Grants	1,271
<b>Total HRA Investment</b>	<b>9,343</b>	Developer Contributions	378
Private Sector Housing Support	158	General Fund Revenue contribution	136
Disabled Facilities Grants	1,235		
<b>Total Private Sector Housing investment</b>	<b>1,393</b>		
Commercial Property acquisition & development	5,094		
Joint Transformation Programme	1,542		
Implementing change to Waste and Recycling	1,800		
Vehicle, plant, equipment, IT replacement	483		
Coastal defence and flood alleviation works	172		
Leisure facilities major repair and improvements	306		
Parks, recreation and play areas	510		
Property Assets Major Works	401		
Total General Fund Investment	<b>10,308</b>		
<b>Total spending allocation</b>	<b>21,044</b>	<b>Total Financing</b>	<b>21,044</b>

### Capital Programme 2017/18



## 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
<b>Balance at 1 April 2016</b>	<b>(2,066)</b>	<b>(10,719)</b>	<b>(2,726)</b>	<b>(7,593)</b>	<b>(2,157)</b>	<b>(100)</b>	<b>(25,361)</b>	<b>(181,142)</b>	<b>(206,503)</b>
<b>Movement in Reserves during 2016/17</b>									
Total comprehensive income and expenditure	(4,930)	0	(2,187)	0	0	0	(7,117)	(23,854)	(30,971)
Adjustments between accounting basis and funding basis under regulations (Note 10 page 58)	5,557	0	2,041	2,345	(2,776)	(1,999)	5,168	(5,168)	0
<b>Net increase or (decrease) before transfers to earmarked reserves</b>	<b>627</b>	<b>0</b>	<b>(146)</b>	<b>2,345</b>	<b>(2,776)</b>	<b>(1,999)</b>	<b>(1,949)</b>	<b>(29,022)</b>	<b>(30,971)</b>
Transfers from earmarked reserves (Note 11 page 65)	(623)	623	0	0	0	0	0	0	0
<b>Increase or (decrease) in 2016/17</b>	<b>4</b>	<b>623</b>	<b>(146)</b>	<b>2,345</b>	<b>(2,776)</b>	<b>(1,999)</b>	<b>(1,949)</b>	<b>(29,022)</b>	<b>(30,971)</b>
<b>Balance at 31 March 2017</b>	<b>(2,062)</b>	<b>(10,096)</b>	<b>(2,872)</b>	<b>(5,248)</b>	<b>(4,933)</b>	<b>(2,099)</b>	<b>(27,310)</b>	<b>(210,164)</b>	<b>(237,474)</b>

## 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
<b>Balance at 1 April 2015</b>	<b>(1,552)</b>	<b>(10,343)</b>	<b>(2,638)</b>	<b>(4,616)</b>	<b>(1,112)</b>	<b>(300)</b>	<b>(20,561)</b>	<b>(132,475)</b>	<b>(153,036)</b>
<b>Movement in Reserves during 2015/16</b>									
Total comprehensive income and expenditure	835	0	(20,112)	0	0	0	(19,277)	(34,190)	(53,467)
Adjustments between accounting basis and funding basis under regulations (Note 10 page 58)	(1,725)	0	20,024	(2,977)	(1,045)	200	14,477	(14,477)	0
<b>Net increase or (decrease) before transfers to earmarked reserves</b>	<b>(890)</b>	<b>0</b>	<b>(88)</b>	<b>(2,977)</b>	<b>(1,045)</b>	<b>200</b>	<b>(4,800)</b>	<b>(48,667)</b>	<b>(53,467)</b>
Transfers to earmarked reserves (Note 11 page 65)	376	(376)	0	0	0	0	0	0	0
<b>Increase or (decrease) in 2015/16</b>	<b>(514)</b>	<b>(376)</b>	<b>(88)</b>	<b>(2,977)</b>	<b>(1,045)</b>	<b>200</b>	<b>(4,800)</b>	<b>(48,667)</b>	<b>(53,467)</b>
<b>Balance at 31 March 2016</b>	<b>(2,066)</b>	<b>(10,719)</b>	<b>(2,726)</b>	<b>(7,593)</b>	<b>(2,157)</b>	<b>(100)</b>	<b>(25,361)</b>	<b>(181,142)</b>	<b>(206,503)</b>

# Comprehensive Income and Expenditure Statement

RESTATED 2015/16				2016/17		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
4,929	(2,736)	<b>2,193</b>	Director of Regeneration and Planning	5,110	(2,770)	<b>2,340</b>
52,171	(41,256)	<b>10,915</b>	Director of Service Delivery	49,400	(39,827)	<b>9,573</b>
1,381	(152)	<b>1,229</b>	Director of Tourism	1,752	(173)	<b>1,579</b>
5,002	(293)	<b>4,709</b>	Deputy Chief Executive	5,348	(239)	<b>5,109</b>
(7,307)	(16,872)	<b>(24,179)</b>	Local authority housing (Housing Revenue Account)	11,699	(16,606)	<b>(4,907)</b>
1,036	(109)	<b>927</b>	Corporate costs and income	1,088	(95)	<b>993</b>
(2,621)	0	<b>(2,621)</b>	Corporate recharges	(2,778)	0	<b>(2,778)</b>
0	0	<b>0</b>	Material Item: Pension Service Cost Settlements (Note 6)	(2,671)	0	<b>(2,671)</b>
<b>54,591</b>	<b>(61,418)</b>	<b>(6,827)</b>	<b>Cost of Services</b>	<b>68,948</b>	<b>(59,710)</b>	<b>9,238</b>
5,342	(726)	<b>4,616</b>	Other operating expenditure (Note 12)	4,507	(251)	<b>4,256</b>
3,058	(354)	<b>2,704</b>	Financing and investment income and expenditure (Note 13)	2,886	(994)	<b>1,892</b>
7,767	(27,537)	<b>(19,770)</b>	Taxation and non-specific grant income (Note 14)	7,872	(30,375)	<b>(22,503)</b>
<b>70,758</b>	<b>(90,035)</b>	<b>(19,277)</b>	<b>Surplus on the provision of services</b>	<b>84,213</b>	<b>(91,330)</b>	<b>(7,117)</b>
		<b>(23,955)</b>	Surplus on revaluation of property, plant and equipment assets (Note 22)			<b>(15,281)</b>
		<b>(10,235)</b>	Re-measurement of net defined benefit liability (Note 35)			<b>(8,573)</b>
		<b>(34,190)</b>	<b>Other comprehensive income and expenditure</b>			<b>(23,854)</b>
		<b>(53,467)</b>	<b>Total comprehensive income and expenditure</b>			<b>(30,971)</b>

# Balance Sheet


<b>31 March 2016 £000</b>			<b>31 March 2017 £000</b>
267,667	Property, Plant and Equipment	Note 15	<b>285,706</b>
2,551	Heritage Assets	Note 16	<b>2,513</b>
4,321	Investment Property	Note 17	<b>9,711</b>
427	Intangible Assets		<b>980</b>
571	Long Term Debtors	Note 18	<b>546</b>
<b>275,537</b>	<b>Long Term Assets</b>		<b>299,456</b>
2,996	Short Term Investments	Note 18	<b>8,817</b>
85	Inventories		<b>97</b>
6,368	Short Term Debtors	Note 19	<b>12,449</b>
10,182	Cash and Cash Equivalents	Note 18	<b>260</b>
<b>19,631</b>	<b>Short Term Assets</b>		<b>21,623</b>
0	Cash and Cash Equivalents	Note 18	<b>(355)</b>
(235)	Short Term Borrowing	Note 18	<b>(4,234)</b>
(5,714)	Short Term Creditors	Note 20	<b>(6,578)</b>
(760)	Provisions		<b>(720)</b>
(2)	Capital Grants Receipts in Advance	Note 31	<b>0</b>
<b>(6,711)</b>	<b>Short Term Liabilities</b>		<b>(11,887)</b>
(1,280)	Long Term Creditors	Note 31	<b>(1,384)</b>
(56,673)	Long Term Borrowing	Note 18	<b>(56,673)</b>
(22,426)	Defined Pension Scheme Liability	Note 35	<b>(12,071)</b>
(529)	Other Long Term Liabilities	Note 18	<b>(392)</b>
(1,046)	Capital Grants Receipts in Advance	Note 31	<b>(1,198)</b>
<b>(81,954)</b>	<b>Long Term Liabilities</b>		<b>(71,718)</b>
<b>206,503</b>	<b>Net Assets</b>		<b>237,474</b>

# Balance Sheet

31 March 2016 £000		31 March 2017 £000
(2,066)	General Fund Balance	(2,062)
(10,719)	Earmarked General Fund Reserves	(10,096)
(2,726)	Housing Revenue Account Balance	(2,872)
(7,593)	Capital Receipts Reserve	(5,248)
(2,157)	Major Repairs Reserve	(4,933)
(100)	Capital Grants Unapplied	(2,099)
<b>(25,361)</b>	<b>Usable Reserves</b>	<b>(27,310)</b>
	Note 21	
(45,642)	Revaluation Reserve	(58,774)
(158,040)	Capital Adjustment Account	(163,341)
(11)	Financial Instruments Adjustment Account	(7)
22,426	Pension Reserve	12,071
(524)	Deferred Capital Receipts	(546)
563	Collection Fund Adjustment Account	358
86	Accumulated Absences Account	75
<b>(181,142)</b>	<b>Unusable Reserves</b>	<b>(210,164)</b>
	Note 22	
<b>(206,503)</b>	<b>Reserves</b>	<b>(237,474)</b>

## Certificate of the Responsible Financial Officer

In compliance with Part 3 regulation 9(3) of The Accounts and Audit Regulations 2015 I certify that the Statement of Accounts for the financial year 2016/17 presents a true and fair view of the financial position of Lewes District Council at 31 March 2017 and of its income and expenditure for that year.

Signed .....  Alan Osborne  
Deputy Chief Executive

Date 28 September 2017 Statutory Section 151 Officer

## Cash Flow Statement

<b>2015/16</b>		<b>2016/17</b>
<b>£000</b>		<b>£000</b>
19,277	Net surplus on the provision of services	7,117
(9,929)	Adjustments to net surplus on the provision of services for non-cash movements (Note 23)	1,942
(8,276)	Adjustments for items included in the net surplus on the provision of services that are investing and financing activities (Note 24)	(8,247)
<b>1,072</b>	<b>Net cash flows from operating activities</b> (Note 27)	<b>812</b>
(4,837)	Investing activities (Note 25)	(15,571)
598	Financing activities (Note 26)	4,482
<b>(3,167)</b>	<b>Net (decrease) in cash and cash equivalents</b>	<b>(10,277)</b>
13,349	Cash and cash equivalents at the beginning of the reporting period.	10,182
<b>10,182</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>(95)</b>

### Components of Cash and Cash Equivalents

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

<b>31 March</b>		<b>31 March</b>
<b>2016</b>		<b>2017</b>
<b>£000</b>		<b>£000</b>
1	Cash held by the Council	2
1,431	Bank accounts	258
0	Bank overdraft	(355)
8,750	Short-term deposits	0
<b>10,182</b>	<b>Cash and Cash Equivalents on the Balance Sheet at 31 March</b>	<b>(95)</b>



# Explanatory Notes to the Core Financial Statements

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

The accounting policies applied in 2016/17 are consistent with those applied in 2015/16.

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 'Code') has introduced presentational changes to the Comprehensive Income and Expenditure Statement that have required the figures for 2015/16 to be restated. For 2015/16 the service analysis reported within Cost of Services in the Comprehensive Income and Expenditure Statement was required to follow the Service Reporting Code of Practice 2015/16. However, for 2016/17 the Code requires the analysis within Cost of Services to be based on the organisational structure under which the authority operates and manages its services.

The new reporting analysis required for the Comprehensive Income and Expenditure Statement is supplemented by two new explanatory notes; Expenditure and Funding Analysis (Note 8) and Expenditure and Income Analysed by Nature (Note 9). The note entitled 'Amounts Reported for Resource Allocation Decisions' previously included in 2015/16 has been discontinued.

## **Note 2. ACCOUNTING POLICIES**

### **1) General Principles**

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017.

The Accounts and Audit Regulations 2015 require the Council to prepare an annual Statement of Accounts in accordance with proper accounting practices. Proper accounting practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 'Code') supported by International Financial Reporting Standards (IFRS).

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

# Explanatory Notes to the Core Financial Statements

## 2) Accruals of Income and Expenditure

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

In particular:

- Income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser, and it is probable that economic benefits/service potential associated with the transaction will flow to the Council.
- Income from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that the economic benefits or service potential of the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, and where amounts are significant, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded on the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

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

### Accounting for Council Tax

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

The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year. The difference between this value and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account via the Movement in Reserves Statement. Revenue relating to Council Tax shall be measured at the full amount receivable (net of any impairment losses) as the transactions are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

## Explanatory Notes to the Core Financial Statements

The cash collected by the Council from Council Tax payers belongs proportionately to the Council and the major preceptors. The difference between the amounts collected on behalf of the major preceptors and the payments made to them is reflected as a debtor or creditor balance as appropriate.

### Accounting for Non Domestic Rates (NDR)

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

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

### **3) Cash and Cash Equivalents**

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

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

# Explanatory Notes to the Core Financial Statements

## 4) Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. The Council has determined that this amount will be equal to either 4% of the underlying amount measured by the adjusted Capital Financing Requirement, excluding amounts attributable to Housing Revenue Account activity, or, in respect of expenditure incurred after 1 April 2008, an amount based on the expected life of the asset.

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

## 5) Employee Benefits

### Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, honoraria and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable at the year-end because the difference between these and the wage and salary rates applicable in the following accounting year when the employee takes the benefit, will not be material. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

## Explanatory Notes to the Core 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 in exchange for those benefits, and are charged on an accruals basis to the relevant service line in the Cost of Services section of the Comprehensive Income and Expenditure Statement when the Council can no longer withdraw the offer of benefits or when the Council recognises costs for restructuring. When termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and any such amounts payable but unpaid at the year-end.

### Post-Employment Benefits

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

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

- The liabilities of the East Sussex County Council pension fund attributable to the Council are included on the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of future earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bond (iBoxx Sterling Corporates AA over 15 years index) chosen by the Actuary.
- The assets of the East Sussex County Council pension fund attributable to the Council are included in the balance sheet at their fair value:
  - quoted securities – current bid value
  - unquoted securities – professional estimate
  - unitised securities – current bid value
  - property – market value
- The change in the net pensions liability is analysed into the following components:

## Explanatory Notes to the Core Financial Statements

- current service cost - the increase in liabilities as a result of years of service earned this year allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- past service cost – the increase or decrease in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – charged or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
- net interest on the net defined benefit liability (i.e. net interest expense for the Council) – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability - charged to the Pension Reserve as Other Comprehensive Income and Expenditure.
  - actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuary has updated his assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the East Sussex County Council pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being able to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### Discretionary Benefits

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

# Explanatory Notes to the Core Financial Statements

## 6) Events after the Balance Sheet date

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

Two types of events can be identified:

- Adjusting events - those that provide evidence of conditions that existed at the end of the reporting period - the Statement of Accounts is adjusted to reflect such events where they have a material effect
- Non-adjusting events - those that are indicative of conditions that arose after the reporting period - the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## 7) Fair Value Measurement

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

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

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

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

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



# Explanatory Notes to the Core Financial Statements

## 8) Financial Instruments

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the borrowings that the Council has, this means that the amount presented on the Balance Sheet is the outstanding principal repayable (plus the accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

### Financial Assets

Financial assets are classified into two types:

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

### Loans and Receivables

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

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

### Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a



## Explanatory Notes to the Core Financial Statements

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

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

- instruments with quoted market prices – the market price

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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

### **9) Government Grants and Other Contributions**

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

- the Council will comply with the conditions attached to the payments, and
- the grants and contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the

## Explanatory Notes to the Core Financial Statements

recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as creditors. When conditions are satisfied the grant or contribution is credited to the relevant service line (for attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (for non-ringfenced revenue grants and all capital grants and contributions) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account (CAA). Amounts in the Capital Grants Unapplied Reserve are transferred to CAA once they have been applied to fund capital expenditure.

### Community Infrastructure Levy

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

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

## **10) Heritage Assets**

### Tangible heritage assets

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

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

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

## Explanatory Notes to the Core Financial Statements

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

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

Carrying amounts of heritage assets are reviewed where there is evidence of impairment, e.g. where an item has suffered physical deterioration or breakage, and any impairment is recognised and measured in accordance with the general policies on impairment. Depreciation of Newhaven Fort is calculated on a straight-line allocation over the useful life of the asset as estimated by the valuer.

### **11) Investment property**

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

Investment properties are measured initially at cost and subsequently at fair value, based on the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation (and on disposal) are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) to the Capital Receipts Reserve.

### **12) Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

## Explanatory Notes to the Core Financial Statements

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

### **The Council as Lessee**

#### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower).

The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

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

#### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. if there is a rent-free period at the commencement of the lease).

### **The Council as Lessor**

#### Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset on the Balance Sheet is written

## Explanatory Notes to the Core Financial Statements

off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease debtor (long-term debtor) on the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

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

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

### Operating Leases

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

### **13) Overheads and Support Services**

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

## Explanatory Notes to the Core Financial Statements

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

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

Changes to accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. When a change is made it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always applied.

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

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change, and do not give rise to a prior period adjustment.

### 15) Property, Plant and Equipment

#### Definition and Categories

Assets that have physical substance and are held for use in the provision of services, for rental to others, or for administrative purposes, and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the asset will flow to the Council and the cost of the asset can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged to the Comprehensive Income and Expenditure Account as an expense when it is incurred. Assets valued at less than £10,000 are not included on the Balance Sheet, provided that the total excluded has no material impact.

#### Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

## Explanatory Notes to the Core Financial Statements

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

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

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

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

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

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

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

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

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

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

### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist



## Explanatory Notes to the Core Financial Statements

and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

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

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

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

### Depreciation

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

Depreciation is calculated on the following bases:

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

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

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.



## Explanatory Notes to the Core Financial Statements

### Disposals

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

When an asset is disposed of or decommissioned, the carrying amount of the asset on the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account (CAA).

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the Capital Receipts Reserve from the General Fund Balance in the Movement in Reserves Statement (MiRS). The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the CAA from the General Fund Balance in the MiRS.

## **16) Provisions, Contingent Liabilities and Contingent Assets**

### Provisions

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried on the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service line.

## Explanatory Notes to the Core Financial Statements

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

### Contingent Liabilities

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

Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised on the Balance Sheet but disclosed in a note to the Financial Statements.

### **17) Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

### **18) Revenue Expenditure Funded From Capital Under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

# Explanatory Notes to the Core Financial Statements

## 19) Value Added Tax (VAT)

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

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

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not adopted. This applies to the adoption of the following new or amended standards within the 2017/18 Code:

- Amendment to the reporting of pension fund scheme transaction costs
- Amendment to the reporting of investment concentration

These amendments are not expected to have any effect on the Council's Statement of Accounts.

### **Note 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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

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

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

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

## Explanatory Notes to the Core Financial Statements

The items on the Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

- **Pension Liability:** estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The effects on the net pension liability of changes in individual assumptions can be measured. For instance a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £6 million. The effects of other changes in individual assumptions are set out within Note 35.
- **Impairment of Doubtful Debts:** the Council has included in its accounts an allowance for the impairment of doubtful debts of £1.6 million at 31 March 2017 based on an assessment of future recoverability. However if collection rates were to deteriorate an increase in the amount of the impairment would be required.
- **Property, Plant and Equipment:** assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. Reductions in funding may make it difficult for the Council to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amounts of the assets falls. The annual depreciation charge for buildings would increase in these circumstances.  
The Council operates a policy of revaluing its Property, Plant and Equipment on a rolling five year basis. Details of revaluations and the significant assumptions applied in estimating values of land and buildings are set out within Note 15.
- **Investment Property:** the Council operates a policy of revaluing its Investment Property on an annual basis. Details of the valuation basis employed are set out within Note 17.
- **Provisions:** the Council has made a provision of £720,000 for its share of any successful appeals made by businesses against non-domestic rates charged in 2016/17 and earlier years. This is a best estimate based on the Valuation Office Agency list of ratings appeals and an analysis of successful appeals to date. If this estimate proves to be inaccurate an adjustment to the amount of the provision will be required in future financial statements.

### Note 6. MATERIAL ITEMS OF INCOME AND EXPENSE

Following the large scale transfer of Lewes District Council staff to Eastbourne Borough Council with effect from 1 February 2017 the East Sussex County Council pension fund actuary undertook an estimate of the cost of the effects of settlement.

The results of the estimate, which are shown in Note 35, are that the value of scheme assets transferred is £28.168 million and the value of scheme liabilities transferred is £30.839 million. The net effect of this movement - £2.671 million - is shown separately as Material Item: Pension Service Cost Settlement on the face of the Comprehensive Income and Expenditure Statement.

# Explanatory Notes to the Core Financial Statements

## Note 7. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Deputy Chief Executive on 28 September 2017. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2017 the figures in the financial statements and notes have been adjusted in all material respects to reflect the impacts of this information.

### Non-Adjusting Event

The financial statements and notes have not been adjusted for the following event which took place after 31 March 2017 as it provides information that is relevant to an understanding of the Council's financial position but does not relate to conditions at that date.

On 1 April 2017 a national business rates revaluation came into effect. The revaluation is carried out by the Valuation Office Agency and is based on property values at 1 April 2015. Revaluations take into account changes in the property market and are based on the open market rental value of properties.

Revaluations normally occur every 5 years but the Government extended the last revaluation, commencing on 1 April 2010, by two years.

The revaluation resulted in the rateable value for the Council's area increasing from £65,332,450 as at 31 March 2017 to £70,711,124 on 1 April 2017.

When revaluations occur, the Government adjusts the multipliers so that the total amount of business rates collected across England and Wales remains at the amount of the previous year adjusted upwards for inflation. The multipliers with effect from 1 April 2017 are:

- Small business multiplier, which applies to those who qualify for small business relief, is 46.6 pence in the pound (48.4 pence in 2016/17)
- Standard multiplier, which applies to all billing authorities, is 47.9 pence in the pound (49.7 pence in 2016/17)

The effect of this is to increase the gross business rates yield for the Council's area by 4%.

However, the amount of business rates income actually retained by the Council will not increase by this percentage because the Government also reset the Tariff amount that the Council must pay on business rates income and there is a significant increase in business rates reliefs. It is estimated that the Council's net retained income from business rates for 2017/18 will not be materially different to the 2016/17 amount.

# Explanatory Notes to the Core Financial Statements

## Note 8. EXPENDITURE AND FUNDING ANALYSIS

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

Expenditure chargeable to General Fund and HRA balances £000	Adjustments between funding and accounting basis £000	2015/16 Net Expenditure in the CIES £000		Expenditure chargeable to General Fund and HRA balances £000	Adjustments between funding and accounting basis £000	2016/17 Net Expenditure in the CIES £000
107	2,086	2,193	Director of Regeneration and Planning	(483)	2,823	2,340
8,838	2,077	10,915	Director of Service Delivery	8,873	700	9,573
748	481	1,229	Director of Tourism	781	798	1,579
4,479	230	4,709	Deputy Chief Executive	4,889	220	5,109
(88)	(24,091)	(24,179)	Local authority housing (HRA)	(146)	(4,761)	(4,907)
1,206	(279)	927	Corporate costs and income	1,167	(174)	993
(3,452)	831	(2,621)	Corporate recharges	(3,581)	803	(2,778)
0	0	0	Material Item: Pension Service Cost Settlements	0	(2,671)	(2,671)
11,838	(18,665)	(6,827)	<b>Cost of Services</b>	11,500	(2,262)	9,238
2,785	1,831	4,616	Other operating expenditure	3,072	1,184	4,256
0	2,704	2,704	Financing and investment income and expenditure	(1)	1,893	1,892
(16,460)	(3,310)	(19,770)	Taxation and non-specific grant income	(15,893)	(6,610)	(22,503)
(13,675)	1,225	(12,450)	<b>Other Income and Expenditure</b>	(12,822)	(3,533)	(16,355)
859	(859)	0	<b>Net transfers to reserves</b>	1,803	(1,803)	0
(978)	(18,299)	(19,277)	<b>(Surplus)/Deficit on provision of services</b>	481	(7,598)	(7,117)

## Explanatory Notes to the Core Financial Statements

2015/16		2016/17
£000		£000
(14,533)	<b>Opening General Fund and HRA</b>	<b>(15,511)</b>
(978)	<b>balances</b>	
	<b>(Surplus) or Deficit on General Fund and</b>	<b>481</b>
	<b>HRA balances in year</b>	
<u>(15,511)</u>	<b>Closing General Fund and HRA balances</b>	<u><b>(15,030)</b></u>

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

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

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



## Explanatory Notes to the Core Financial Statements

### Adjustments for capital purposes (note 1)

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

### Net change for pension adjustments (note 2)

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

### Other differences (note 3)

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

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

### Changes in Presentation (note 4)

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



## Explanatory Notes to the Core Financial Statements

Comparative figures for 2015/16

	Adjustments for Capital Purposes (note 1) £000	Net Change for Pension Adjustments (note 2) £000	Other Differences (note 3) £000	Changes in Presentation (Note 4) £000	Total Adjustments £000
Director of Regeneration and Planning	1,127	105	59	795	2,086
Director of Service Delivery	2,605	341	75	(944)	2,077
Director of Tourism	481	0	0	0	481
Deputy Chief Executive	215	0	15	0	230
Local authority housing (HRA)	(23,368)	0	(723)	0	(24,091)
Corporate costs and income	(1,268)	71	(188)	1,106	(279)
Corporate recharges	0	108	723	0	831
Cost of Services	(20,208)	625	(39)	957	(18,665)
Other operating expenditure	1,594	0	0	237	1,831
Financing and investment income and expenditure	2,018	1,003	0	(317)	2,704
Taxation and non-specific grant income	(3,767)	0	475	(18)	(3,310)
Net transfers to reserves	0	0	0	(859)	(859)
Difference between General Fund and HRA surplus or deficit and the Comprehensive Income and Expenditure Statement Surplus on the Provision of Services	(20,363)	1,628	436	0	(18,299)

## Explanatory Notes to the Core Financial Statements

### Note 9. EXPENDITURE AND INCOME ANALYSED BY NATURE

The Council's expenditure and income is analysed as follows:

	2015/16 £000	2016/17 £000
Employees	15,294	14,081
Other service expenses	53,693	52,212
Depreciation, amortisation, impairment/(reversals), de-recognition of components	(10,977)	7,483
Interest payments	1,778	1,757
Precepts and levies	10,551	10,943
Payments to Housing Capital Receipts Pool	419	408
Material Item: Pension Service Cost Settlements	0	(2,671)
<b>Total expenditure</b>	<b>70,758</b>	<b>84,213</b>
Fees, charges and other service income	(25,038)	(25,137)
Interest and investment income	(118)	(124)
Income from council tax and non-domestic rates	(19,254)	(20,200)
Government grants and contributions	(44,899)	(45,618)
Gain on the disposal of assets	(726)	(251)
<b>Total income</b>	<b>(90,035)</b>	<b>(91,330)</b>
<b>(Surplus) or Deficit on the provision of services</b>	<b>(19,277)</b>	<b>(7,117)</b>

#### Fees, charges and other service income analysed by service segment

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

	2015/16 £000	2016/17 £000
Director of Regeneration and Planning	(2,952)	(3,444)
Director of Service Delivery	(4,614)	(4,472)
Director of Tourism	(152)	(146)
Deputy Chief Executive	(220)	(209)
Corporate costs and income	(228)	(260)
Local authority housing (HRA)	(16,872)	(16,606)
	<b>(25,038)</b>	<b>(25,137)</b>

## Explanatory Notes to the Core Financial Statements

### Government grants and contributions analysed by service segment

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

	2015/16	2016/17
	£000	£000
Director of Regeneration and Planning	(70)	(50)
Director of Service Delivery	(36,402)	(35,336)
Director of Tourism	0	(27)
Deputy Chief Executive	(144)	(30)
Cost of Services	<u>(36,616)</u>	<u>(35,443)</u>
Taxation and non-specific grant income	<u>(8,283)</u>	<u>(10,175)</u>
	<u>(44,899)</u>	<u>(45,618)</u>

# Explanatory Notes to the Core Financial Statements

## Note 10. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

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

### General Fund Balance

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

### Housing Revenue Account Balance

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

### Capital Receipts Reserve

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

### Major Repairs Reserve

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

### Capital Grants Unapplied

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

# Explanatory Notes to the Core Financial Statements

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

# Explanatory Notes to the Core Financial Statements

2016/17 Adjustments	Movement in Usable Reserves					
	General Fund Balance	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments between Revenue and Capital Resources</b>						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	19	1,970	(1,989)			
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)	(1)	(18)	19			
Payments to the government housing receipts pool (funded by a contribution from the Capital Receipts Reserve)	(408)		408			
Posting of HRA resources to the Major Repairs Reserve		5,160		(5,160)		
Capital grants yet to be applied to expenditure (transfer to the Capital Grants Unapplied Account)	6,216				(6,216)	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	394					(394)
Voluntary provision for the repayment of debt (transfer from the Capital Adjustment Account)		807				(807)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	1,822					(1,822)
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>8,042</b>	<b>7,919</b>	<b>(1,562)</b>	<b>(5,160)</b>	<b>(6,216)</b>	<b>(3,023)</b>

## Explanatory Notes to the Core Financial Statements

### 2016/17 Adjustments

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

# Explanatory Notes to the Core Financial Statements

## 2015/16 comparative figures

	Movement in Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£000	£000	£000	£000	£000	£000
<b>Adjustments to the Revenue Resources</b>						
<b>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</b>						
Pensions costs (transferred from the Pensions Reserve)	(1,281)	(347)				1,628
Financial Instruments (transferred to the Financial Instruments Adjustment Account)	(1)	(4)				5
Council tax and NNDR (transfers to or from the Collection Fund Adjustment Account)	(475)					475
Holiday pay (transferred to the Accumulated Absences Reserve)	39					(39)
Reversal of entries included in the Surplus on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account):						
• Charges for depreciation of non-current assets	(1,933)	(4,931)				6,864
• Charges for impairment/(reversals) of non-current assets	180	19,805				(19,985)
• Movements in the fair value of Investment Properties	(123)					123
• Amortisation of Intangible Assets	(108)	(8)				116
• Capital grants and contributions applied	2,304					(2,304)
• Revenue expenditure funded from capital under statute	(2,599)					2,599
• Amounts of non-current assets written off on de-recognition of components		(1,902)				1,902
• Amounts of non-current assets written off on disposal or sale as part of the gain on disposal	(2,824)	(551)				3,375
<b>Total Adjustments to the Revenue Resources</b>	<b>(6,821)</b>	<b>12,062</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(5,241)</b>



## Explanatory Notes to the Core Financial Statements

2015/16 comparative figures	Movement in Usable Reserves					
	General Fund Balance	Housing Revenue Account (HRA)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments between Revenue and Capital Resources</b>						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	2,798	1,155	(3,953)			
Administrative costs of non-current asset disposals (funded by a contribution from the Capital Receipts Reserve)		(10)	10			
Payments to the government housing receipts pool (funded by a contribution from the Capital Receipts Reserve)	(419)		419			
Posting of HRA resources to the Major Repairs Reserve		4,939		(4,939)		
Capital grants yet to be applied to expenditure (transfer to the Capital Grants Unapplied Account)	1,440				(1,440)	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	335					(335)
Voluntary provision for the repayment of debt (transfer from the Capital Adjustment Account)		1,693				(1,693)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	942	51				(993)
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>5,096</b>	<b>7,828</b>	<b>(3,524)</b>	<b>(4,939)</b>	<b>(1,440)</b>	<b>(3,021)</b>

## Explanatory Notes to the Core 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	
2015/16 comparative figures	£000	£000	£000	£000	£000	£000
<b>Adjustments to Capital Resources</b>						
Use of the Capital Receipts Reserve to finance capital expenditure			547			(547)
Use of the Major Repairs Reserve to finance capital expenditure				3,894		(3,894)
Application of capital grants to finance capital expenditure					1,640	(1,640)
Cash payments in relation to deferred capital receipts		134				(134)
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>134</b>	<b>547</b>	<b>3,894</b>	<b>1,640</b>	<b>(6,215)</b>
<b>TOTAL ADJUSTMENTS FOR 2015/16</b>	<b>(1,725)</b>	<b>20,024</b>	<b>(2,977)</b>	<b>(1,045)</b>	<b>200</b>	<b>(14,477)</b>

## Explanatory Notes to the Core Financial Statements

### Note 11. TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts transferred from the General Fund Balance to earmarked reserves to provide financing for future expenditure plans and the amounts transferred out from earmarked reserves to meet General Fund expenditure in 2016/17.

Earmarked General Fund Reserve <i>(purpose of reserve)</i>	Balance at 1 April 2015 £000	Transfers Out 2015/16 £000	Transfers In 2015/16 £000	Balance at 31 March 2016 £000	Transfers Out 2016/17 £000	Transfers In 2016/17 £000	<b>Balance at 31 March 2017 £000</b>
Asset Maintenance <i>(To support investment in the Council's non-housing property through programmes of maintenance, repair and replacement)</i>	(2,731)	307	(555)	<b>(2,979)</b>	480	(438)	<b>(2,937)</b>
Economic Regeneration <i>(To support growth of local business and enterprise)</i>	(353)	2	0	<b>(351)</b>	77	0	<b>(274)</b>
Revenue Grants and Contributions pending use <i>(Amounts paid to the Council by Government and third parties to support specific initiatives)</i>	(284)	45	(14)	<b>(253)</b>	96	(243)	<b>(400)</b>
Strategic Change <i>(To support the Council's Joint Transformation Programme of integration and shared services and its other programmes of change)</i>	(2,358)	1,366	(2,665)	<b>(3,657)</b>	2,631	(2,642)	<b>(3,668)</b>

## Explanatory Notes to the Core Financial Statements

<b>Transfers to/from earmarked reserves (continued)</b>	Balance at 1 April 2015 £000	Transfers Out 2015/16 £000	Transfers In 2015/16 £000	Balance at 31 March 2016 £000	Transfers Out 2016/17 £000	Transfers In 2016/17 £000	<b>Balance at 31 March 2017 £000</b>
Vehicle and Equipment Replacement <i>(To support the ICT and vehicle replacement programme)</i>	(2,490)	370	(320)	<b>(2,440)</b>	169	(320)	<b>(2,591)</b>
Unallocated <i>(To provide additional support to initiatives determined by the Council)</i>	(2,127)	1,088	0	<b>(1,039)</b>	813	0	<b>(226)</b>
<b>Total Earmarked Reserves on the Balance Sheet</b>	<b>(10,343)</b>	<b>3,178</b>	<b>(3,554)</b>	<b>(10,719)</b>	<b>4,266</b>	<b>(3,643)</b>	<b>(10,096)</b>

## Explanatory Notes to the Core Financial Statements

	Gross Expenditure £000	Gross Income £000	2015/16 Net Expenditure £000	Gross Expenditure £000	Gross Income £000	2016/17 Net Expenditure £000
<b>Note 12. OTHER OPERATING EXPENDITURE</b>						
Town and Parish Council Precepts	2,784	0	2,784	3,071	0	3,071
Grants to Town and Parish Councils	237	0	237	201	0	201
Payments to the Government Housing Capital Receipts Pool	419	0	419	408	0	408
Gains on the disposal of non-current assets	0	(726)	(726)	0	(251)	(251)
Loss on de-recognition of components of HRA non-current assets	1,902	0	1,902	827	0	827
<b>Total Other Operating Expenditure</b>	<b>5,342</b>	<b>(726)</b>	<b>4,616</b>	<b>4,507</b>	<b>(251)</b>	<b>4,256</b>
<b>Note 13. FINANCING AND INVESTMENT INCOME AND EXPENDITURE</b>						
			2015/16			2016/17
Interest payable and similar charges	1,778	0	1,778	1,757	0	1,757
Net interest on the net defined benefit liability	1,003	0	1,003	772	0	772
Interest receivable and similar income	0	(118)	(118)	0	(124)	(124)
Solar Panel Trading Account	71	(42)	29	116	(223)	(107)
Income and expenditure in relation to investment property and changes in fair value	206	(194)	12	241	(647)	(406)
<b>Total Financing and Investment Income and Expenditure</b>	<b>3,058</b>	<b>(354)</b>	<b>2,704</b>	<b>2,886</b>	<b>(994)</b>	<b>1,892</b>
<b>Note 14. TAXATION AND NON SPECIFIC GRANT INCOME</b>						
			2015/16			2016/17
Council Tax Income	0	(9,565)	(9,565)	0	(10,106)	(10,106)
Non Domestic Rates income and expenditure	7,767	(9,689)	(1,922)	7,872	(10,094)	(2,222)
Non-ring fenced Government Grants	0	(4,498)	(4,498)	0	(3,769)	(3,769)
Capital Grants and Contributions	0	(3,785)	(3,785)	0	(6,406)	(6,406)
<b>Total Taxation and Non Specific Grant Income</b>	<b>7,767</b>	<b>(27,537)</b>	<b>(19,770)</b>	<b>7,872</b>	<b>(30,375)</b>	<b>(22,503)</b>

## Explanatory Notes to the Core Financial Statements

### Note 15. PROPERTY, PLANT AND EQUIPMENT

Movement on Balances	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets under construction	Surplus Assets	Total Property Plant and Equipment
Movements in 2016/17	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation:								
At 1 April 2016	206,817	46,627	15,202	11,216	1,602	645	3,950	286,059
Additions	2,245	2,693	559	104	0	3,432	2,907	11,940
Revaluation increases recognised in Revaluation Reserve	8,950	344	0	0	0	0	1,112	10,406
Revaluation increases/(decreases) recognised in Surplus on the Provision of Services	1,374	0	0	0	0	0	(704)	670
Derecognition – components written out and loss recognised in Surplus on Provision of Services	(826)	(1)	(59)	0	0	0	0	(886)
Derecognition – disposals	(1,042)	(657)	(211)	0	0	0	0	(1,910)
Reclassifications	1,871	(302)	0	0	0	(1,871)	302	0
<b>At 31 March 2017</b>	<b>219,389</b>	<b>48,704</b>	<b>15,491</b>	<b>11,320</b>	<b>1,602</b>	<b>2,206</b>	<b>7,567</b>	<b>306,279</b>
Accumulated Depreciation and Impairment:								
At 1 April 2016	27	2,120	6,483	9,762	0	0	0	18,392
Depreciation charge	4,533	1,184	1,190	236	0	0	104	7,247
Depreciation written out to Revaluation Reserve on revaluation	(4,504)	(267)	0	0	0	0	(104)	(4,875)
Derecognition – disposals	(8)	(1)	(182)	0	0	0	0	(191)
<b>At 31 March 2017</b>	<b>48</b>	<b>3,036</b>	<b>7,491</b>	<b>9,998</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(20,573)</b>
<b>Net book value on Balance Sheet at 31 March 2017</b>	<b>219,341</b>	<b>45,668</b>	<b>8,000</b>	<b>1,322</b>	<b>1,602</b>	<b>2,206</b>	<b>7,567</b>	<b>285,706</b>

## Explanatory Notes to the Core Financial Statements

<b>Movement on Balances</b>	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets under construction	Surplus Assets	Total Property Plant and Equipment
<b>Movements in 2015/16</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or Valuation:</b>								
At 1 April 2015	169,815	45,804	13,146	11,142	1,595	345	0	241,847
Additions	3,752	2,276	3,413	81	7	625	0	10,154
Revaluation increases recognised in Revaluation Reserve	20,846	729	0	0	0	0	2,170	23,745
Revaluation increases recognised in Surplus on the Provision of Services	15,472	0	0	0	0	0	0	15,472
Derecognition – components written out and loss recognised in Surplus on Provision of Services	(1,895)	0	0	(7)	0	0	0	(1,902)
Derecognition – disposals	(561)	0	(1,362)	0	0	0	0	(1,923)
Reclassifications	(612)	(2,182)	0	0	0	(325)	1,780	(1,339)
Other movements in cost or valuation	0	0	5	0	0	0	0	5
<b>At 31 March 2016</b>	<b>206,817</b>	<b>46,627</b>	<b>15,202</b>	<b>11,216</b>	<b>1,602</b>	<b>645</b>	<b>3,950</b>	<b>286,059</b>
<b>Accumulated Depreciation and Impairment:</b>								
At 1 April 2015	6	1,371	6,759	9,529	0	0	0	17,665
Depreciation charge	4,366	1,119	1,038	233	0	0	53	6,809
Depreciation written out to Revaluation Reserve on revaluation	0	(210)	0	0	0	0	0	(210)
Depreciation written out to Surplus on the Provision of Services on revaluation	(4,333)	(51)	0	0	0	0	(129)	(4,513)
Derecognition – disposals	(7)	0	(1,319)	0	0	0	0	(1,326)
Reclassifications	(5)	(109)	0	0	0	0	76	(38)
Other movements in depreciation and impairment	0	0	5	0	0	0	0	5
<b>At 31 March 2016</b>	<b>27</b>	<b>2,120</b>	<b>6,483</b>	<b>9,762</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>18,392</b>
<b>Net book value on Balance Sheet at 31 March 2016</b>	<b>206,790</b>	<b>44,507</b>	<b>8,719</b>	<b>1,454</b>	<b>1,602</b>	<b>645</b>	<b>3,950</b>	<b>267,667</b>

# Explanatory Notes to the Core Financial Statements

## Depreciation

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

Council Dwellings: Building main structure – 100 years	Vehicles, Plant, Furniture and Equipment – 5-15 years
Building components – 15-60 years	
Other Land and Buildings Buildings – 15-60 years	Infrastructure – 20 years
Fixtures and fittings – 10 years	

## Capital Commitments

At 31 March 2017 the Council had outstanding commitments of £635,000 for the construction or enhancement of Property, Plant and Equipment. At 31 March 2016 the Council had no outstanding commitments.

## Revaluations

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

Council dwellings and garages included in Other Land and Buildings were revalued by DVS at 1 April 2015 and are subject to annual desktop revaluation reviews at 31 March each year until the next full valuation review due at 1 April 2020. Other Land and Buildings were revalued by DVS at 1 April 2014 with the next full revaluation review due at 1 April 2019.

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

- that good title can be shown and all valid planning permissions and statutory approvals are in place
- that the property is not subject to unusual or onerous restrictions, encumbrances or outgoings
- that inspection of those parts which have not been inspected would not cause the valuer to alter his opinion
- that there are no deleterious or hazardous materials or existing or potential environmental factors that would affect the valuation
- that properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and that the use and occupation are both legal
- that land and properties are not contaminated nor adversely affected by radon



## Explanatory Notes to the Core Financial Statements

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture and Equipment	Infrastructure Assets	Community Assets	Assets under construction	Surplus Assets*	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	8	5,561	15,491	11,320	1,602	2,206	2,907	39,095
Valued at current value as at:								
31 March 2017	218,176	9,022					4,660	231,858
31 March 2016		930						930
1 April 2014	1,205	33,191						34,396
<b>Gross Book Value on Balance Sheet at 31 March 2017</b>	<b>219,389</b>	<b>48,704</b>	<b>15,491</b>	<b>11,320</b>	<b>1,602</b>	<b>2,206</b>	<b>7,567</b>	<b>306,279</b>

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

#### Fair Value Hierarchy

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

#### Valuation techniques used to determine Level 2 Fair Values

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

#### Highest and Best Use

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

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

## Explanatory Notes to the Core Financial Statements

### Note 16. HERITAGE ASSETS

Reconciliation of carrying value of heritage assets held by the Council

	Land and Buildings	Civic Regalia	Works of Art and Museum Exhibits	Total Assets
	£000	£000	£000	£000
<b>Cost or Valuation:</b>				
At 1 April 2016	2,289	19	776	3,084
Additions	21	0	0	21
<b>At 31 March 2017</b>	<b>2,310</b>	<b>19</b>	<b>776</b>	<b>3,105</b>
<b>Depreciation and Impairment:</b>				
At 1 April 2016	533	0	0	533
Depreciation charge	59	0	0	59
<b>At 31 March 2017</b>	<b>592</b>	<b>0</b>	<b>0</b>	<b>592</b>
<b>Net Book Value on the Balance Sheet at 31 March 2017</b>	<b>1,718</b>	<b>19</b>	<b>776</b>	<b>2,513</b>
<b>Cost or Valuation:</b>				
At 1 April 2015	2,254	19	776	3,049
Additions	35	0	0	35
At 31 March 2016	2,289	19	776	3,084
<b>Depreciation and Impairment:</b>				
At 1 April 2015	475	0	0	475
Depreciation charge	58	0	0	58
At 31 March 2016	533	0	0	533
<b>Net Book Value on the Balance Sheet at 31 March 2016</b>	<b>1,756</b>	<b>19</b>	<b>776</b>	<b>2,551</b>

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

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

## Explanatory Notes to the Core Financial Statements

### Note 17. INVESTMENT PROPERTY

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (Note 13 p68):

	2015/16	2016/17
	£000	£000
Rental income from investment property	(194)	(501)
Direct operating expenses arising from investment property	83	241
Net (gains)/losses from fair value changes	123	(146)
<b>Net (gain)/loss</b>	<b>12</b>	<b>(406)</b>

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:

	2015/16	2016/17
	£000	£000
Balance Sheet fair value at 1 April	5,893	4,321
Additions - capitalised expenditure	6	5,244
Disposals	(2,756)	0
Reclassifications from Property, Plant and Equipment	1,301	0
Net gains/(losses) from fair value changes	(123)	146
<b>Balance Sheet fair value at 31 March</b>	<b>4,321</b>	<b>9,711</b>

#### Fair Value Hierarchy

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

#### Valuation techniques used to determine Level 2 Fair Values

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

# Explanatory Notes to the Core Financial Statements

## Highest and Best Use

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

## Valuation Process

The fair value of the Council's Investment Property is measured annually at each balance sheet date. Valuations are carried out by an independent valuer (DVS - the commercial arm of the Government's Valuation Office Agency) in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

## Note 18. FINANCIAL INSTRUMENTS

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

	Long-term		Short-term	
	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000
<b>FINANCIAL ASSETS</b>				
<b>Investments</b>				
- loans and receivables	0	0	2,996	4,005
- available for sale financial assets	0	0	0	4,812
	0	0	2,996	8,817
<b>Cash and Cash Equivalents</b>				
- loans and receivables	0	0	5,433	260
- available for sale financial assets	0	0	4,749	0
	0	9	10,182	260
<b>Debtors</b>				
- loans and receivables	571	546	1,444	5,416
<b>FINANCIAL LIABILITIES</b>				
<b>Borrowings</b> - financial liabilities at amortised cost	56,673	56,673	235	4,234
<b>Other Long Term Liabilities</b>				
- finance lease liabilities at amortised cost	529	392	0	0
<b>Cash and Cash Equivalents</b>	0	0	0	355
<b>Creditors</b> - financial liabilities at amortised cost	0	0	3,935	4,271

## Explanatory Notes to the Core Financial Statements

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

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

The long-term creditors line on the Balance Sheet does not meet the definition of a financial liability (see Note 31) and is excluded from the table above.

Income, Expense, Gains and Losses	Financial liabilities measured at amortised cost £000	Financial assets: loans and receivables £000	Financial assets: available for sale £000	Total 2015/16 £000	Financial liabilities measured at amortised cost £000	Financial assets: loans and receivables £000	Financial assets: available for sale £000	Total 2016/17 £000
Interest expense	1,778	0	0	1,778	1,757	0	0	1,757
<b>Total expense in Surplus on the Provision of Services</b>	<b>1,778</b>	<b>0</b>	<b>0</b>	<b>1,778</b>	<b>1,757</b>	<b>0</b>	<b>0</b>	<b>1,757</b>
Interest income	0	(118)	0	(118)	0	(82)	(42)	(124)
<b>Total income in Surplus on the Provision of Services</b>	<b>0</b>	<b>(118)</b>	<b>0</b>	<b>(118)</b>	<b>0</b>	<b>(82)</b>	<b>(42)</b>	<b>(124)</b>
<b>Net (gain)/loss for the year</b>	<b>1,778</b>	<b>(118)</b>	<b>0</b>	<b>1,660</b>	<b>1,757</b>	<b>(82)</b>	<b>(42)</b>	<b>1,633</b>

### Fair Values of Assets and Liabilities

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

The fair values calculated in line with accounting policy 7 in Note 2 are as follows:

	Fair Value Level	31 March 2016		31 March 2017	
		Balance Sheet £000	Fair value £000	Balance Sheet £000	Fair value £000
<b>Financial Assets</b>					
Long-term Debtors	1	571	571	546	546
Short-term Investments – loans and receivables	2	2,996	2,996	4,005	4,005
Short-term Investments – available for sale	1	0	0	4,812	4,812
Short-term Debtors	1	1,444	1,444	5,416	5,416
Cash and cash equivalents	1	10,182	10,182	260	260

## Explanatory Notes to the Core Financial Statements

Short-term Investments includes £4.8 million in available for sale financial assets. In a departure from accounting policy 7 in Note 2, the balance sheet value and the fair value are held as the same because the difference between the two is not material.

	Fair Value Level	31 March 2016		31 March 2017	
		Balance Sheet £000	Fair Value £000	Balance Sheet £000	Fair Value £000
<b>Financial Liabilities</b>					
Borrowings – market loan*	2	5,109	7,706	5,108	8,027
Borrowings – Public Works Loan Board (PWLB)*	2	51,799	55,203	51,799	59,602
Borrowings – short-term	2	0	0	4,000	4,000
Other Long-term Liabilities – finance leases	2	529	529	392	392
Cash and cash equivalents	1	0	0	355	355
Short-term Creditors	1	3,935	3,935	4,271	4,271

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

Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments using the following assumptions:

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

The fair value of the Council's borrowings is higher than the carrying amount because the interest rates payable are more than the rates available for similar loans at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2017) from a commitment to pay interest to the lender above current market rates.

### NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

- credit risk – the possibility that other parties might fail to pay amounts due to the Council.
- liquidity risk – the possibility that the Council might not have funds available to meet its payment commitments.
- market risk – the possibility that a financial loss might arise for the Council as a result of movements in interest rates.

## Explanatory Notes to the Core Financial Statements

The Council's annual Treasury Management Strategy (last updated in February 2017) focuses on these risks and seeks to minimise potential adverse effects on the resources available to fund services. The Council provides written principles for overall risk management as well as written statements within its treasury management strategy covering interest rate risk, security of capital, and liquidity of investments.

*Credit Risk* arises from deposits with banks and other financial institutions, as well as credit exposure to the Council's customers. This risk is minimised through the Council's Investment Strategy which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria in accordance with the credit ratings services provided by Fitch, Moody's and Standard and Poor. During 2016/17 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. Deposits were allowed for periods up to 1 year with a maximum exposure limit of £2 million per institutional group.

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

In respect of amounts receivable from our customers, the Council's collection performance is extremely high. Each year an assessment is made of the potential maximum level of default against the amount owed for each class of debt (e.g. council tax, non-domestic rates, rents, sundry debtors). This assessment takes account of both age and value of individual debts. Note 19 shows the total value of customer debt at the year end, along with the allowance for non-collection.

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

	Housing Benefit Overpayments at 31 March 2016 £000	Housing Rents at 31 March 2016 £000	Sundry Debtors at 31 March 2016 £000	Housing Benefit Overpayments at 31 March 2017 £000	Housing Rents at 31 March 2017 £000	Sundry Debtors at 31 March 2017 £000
Less than 3 months	385	67	209	140	24	240
3 months to 6 months	163	42	67	184	39	22
6 months to 12 months	299	57	39	304	38	69
More than 12 months	1,180	519	90	1,490	535	221
	2,027	685	405	2,118	636	552

**NB** Figures at 31 March 2016 are different from those shown in the published 2015/16 Statement of Accounts. The figures above are gross arrears past due date for payment (i.e. before impairment) whereas previously the figures were shown after impairment.

## Explanatory Notes to the Core Financial Statements

### Liquidity Risk

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

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

	2016	2017
	£000	£000
Less than one year	1,733	5,722
Between one and two years	1,733	1,722
Between two and five years	5,199	10,166
Between five and ten years	22,970	25,609
Between ten and fifteen years	15,927	17,604
Between fifteen and twenty years	14,257	13,925
Between twenty and twenty five years	12,551	8,966
Between twenty five and thirty years	8,032	1,125
More than thirty years	6,350	6,125
	<u>88,752</u>	<u>90,964</u>

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



# Explanatory Notes to the Core Financial Statements

## Market Risk

### Interest rate risk

The Council is exposed to some risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

- borrowings at fixed rates – the fair value of the liabilities will fall
- borrowings at variable rates – the interest expense charged to the Surplus on the Provision of Services will rise
- investments at variable rates – the interest income credited to the Surplus on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall

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

The Council carries out its borrowing and investment activity within parameters set out in its Treasury and Investment Strategies, which assess interest rate exposure to feed into the annual budget process. When setting its base budget the Council assumed no increase in the interest rate currently earned on new deposits and holds a buffer against fluctuations within the General Fund Working Balance. In this way, the funding of core services is less exposed to interest rate risk. Interest rate and investment income forecasts are updated regularly throughout the year, allowing significant changes to be reflected in updated budget projections. If all interest rates had been 1% higher (with all other variables held constant) the financial effect would have been an increase of £50,000 in interest payable, an increase of £250,000 in interest receivable, and a net £200,000 impact on the Surplus on the Provision of Services. The impact on the fair value of fixed rate borrowings would have been a decrease of £7 million.

### Price and foreign exchange risk

The Council does not generally invest in equity shares but held £4.8 million in available for sale financial assets at 31 March 2017. The Council is, therefore, exposed to losses arising from movements in the prices of the available for sale financial assets but this is mitigated by not trading the assets in an active market and holding them short-term and to maturity.

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

## Explanatory Notes to the Core Financial Statements

### Note 19. DEBTORS

	31 March 2016		31 March 2017	
	£000	£000	£000	£000
Central Government Bodies		3,078		7,269
Other Local Authorities		223		748
Other Entities and Individuals:				
Sundry Debtors	3,183		3,008	
Community Infrastructure Levy Developer Contributions	0		1,528	
Housing Rents	685		636	
Council Taxpayers	349		414	
Non-domestic Ratepayers	318		454	
		<u>4,535</u>		<u>6,040</u>
		7,836		14,057
less allowances for non-collection:				
Sundry Debtors	(802)		(909)	
Housing Rents	(494)		(460)	
Council Taxpayers	(97)		(117)	
Non-domestic Ratepayers	(75)		(122)	
		<u>(1,468)</u>		<u>(1,608)</u>
<b>Debtors net of impairment on the Balance Sheet at 31 March</b>		<u>6,368</u>		<u>12,449</u>

### Note 20. CREDITORS

	31 March 2016		31 March 2017	
	£000	£000	£000	£000
Central Government Bodies		573		406
Other Local Authorities		2,060		2,313
Other Entities and Individuals		2,444		3,069
Receipts in Advance		637		790
<b>Creditors on the Balance Sheet at 31 March</b>		<u>5,714</u>		<u>6,578</u>

**NB** The comparative figures at 31 March 2016 for Note 19 and Note 20 above are presented differently from those shown in the published 2015/16 accounts. The 2015/16 analysis between contractual and non-contractual debtors and creditors is no longer required and those separate figures have been combined. The totals for 2015/16 Debtors and Creditors are unchanged.

## Explanatory Notes to the Core Financial Statements

### Note 21. USABLE RESERVES

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

### Note 22. UNUSABLE RESERVES

The Council's unusable reserves consist of:

	31 March 2016	31 March 2017
	£000	£000
Revaluation Reserve	(45,642)	(58,774)
Capital Adjustment Account	(158,040)	(163,341)
Financial Instruments Adjustment Account	(11)	(7)
Pension Reserve	22,426	12,071
Deferred Capital Receipts	(524)	(546)
Collection Fund Adjustment Account	563	358
Accumulated Absences Account	86	75
<b>Unusable Reserves on the Balance Sheet at 31 March</b>	<b>(181,142)</b>	<b>(210,164)</b>

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

#### *Revaluation Reserve*

The Revaluation Reserve contains the gains made by the Council arising from increases in its non-current assets.

The balance is reduced when assets with accumulated gains are:

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

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

## Explanatory Notes to the Core Financial Statements

### (a) Revaluation Reserve

	2015/16	2016/17	
	£000	£000	£000
Balance Sheet at 1 April	(25,485)		(45,642)
Upward revaluation of assets	(24,089)	(15,424)	
Downward revaluation of assets and impairment losses not charged to the Surplus on the Provision of Services	134	143	
Surplus on the revaluation of non-current assets not posted to the Surplus on the Provision of Services	(23,955)		(15,281)
Difference between fair value depreciation and historical cost depreciation	347	732	
Accumulated gains on assets sold or scrapped	3,451	1,417	
Amount written off to the Capital Adjustment Account	3,798		2,149
<b>Balance Sheet at 31 March</b>	<u>(45,642)</u>		<u>(58,774)</u>

### *Capital Adjustment Account*

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions.

The Account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and subsequent costs.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

## Explanatory Notes to the Core Financial Statements

(b) Capital Adjustment Account	2015/16	2016/17
	£000	£000
Balance Sheet at 1 April	(137,830)	<b>(158,040)</b>
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):		
<ul style="list-style-type: none"> <li>• Charges for depreciation of non-current assets – General Fund</li> <li>• Credits for impairment reversals of non-current assets</li> <li>• Amortisation of Intangible Assets – General Fund</li> <li>• Transfer to offset Housing Revenue Account contribution to the Major Repairs Reserve</li> <li>• Revenue expenditure funded from capital under statute (REFCUS)</li> <li>• 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</li> <li>• Amounts of non-current assets written off on de-recognition of components to the Comprehensive Income and Expenditure Statement</li> </ul>	1,933 (19,985) 108 4,939 2,599 3,375 1,902	<b>2,154</b> <b>(670)</b> <b>100</b> <b>5,160</b> <b>1,351</b> <b>1,741</b> <b>886</b>
	(5,129)	<b>10,722</b>
Adjusting amounts written out of the Revaluation Reserve	(3,798)	<b>(2,149)</b>
Net written out amount of the cost of non-current assets consumed in the year	(8,927)	<b>8,573</b>
Capital financing applied in the year:		
<ul style="list-style-type: none"> <li>• Use of the Capital Receipts Reserve to finance new capital expenditure</li> <li>• Use of the Major Repairs Reserve to finance new capital expenditure</li> <li>• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing</li> <li>• Application of grants to capital financing from the Capital Grants Unapplied Account</li> <li>• Statutory provision for the financing of capital investment charged against the General Fund Balance</li> <li>• Voluntary provision for the financing of capital investment charged against the Housing Revenue Account (HRA) Balance</li> <li>• Capital expenditure charged against the General Fund and HRA Balances</li> </ul>	(547) (3,894) (2,304) (1,640) (335) (1,693) (993)	<b>(3,907)</b> <b>(2,384)</b> <b>(197)</b> <b>(4,217)</b> <b>(394)</b> <b>(807)</b> <b>(1,822)</b>
	(11,406)	<b>(13,728)</b>
Movements in the fair value of Investment Properties (debited) or credited to the CIES	123	<b>(146)</b>
<b>Balance Sheet at 31 March</b>	(158,040)	<b>(163,341)</b>

## Explanatory Notes to the Core Financial Statements

### *Pensions Reserve*

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

<b>(c) Pensions Reserve</b>	2015/16	2016/17
	£000	£000
Balance Sheet at 1 April	31,033	<b>22,426</b>
Remeasurements of the net defined benefit liability	(10,235)	<b>(8,573)</b>
Reversal of items relating to retirement benefits debited or credited to the Surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement	3,573	<b>(133)</b>
Employer's pension contributions payable in the year	(1,945)	<b>(1,649)</b>
<b>Balance Sheet at 31 March</b>	<u>22,426</u>	<u><b>12,071</b></u>

## Explanatory Notes to the Core Financial Statements

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

	2015/16	2016/17
	£000	£000
Depreciation	6,864	7,308
Impairment and (reversal) of impairment and valuation movements	(19,985)	(670)
Fair value adjustments for investment properties	123	(146)
Amortisation	116	106
Increase in impairment for bad debts	475	140
Increase/(decrease) in Creditors	(1,149)	756
(Increase) in Debtors	(3,278)	(6,196)
Increase)/decrease in Inventories	15	(12)
(Decrease) in Provisions	(101)	(40)
Movement in pension liability	1,628	(1,782)
Carrying amount of non-current assets sold or derecognised	5,255	2,627
Other non-cash items	108	(149)
<b>Adjustments for non-cash movements</b>	<b>(9,929)</b>	<b>1,942</b>

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

	2015/16	2016/17
	£000	£000
Proceeds from sales of property, plant & equipment, investment property and intangible assets	(3,943)	(1,971)
Capital grants	(3,785)	(6,406)
Reduction of outstanding liabilities relating to finance leases	(548)	130
<b>Adjustments for items that are investing and financing activities</b>	<b>(8,276)</b>	<b>(8,247)</b>

## Explanatory Notes to the Core Financial Statements

### Note 25. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2015/16 £000	2016/17 £000
Purchase of property, plant and equipment, investment property and intangible assets	(9,713)	(18,317)
Purchase of short-term investments	(138,721)	(154,776)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	3,943	1,971
Proceeds from short-term investments	136,731	148,995
Capital Grants received	2,923	6,556
<b>Net cash out flows from investing activities</b>	<b>(4,837)</b>	<b>(15,571)</b>

### Note 26. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2015/16 £000	2016/17 £000
Cash receipt of short-term borrowing	0	4,000
Other receipts from financing activities – increase/(decrease) in preceptors' share of council tax cash collected net of precepts and surpluses paid	545	428
Cash payments for the reduction of the outstanding liabilities relating to finance leases	548	(130)
Other receipts/(payments) from financing activities – increase/(decrease) in preceptors' share of non domestic rates collected net of precepts and surpluses paid	(495)	184
<b>Net cash in flows from financing activities</b>	<b>598</b>	<b>4,482</b>

### Note 27. CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2015/16 £000	2016/17 £000
Interest paid	(1,778)	(1,729)
Interest received	118	68

### Note 28. MEMBERS' ALLOWANCES

The Council paid £205,000 in allowances to Members of the Council (District Councillors) during 2016/17 and £5,000 in expenses. The comparative figures for 2015/16 were £193,000 and £5,000.



## Explanatory Notes to the Core Financial Statements

### Note 29. OFFICERS' REMUNERATION

In July 2016 the Council entered into an arrangement to share a joint Corporate Management Team with Eastbourne Borough Council. The Council continues to directly employ one senior employee – the Assistant Director of Legal and Democratic Services – whereas all other senior employees are directly employed by Eastbourne Borough Council (EBC). The Council reimburses an agreed proportion of each senior employee employed by EBC.

The table below reports the remuneration of senior employees earning over £50,000 who were directly employed by the Council during 2016/17, the year of transition to the new arrangement, together with comparative figures for 2015/16.

Post	Financial Year	Salary	Mileage allowance and other expenses	Benefits in kind	Compensation for Loss of Office	Total excluding pension contribution	Pension contribution	Total including pension contribution
		£	£	£	£	£	£	£
<b>Chief Executive (left 17 March 2016)</b>	<b>2016/17</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	2015/16	99,642	547	3,962	26,801	130,952	21,423	152,375
<b>Director of Service Delivery (left 31 May 2016)</b>	<b>2016/17</b>	<b>38,632</b>	<b>0</b>	<b>0</b>	<b>68,045</b>	<b>106,677</b>	<b>3,322</b>	<b>109,999</b>
	2015/16	91,800	0	0	0	91,800	19,737	111,537
<b>Director of Regeneration and Planning* (transferred to EBC 30 September 2016)</b>	<b>2016/17</b>	<b>46,802</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>46,802</b>	<b>10,205</b>	<b>57,007</b>
	2015/16	91,800	0	0	0	91,800	19,737	111,537
<b>Assistant Director of Legal and Democratic Services**</b>	<b>2016/17</b>	<b>79,700</b>	<b>0</b>	<b>5,121</b>	<b>0</b>	<b>84,821</b>	<b>17,433</b>	<b>102,254</b>
	2015/16	78,231	0	5,136	0	83,367	16,753	100,120

(Monitoring Officer for both Lewes District Council and Eastbourne Borough Council)

\* Previously called Director of Business Strategy and Development

\*\* Previously called Assistant Director of Corporate Services

The table below reports the Council's share of the remuneration paid by EBC in respect of senior employees during 2016/17 together with comparative figures for 2015/16 where applicable. The figures below are inclusive of all elements set out in the table above.

## Explanatory Notes to the Core Financial Statements

Post	Lewes proportion	Reimbursements made to EBC	
	of EBC remuneration	2015/16	2016/17
	%	£000	£000
Chief Executive	50	17	93
Deputy Chief Executive (Chief Financial Officer for both LDC and EBC)	40	52	54
Director of Service Delivery	46	0	54
Director of Regeneration and Planning (net of recharge to EBC for share of LDC direct employment to 30 Sept 2016)	50	0	19
Director of Tourism and Enterprise	20	0	16
Assistant Director of Business Transformation	50	0	34

**NB** The reimbursements made to EBC are inclusive of officers' remuneration, employer's contributions for national insurance and pension contributions, and other minor expenses.

The number of other employees receiving more than £50,000 remuneration for the year (excluding pension contributions) is set out below. Remuneration is a combined total arising from direct employment with Lewes District Council up to 31 January 2017 and payroll recharges made by Eastbourne Borough Council to Lewes District Council from the date of staff transfer on 1 February 2017.

Remuneration band	2015/16	2016/17
	Number of employees	Number of employees
£50,000 - £54,999	2	2
£55,000 - £59,999	5	5
£65,000 - £69,999	0	1
£80,000 - £84,999	1	0

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

	Compulsory redundancies		Number of other departures agreed		Total number of exit packages		Total cost of exit packages	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
	no.	no.	no.	no.	no.	no.	£000	£000
£0 - £20,000	0	1	6	8	6	9	36	92
£20,001 - £40,000	0	0	2	6	2	6	50	171
£40,001 - £60,000	0	0	1	1	1	1	47	52
£60,001 - £80,000	0	0	0	1	0	1	0	68
<b>Total</b>	<b>0</b>	<b>1</b>	<b>9</b>	<b>16</b>	<b>9</b>	<b>17</b>	<b>133</b>	<b>383</b>

## Explanatory Notes to the Core Financial Statements

### Note 30. EXTERNAL AUDIT COSTS

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

	2015/16 £000	2016/17 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	51	46
Fees payable for the certification of grant claims and returns for the year	17	16
	<u>68</u>	<u>62</u>

**NB** Prior year fees for external audit services have been amended to include £4,700 for an additional fee relating to 2015/16 that was billed in 2016/17.

### Note 31. GRANT INCOME

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

	2015/16 £000	2016/17 £000
Non-ringfenced Government Grants:		
- Revenue Support	1,704	995
- New Homes Bonus	1,383	1,597
- Non-Domestic Rate Relief	836	581
- Housing Benefit Administration	447	446
- Other minor grants	128	150
	<u>4,498</u>	<u>3,769</u>
Capital Grants and Contributions towards capital expenditure		
- Coast to Capital LEP	0	3,500
- Community Infrastructure Levy Developer Contributions	18	1,639
- East Sussex County Council	468	842
- Coastal Communities Fund	2,049	0
- Low Emission Vehicles	899	0
- Other minor capital grants and contributions	351	425
	<u>3,785</u>	<u>6,406</u>
<b>Total credited to Taxation and Non-specific Grant Income</b>	<u>8,283</u>	<u>10,175</u>

## Explanatory Notes to the Core Financial Statements

	2015/16	2016/17
Government Grants credited to Services:	£000	£000
- Housing Benefit	36,073	34,739
- Discretionary Housing Payment	114	166
- Other minor grants	429	538
<b>Total credited to Cost of Services</b>	<b>36,616</b>	<b>35,443</b>

### Total credited to the Comprehensive Income and Expenditure Statement

	<b>44,899</b>	<b>45,618</b>
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The Council has received Government grants and a number of contributions under Section 106 planning agreements that have yet to be recognised as income. This is because the grants and contributions have conditions attached to them that will require the monies to be returned to the giver if the Council does not satisfy those conditions. It is the Council's intention to satisfy the conditions so that no monies are returned.

	31 March 2016	31 March 2017
The balances held as <b>Capital Grants Receipts in Advance</b> were as follows:	£000	£000
<b>Held as Short Term Liabilities</b>	2	0
Section 106 agreement - to provide sports and recreation facilities in Peacehaven	215	131
Section 106 agreement - to provide or improve outdoor playing space facilities in the area of Wivelsfield	294	295
Section 106 agreement - to provide or improve outdoor playing space facilities in Peacehaven	191	191
Other Section 106 agreements where each financial contribution is less than £100,000	248	466
Government grants	98	115
<b>Held as Long Term Liabilities</b>	<b>1,046</b>	<b>1,198</b>
Total value of balances held as Capital Grants Receipts in Advance at 31 March	<b>1,048</b>	<b>1,198</b>

### Long Term Creditors

Section 106 agreements between developers and the Council which include amounts given for education, highways and other services for which East Sussex County Council (ESCC) is the responsible local authority, are held by the Council until ESCC has developed plans that will satisfy the conditions set out in the agreement. At that point ESCC will request release of the funds from the Council. Until that occurs the Council holds the monies as long term creditors because it cannot determine when ESCC will develop its plans and request the release of funds. The amount held at 31 March 2017 is £1.384 million (£1.280 million at 31 March 2016). Other than Section 106 agreement monies held on behalf of ESCC the Council has no other long term creditors.

# Explanatory Notes to the Core Financial Statements

## Note 32. RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

In this context related parties include:

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

**Central Government** - Central government has significant influence over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Note 31 Grant Income.

**Elected Members of the Council** - Members of the Council (41 District Councillors) have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2016/17 is shown in Note 28. 5 Members were also members of East Sussex County Council.

Members are obliged by the Council's Constitution to record in a Register of Interests of Members any personal interest, financial and/or otherwise, in any business of the Council. The Register of Interests of Members, which is maintained by the Monitoring Officer, is open to public inspection at Southover House, Southover Road, Lewes during office hours.

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

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

**Officers of the Council** - Officers are obliged under the code of conduct in the Council's Constitution to declare any personal interest, financial and/or otherwise, in any business of the Council. They are also required to record any gifts and/or hospitality

## Explanatory Notes to the Core Financial Statements

received in a format prescribed and held by the Monitoring Officer. In addition, senior officers complete an annual declaration of related party transactions to confirm whether or not they had any qualifying interests in the year. All senior officers confirmed that they had no qualifying interests

### Other Public Bodies (subject to common control by Government)

- East Sussex County Council - the Council participates in the East Sussex Pension Scheme which is administered by ESCC. Details of the Council's annual contributions to the Scheme, together with other relevant information, is set out in Note 35.
- Eastbourne Borough Council (EBC) - the Council is engaging in a Joint Transformation Programme (JTP) with EBC under which staff and services are being integrated. The two Councils share a Corporate Management Team (for details see Note 29) where the respective senior officers fulfil the same roles at both councils. A number of other officers below senior level are shared between the two councils. Additionally the two councils have existing arrangements to share legal services, human resources and printing services with further shared services to follow in 2017/18 and 2018/19 as part of the JTP. Recharges are made between the two councils to recover the cost of these shared staff and services.
- University Technical College (UTC) – alongside the University of Brighton, the Aldridge Foundation and Veolia Environmental Services (UK), the Council was a partner in the setting up of a UTC in Newhaven which opened in September 2015. In 2016/17 the Council made no financial contribution towards the operational costs of the UTC. During 2014/15 and 2015/16 the Council contributed a total of £1.5million towards the cost of constructing the UTC.
- Saxon House - alongside the East Sussex Fire Authority (ESFA) and Sussex Police, the Council was a partner in the setting up of a shared facility in Newhaven which opened in January 2016. The Council has a lease to use a portion of the building for which it paid ESFA a service charge of £31,000 in 2016/17 (£8,000 in 2015/16). In 2015/16 the Council contributed £541,000 towards the cost of constructing the new shared building.

**Other Non-Public Bodies** - the Council has a close relationship with Wave Leisure Trust (trading as Wave Leisure Ltd), a charitable company established originally to operate the Council's indoor leisure facilities from 1 April 2006. With effect from 1 May 2015 the company also operates the Council's Newhaven Fort facility. A Funding and Management Agreement between the two organisations sets out the terms of this relationship. In 2016/17 the Council paid Wave Leisure Ltd service fees of £522,000 (£617,800 in 2015/16). No services were provided by the Council to the Company in 2016/17 and no contribution was sought towards the future replacement of an all-weather pitch (a total of £41,000 was received in 2015/16).

**Entities Controlled or Significantly Influenced by the Council** - There were no entities controlled or significantly influenced by the Council in 2016/17.

## Explanatory Notes to the Core Financial Statements

### Note 33. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2015/16 £000	2016/17 £000
Opening Capital Financing Requirement	69,980	<b>71,531</b>
Capital Investment		
- property, plant and equipment	10,154	<b>11,940</b>
- heritage assets	35	<b>21</b>
- investment properties	6	<b>5,244</b>
- intangible assets	163	<b>683</b>
- revenue expenditure funded from capital under statute (REFCUS)	2,599	<b>1,351</b>
Sources of Finance		
- capital receipts	(547)	<b>(3,907)</b>
- Government grants and other contributions	(3,944)	<b>(4,414)</b>
- Major Repairs Reserve	(3,894)	<b>(2,384)</b>
- direct revenue contributions	(993)	<b>(1,822)</b>
- sums set aside from revenue for the repayment of debt	(2,028)	<b>(1,201)</b>
Closing Capital Financing Requirement	<u>71,531</u>	<u><b>77,042</b></u>
Increase/(Decrease) in Capital Financing Requirement	1,551	<b>5,511</b>
Explanation of movements in year:		
- increase/(decrease) in underlying need to borrow	1,003	<b>5,641</b>
- increase/(decrease) in lease liability	548	<b>(130)</b>
Increase/(Decrease) in Capital Financing Requirement	<u>1,551</u>	<u><b>5,511</b></u>

# Explanatory Notes to the Core Financial Statements

## Note 34. LEASES

### Council as Lessor

#### Operating leases

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

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

	31 March 2016	31 March 2017
	£000	£000
Not later than one year	734	1,090
Later than one year and not later than five years	2,859	3,859
Later than five years	30,397	30,134
<b>Total</b>	<b>33,990</b>	<b>35,083</b>



# Explanatory Notes to the Core Financial Statements

## Note 35. POST EMPLOYMENT BENEFITS

### Participation in Pension Schemes

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

The Council participates in the Local Government Pension Scheme, administered by East Sussex County Council. It is a funded defined benefit final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investments and assets. Discretionary post-retirement benefits on early retirement are an unfunded benefit arrangement under which liabilities are recognised when awards are made. There are no plan assets built up to meet these discretionary pension liabilities.

### Transactions Relating to Post-employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required by statutory regulation to be made against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the Comprehensive Income and Expenditure Statement through the Movement in Reserves Statement.

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

	2015/16	2016/17
	£000	£000
Service Cost		
- current service cost	(2,495)	(1,758)
- past service cost (including curtailments)	(75)	(8)
- effect of settlements (on transfer of staff to Eastbourne Borough Council on 1 February 2017)	0	2,671
<b>Total Service Cost</b>	<u>(2,570)</u>	<u>905</u>
Financing and Investment Income and Expenditure		
- interest income on plan assets	2,711	2,798
- interest cost on defined benefit obligation	(3,714)	(3,570)
<b>Total Net Interest</b>	<u>(1,003)</u>	<u>(772)</u>
<b>Total Post Employment Benefits credited/(charged) to Surplus on the provision of services</b>	<u>(3,573)</u>	<u>133</u>

## Explanatory Notes to the Core Financial Statements

	2015/16 £000	2016/17 £000
Remeasurement of the net defined benefit liability comprising:		
- return on plan assets (excluding the amount included in the net interest expense)	(1,374)	13,376
- actuarial gains/(losses) arising on changes in financial assumptions	10,180	(12,226)
- changes in demographic assumptions	0	1,174
- other experience and actuarial adjustments	1,429	6,249
<b>Total remeasurements recognised in Other comprehensive income and expenditure</b>	<b>10,235</b>	<b>8,573</b>
<b>Total Post Employment Benefits credited to Comprehensive Income and Expenditure Statement</b>	<b>6,662</b>	<b>8,706</b>
Movement in Reserves Statement:		
- reversal of net charges made to the Surplus on the provision of services for post employment benefits in accordance with the Code	(3,573)	133
- actual amounts charged against General Fund and HRA Balances for pensions in the year		
• employer's contributions payable to pension scheme	1,864	1,572
• discretionary benefits arrangements (unfunded pensions)	81	77
	<b>(1,628)</b>	<b>1,782</b>

### Pensions Assets and Liabilities recognised in the Balance Sheet

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

	31 March 2016 £000	31 March 2017 £000
Fair value of employer assets	85,381	71,433
Present value of funded liabilities	(106,804)	(82,463)
Present value of unfunded liabilities	(1,003)	(1,041)
<b>Net liability arising from defined benefit obligation</b>	<b>(22,426)</b>	<b>(12,071)</b>

## Explanatory Notes to the Core Financial Statements

	2015/16 £000	2016/17 £000
<b>Reconciliation of the movements in the fair value of scheme assets</b>		
Opening fair value of scheme assets	85,361	<b>85,381</b>
Interest income	2,711	<b>2,798</b>
Remeasurement gain/(loss) - return on plan assets (excluding the amount included in the net interest expense)	(1,374)	<b>13,376</b>
Contributions from employer	1,945	<b>1,649</b>
Contributions from employees into the scheme	600	<b>487</b>
Benefits paid	(3,781)	<b>(4,013)</b>
Unfunded benefits paid	(81)	<b>(77)</b>
Effect of settlements - assets transferred	0	<b>(28,168)</b>
<b>Closing fair value of scheme assets</b>	<b>85,381</b>	<b>71,433</b>
<b>Reconciliation of present value of the scheme liabilities (defined benefit obligation)</b>		
Opening fair value of scheme liabilities	116,394	<b>107,807</b>
Current service cost	2,495	<b>1,758</b>
Interest cost	3,714	<b>3,570</b>
Contributions from scheme members	600	<b>487</b>
Remeasurement losses:		
- actuarial (gain)/losses arising on changes in financial assumptions	(10,180)	<b>12,226</b>
- actuarial (gain) arising from changes in demographic assumptions	0	<b>(1,174)</b>
- other	(1,429)	<b>(6,249)</b>
Past service cost	75	<b>8</b>
Benefits paid	(3,781)	<b>(4,013)</b>
Unfunded benefits paid	(81)	<b>(77)</b>
Effect of settlements – liabilities extinguished	0	<b>(30,839)</b>
<b>Closing fair value of scheme liabilities</b>	<b>107,807</b>	<b>83,504</b>

## Explanatory Notes to the Core Financial Statements

### Pension Scheme Assets comprised:

Asset Category	Period ended 31 March 2016				Period ended 31 March 2017			
	Quoted prices in active markets	Quoted prices not in active markets	Total	Percentage of Total Assets	Quoted prices in active markets	Quoted prices not in active markets	Total	Percentage of Total Assets
<b>Equity Securities</b>	£000	£000	£000		£000	£000	£000	
Consumer	1,566	1	1,567	2%	1,331	0	1,331	2%
Manufacturing	1,020	1	1,021	1%	704	0	704	1%
Energy and Utilities	220	3	223	0%	120	0	120	0%
Financial Institutions	2,523	0	2,523	3%	2,161	0	2,161	3%
Health and Care	1,081	1	1,082	1%	1,223	0	1,223	2%
Information Technology	1,299	0	1,299	2%	1,018	0	1,018	1%
Other	0	430	430	0%	142	243	385	0%
<b>Debt Securities</b>								
UK Government	0	1,553	1,553	2%	0	1,979	1,979	3%
Other	0	1,589	1,589	2%	127	0	127	0%
<b>Private Equity</b>								
All	0	5,098	5,098	6%	0	4,088	4,088	6%
<b>Real Estate</b>								
UK Property	541	9,572	10,113	12%	0	6,850	6,850	10%
<b>Investment Funds and Unit Trusts</b>								
Equities	55	44,204	44,259	52%	9	39,333	39,342	55%
Bonds	3,399	6,514	9,913	12%	0	8,240	8,240	12%
Hedge Funds	0	93	93	0%	0	72	72	0%
Commodities	42	0	42	0%	106	0	106	0%
Infrastructure	0	1,442	1,442	2%	0	790	790	1%
Other	0	292	292	0%	0	78	78	0%
<b>Derivatives</b>								
Foreign Exchange	0	0	0	0%	0	15	15	0%
<b>Cash and Cash Equivalents</b>								
All	2,842	0	2,842	3%	1,802	1,002	2,804	4%
<b>Totals</b>	<b>14,588</b>	<b>70,793</b>	<b>85,381</b>	<b>100%</b>	<b>8,743</b>	<b>62,690</b>	<b>71,433</b>	<b>100%</b>

## Explanatory Notes to the Core Financial Statements

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Hymans Robertson LLP, an independent firm of actuaries, with estimates for the East Sussex County Council pension fund being based on the latest full valuation of the scheme at 31 March 2016.

The significant assumptions used by the actuary have been:

	2015/16	2016/17
Mortality assumptions:		
- longevity for current pensioners - men	22.2 yrs	22.1 yrs
- longevity for current pensioners - women	24.4 yrs	24.4 yrs
- longevity for future pensioners - men	24.2 yrs	23.8 yrs
- longevity for future pensioners - women	26.7 yrs	26.3 yrs
Rate of inflation	2.2%	2.4%
Rate of increase in salaries	4.2%	2.8%
Rate of increase in pensions	2.2%	2.4%
Rate for discounting scheme liabilities	3.5%	2.5%

### Sensitivity Analysis

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

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

Change in assumptions at 31 March 2017	Approximate percentage increase to Employer Liability	Approximate monetary amount £000
0.5% decrease in real discount rate	7%	6,050
0.5% increase in the salary increase rate	0%	92
0.5% increase in the pension increase rate	7%	5,927

## Explanatory Notes to the Core Financial Statements

### Impact on the Council's cash flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. East Sussex County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation as at 31 March 2019 is due to be completed in 2019/20.

The scheme takes account of the national changes introduced under the Public Pensions Services Act 2013. The Act provides for scheme regulations to be made within a common framework, to establish a new career average revalued earnings scheme to pay pensions and other benefits to certain public servants. Members started earning benefits under the new scheme from April 2014.

The Council anticipates paying contributions of £531,000 to the scheme in 2017/18.

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

### Note 36. CONTINGENT LIABILITIES

At 31 March 2017 the Council had three material contingent liabilities:

- The Council has given a legal undertaking guaranteeing that it will make good any deficit owing to the East Sussex Pension Scheme by Wave Leisure Ltd, the charitable company established to operate the Council's indoor leisure facilities from 1 April 2006. The terms of this undertaking are set out in the pension agreement between the two organisations. At 31 March 2017 the pension liability of Wave Leisure Ltd is £1,093,000 (£1,147,000 at 31 March 2016).
- The Council has yet to finalise its implementation of harmonisation of working hours across the workforce. This is due to be completed in 2017/18. Until the process is complete claims under equal pay can theoretically be made. On 1 February 2017, the majority of staff employed by the Council transferred under COSOP/TUPE arrangements to Eastbourne Borough Council as part of the Joint Transformation Programme. As the employer, Eastbourne Borough Council bears all the costs of employment which are then recharged to the Council. Costs recharged would include those associated with equal pay claims, if any.
- In March 2017 legal proceedings were issued against the Council in relation to the termination of agreements which had been entered into with them and another partner. If Alternative Dispute Resolution proves ineffective and no settlement is agreed, the case could go to trial after January 2018.

# Housing Revenue Account and explanatory notes

## HRA INCOME AND EXPENDITURE STATEMENT

2015/16 £000		2016/17 £000
	<b>Income</b>	
14,983	Dwelling rents	14,785
447	Non-dwelling rents	427
1,217	Charges for services and facilities	1,211
225	Contributions towards expenditure	183
16,872		16,606
	<b>Expenditure</b>	
4,475	Repairs and maintenance	4,873
2,719	Supervision and management (including special services)	2,829
154	Rents, rates, taxes and other charges	175
4,939	Depreciation of non-current assets (Note 3)	5,160
(19,805)	Impairment reversals of non-current assets (Note 4)	(1,374)
33	Debt management costs	40
178	Movement in the allowance for impairment of debtors	(4)
(7,307)		11,699
(24,179)	<b>Net income of HRA services in the Comprehensive Income &amp; Expenditure Statement</b>	(4,907)
831	HRA share of Corporate and Democratic Core	793
25	HRA share of Pension Service Cost Settlements	(569)
(23,323)	<b>Net income of HRA Services</b>	(4,683)
	HRA share of operating income and expenditure in the Comprehensive Income and Expenditure Statement:	
(728)	Gain on sale of HRA non-current assets	(290)
1,902	Loss on derecognition of components of HRA non-current assets	827
1,852	Interest payable and similar charges	1,839
(29)	Interest and investment income	(32)
214	Net interest on the net defined benefit pension liability	164
0	Capital grants and contributions receivable	(12)
3,211		2,496
(20,112)	<b>Surplus for the year on HRA services</b>	(2,187)

## Housing Revenue Account and explanatory notes

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

<b>MOVEMENT ON THE HRA STATEMENT</b>		<b>2016/17</b>	
2015/16		£000	£000
			<b>(2,726)</b>
(2,638)	Balance on the HRA at 1 April		
(20,112)	Surplus for the year on the HRA Income and Expenditure Statement		<b>(2,187)</b>
	Adjustments between accounting basis and funding basis under statute:		
4,939	- transfer to the Major Repairs Reserve (MRR) equal to the depreciation and amortisation charged to HRA	<b>5,160</b>	
(4,939)	- transfer from the Capital Adjustment Account	<b>(5,160)</b>	
19,805	- reversal of impairment reversals credited to the HRA	<b>1,374</b>	
(1,902)	- reversal of loss on de-recognition of components of HRA non-current assets	<b>(827)</b>	
728	- reversal of gain on sale of HRA non-current assets	<b>290</b>	
(4)	- amortisation of premiums and discounts	<b>(3)</b>	
0	- reversal of capital grants and contributions	<b>12</b>	
(771)	- reversal of items relating to retirement benefits charged to the HRA Income and Expenditure Statement	<b>27</b>	
424	- employer's pensions contributions payable in the year	<b>361</b>	
51	- capital expenditure funded by the HRA	<b>0</b>	
1,693	- voluntary provision for the financing of capital investment	<b>807</b>	
20,024		<b>2,041</b>	
(88)	Net (increase) in year on the HRA		<b>(146)</b>
(2,726)	Balance on the HRA at 31 March		<b>(2,872)</b>



## Housing Revenue Account and explanatory notes

### Note 1. STOCK OF SOCIAL HOUSING

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

	2016	2017
Houses and Bungalows		
1 bedroom	211	<b>213</b>
2 bedroom	631	<b>634</b>
3 bedroom	879	<b>869</b>
4 bedroom	67	<b>69</b>
5 bedroom	3	<b>3</b>
6 bedroom	1	<b>1</b>
	<u>1,792</u>	<u><b>1,789</b></u>
Flats		
bedsits	132	<b>138</b>
1 bedroom	687	<b>683</b>
2 bedroom	536	<b>541</b>
3 bedroom	47	<b>47</b>
4 bedroom	4	<b>4</b>
	<u>1,406</u>	<u><b>1,413</b></u>
Total stock of social housing at 31 March	<u>3,198</u>	<u><b>3,202</b></u>

In addition the Council had at 31 March 2017 shared ownership arrangements covering 7 properties and 1 property (partly) sold under the Right to Buy scheme.

## Housing Revenue Account and explanatory notes

### Note 2. VALUE OF HRA NON-CURRENT ASSETS

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

	31 March 2016 £000	<b>31 March 2017 £000</b>
Council Dwellings – houses, bungalows and flats		
- social housing	203,588	<b>215,489</b>
- affordable housing	1,278	<b>1,303</b>
- shared ownership	677	<b>1,332</b>
- leaseholds	52	<b>52</b>
	<u>205,595</u>	<u><b>218,176</b></u>
Other Land and Buildings		
- garages	9,325	<b>9,022</b>
- other land and buildings	811	<b>833</b>
Vehicles, Plant, Furniture and Equipment	1,466	<b>1,407</b>
Infrastructure Assets	655	<b>596</b>
Community Assets	43	<b>43</b>
Surplus Assets	2,150	<b>2,150</b>
<b>Total Property, Plant and Equipment</b>	<u>220,045</u>	<u><b>232,227</b></u>
<b>Investment Property</b>	974	<b>1,000</b>
<b>Intangible Assets</b>	24	<b>17</b>

### Council Dwellings Valuation Basis

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

## Housing Revenue Account and explanatory notes

### **Council Dwellings Let at Social Rents**

The 2016/17 regional adjustment factor used for dwellings at 'social rent' is 67% thereby reducing the balance sheet value of these dwellings to 33% of their open market value (68% and 32% in 2015/16).

The open market (vacant possession) valuation of these dwellings at the valuation date of 31 March 2017 was £653million. The difference between this and the balance sheet value of £215 million represents the economic cost to Government of providing Council housing at less than open market values. The comparative figures at 31 March 2016 were £636 million and £203 million.

### **Council Dwellings Let at Affordable Rents**

A total of 13 dwellings included in the stock at 31 March 2017 (2 at 31 March 2016) are let on an 'affordable rent' basis, which is closer to market rent values than 'social rents'. Consequently, a different regional adjustment factor is required in determining the existing use valuation as social housing for these dwellings. The adjustment factor used has been determined by a professional valuer in accordance with Government Guidance.

The regional adjustment factor used for dwellings let at 'affordable rent' is 50% thereby reducing the balance sheet value of these dwellings to 50% of their open market value. The regional adjustment factor for 2015/16 was 51%.

The open market (vacant possession) valuation of these dwellings at the valuation date of 31 March 2017 was £2.6million. The difference between this and the balance sheet value of £1.3million represents the economic cost to Government of providing Council housing at less than open market values. The comparative figures at 31 March 2016 were £433,000 and £212,000.

### **Shared Ownership Dwellings**

A total of 8 dwellings included in the stock at 31 March 2017 are held on a 'shared ownership' basis, with the tenant paying rent on the share retained by the Council. The overall proportion retained by the Council at 31 March 2017 2016 is 4.9 dwellings which is the same as at 31 March 2016.

The open market (vacant possession) valuation of these dwellings at 31 March 2017 was £2.1million. The difference between this and the balance sheet value of £1.3 million represents the value of the share purchased by former tenants. The comparative figures at 31 March 2016 were £2 million and £1.2 million.

## Housing Revenue Account and explanatory notes

### Note 3. DEPRECIATION

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

The amounts of depreciation charged to the HRA Income and Expenditure Statement are as follows:	2015/16	2016/17
	£000	£000
Depreciation on council dwellings	4,345	4,512
Depreciation on other land and buildings	272	278
Depreciation on vehicles, plant, furniture and equipment	199	211
Depreciation on infrastructure assets	107	110
Depreciation on surplus assets	8	43
Amortisation of intangible assets	8	6
<b>Total Depreciation charged to the HRA</b>	<b>4,939</b>	<b>5,160</b>

### Note 4. IMPAIRMENT

Impairment charges made to the HRA Income and Expenditure Statement are as follows:	2015/16	2016/17
	£000	£000
Impairment resulting from revaluation losses in excess of balances held in the revaluation reserve	610	1,195
Reversal of prior year impairment against revaluation gains recognised in the year	(20,415)	(2,569)
<b>Total Impairment reversals (credited) to the HRA</b>	<b>(19,805)</b>	<b>(1,374)</b>

## Housing Revenue Account and explanatory notes

### Note 5. FUNDING OF CAPITAL EXPENDITURE

The totals of HRA capital expenditure and capital financing during the year is summarised as follows:	2015/16 £000	2016/17 £000
Capital expenditure		
- on council dwellings	4,195	2,245
- on council dwellings: assets under construction	0	3,605
- on other land and buildings	76	42
- on vehicles, plant, furniture and equipment	129	151
- on infrastructure	37	50
	<b>4,437</b>	<b>6,093</b>
Sources of capital financing		
- from the Major Repairs Reserve	3,894	2,384
- from revenue contributions	51	0
- from grants and contributions	6	18
- from the capital receipts reserve	343	1,476
Total Capital Financing	<b>4,294</b>	<b>3,878</b>
Unfinanced – supported by Lewes District Council	143	2,215
	<b>4,437</b>	<b>6,093</b>

### Note 6. MAJOR REPAIRS RESERVE

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

	2015/16 £000	2016/17 £000
Balance at 1 April	(1,112)	(2,157)
Amounts transferred from the HRA		
- equal to the depreciation amount charged to the HRA Income and Expenditure Statement	(4,939)	(5,160)
Amounts used to finance HRA capital expenditure	3,894	2,384
Balance at 31 March	<b>(2,157)</b>	<b>(4,933)</b>

## Collection Fund Statement and explanatory notes

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

2015/16 £000		2016/17 £000	£000
	<b>Income</b>		
	Council tax		
60,632	- Income receivable from tax payers		64,711
	Non-domestic rates (Business rates)		
24,296	- Income receivable from rate payers	24,849	
0	- Transitional protection payments receivable from Central Government	12	
24,296			24,861
	Contribution towards previous year's estimated non domestic rates deficit		
0	- Central Government		
0	- Lewes District Council	800	
0	- East Sussex County Council	640	
0	- East Sussex Fire Authority	144	
0		16	
			1,600
84,928	<b>Total Income</b>		91,172
	<b>Expenditure</b>		
	Council Tax Precepts		
42,113	- East Sussex County Council	44,814	
9,417	- Lewes District Council	9,895	
5,034	- Sussex Police and Crime Commissioner	5,331	
2,976	- East Sussex Fire Authority	3,104	
59,540		63,144	

## Collection Fund Statement and explanatory notes

2015/16		2016/17	
£000		£000	£000
	Contribution from previous year's estimated Council Tax surplus		
284	- East Sussex County Council	771	
65	- Lewes District Council	172	
34	- Sussex Police and Crime Commissioner	92	
20	- East Sussex Fire Authority	55	
403			1,090
	Impairment of Council Tax		
135	- increase in allowance for non-collection		214
60,078	<b>Council Tax Expenditure</b>		<b>64,448</b>
12,533	Central Government share of Non-Domestic Rates income		12,917
	Local Government share of Non-Domestic Rates income:		
10,026	- Lewes District Council	10,334	
2,256	- East Sussex County Council	2,325	
251	- East Sussex Fire Authority	258	
12,533			12,917
184	Transitional Protection Payments due from the billing authority (Lewes District Council)		0
	Impairment of Non-Domestic Rates		
59	- movement in allowance for uncollectable sums	184	
253	- movement in provision for appeals	(100)	
312			84
130	Transfer to the General Fund – allowance for the collection of non-domestic rates		131
25,692	<b>Non-Domestic Rates Expenditure</b>		<b>26,049</b>
85,770	<b>Total Expenditure</b>		<b>90,497</b>

## Collection Fund Statement and explanatory notes

2015/16				2016/17
£000	<b>(Surplus)/Deficit for the year</b>			<b>£000</b>
(554)	- Council Tax			(263)
1,396	- Non-Domestic Rates			(412)
<u>842</u>				<u>(675)</u>

£000		£000	£000	£000
Total	<b>Movement on Collection Fund Balances</b>	<b>Council Tax</b>	<b>Non-Domestic Rates</b>	<b>Total</b>
(361)	Balance at 1 April	(1,529)	2,010	481
842	(Surplus)/Deficit for the year	(263)	(412)	(675)
<u>481</u>	Balance at 31 March	<u>(1,792)</u>	<u>1,598</u>	<u>(194)</u>

### Note 1. COUNCIL TAX BASE

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

The calculation for 2016/17 is as follows:

	Chargeable dwellings	Band D ratio	Band D dwellings
Band A	2,344	6/9	1,563
Band B	4,024	7/9	3,130
Band C	10,468	8/9	9,305
Band D	8,288	9/9	8,288
Band E	5,128	11/9	6,267
Band F	2,754	13/9	3,979
Band G	2,159	15/9	3,599
Band H	198	18/9	397
	<u>35,363</u>		<u>36,528</u>
Collection rate for 2016/17			98.0%
<b>Tax Base for 2016/17</b>			<b><u>35,797</u></b>

### Note 2. NON-DOMESTIC RATES

The total non-domestic rateable value at 31 March 2017 was £65.3 million (£64.6 million at 31 March 2016).

The standard national non-domestic rate multiplier for 2016/17 was 49.7p; reduced to 48.4p for qualifying small businesses.

The multipliers for 2015/16 were 49.3p and 48.0p respectively.



# Statement of Responsibilities

## Authorisation of the Statement of Accounts

The Deputy Chief Executive released this Statement of Accounts on 28 September 2017. Events between the balance sheet date and 28 September 2017 were considered before this Statement of Accounts was approved.

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

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

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



*Chair of the Audit and Standards Committee 28 September 2017*

**The Deputy Chief Executive's Responsibilities** - the Deputy Chief Executive is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Deputy Chief Executive has:

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

The Deputy Chief Executive has also:

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

**DEPUTY CHIEF EXECUTIVE CERTIFICATE** - I certify that the Statement of Accounts set out in pages 26 to 111 gives a true and fair view of the financial position of the Council at 31 March 2017 and its income and expenditure for the year ended 31 March 2017.



*Alan Osborne, Deputy Chief Executive 28 September 2017*

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

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LEWES DISTRICT COUNCIL

### Opinion on the Council's financial statements

We have audited the financial statements of Lewes District Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of Lewes District Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in the Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Deputy Chief Executive and auditor

As explained more fully in the Statement of Responsibilities, the Deputy Chief Executive is responsible for the preparation of the Statement of Accounts, which comprises the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Deputy Chief Executive; and the overall presentation of the financial statements. In addition, we read the other financial and non-financial information in the Statement of Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Lewes District Council as at 31 March 2017 and of its expenditure and income for the year then ended; and

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

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- have been prepared properly in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

## **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements is consistent with the financial statements.

## **Matters on which we report by exception**

We have nothing to report in respect of the following other matters which the Code of Audit Practice (April 2015) requires us to report to you if:

- we have been unable to satisfy ourselves that the Annual Governance Statement meets the disclosure requirements set out in the guidance 'Delivering Good Governance in Local Government: Framework (2016 edition)' published by CIPFA/SOLACE or is misleading or inconsistent with other information that is forthcoming from the audit;
- we issue a report in the public interest;
- we designate under section 24 of the Local Audit and Accountability Act 2014 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

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

### **Respective responsibilities of the Council and auditor**

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

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

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

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion, published by the National Audit Office in November 2016, as to whether in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The National Audit Office has determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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

## Conclusion

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in November 2016, we are satisfied that, in all significant respects, Lewes District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

## Certificate of completion of the audit

We certify that we have completed the audit of the accounts of Lewes District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

BDO LLP

Janine Combrinck

For and on behalf of BDO LLP, Appointed Auditor

London, UK

29 September 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

# Annual Governance Statement

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## Introduction

The Annual Governance Statement (AGS) includes:

- Acknowledgement of the responsibility to ensure there is a sound system of governance in place at the Council.
- A reference to the governance framework including the local code of corporate governance.
- An outline of key elements of the governance framework and an assessment of its effectiveness.
- A statement on significant governance issues.
- An opinion on the level of assurance that the governance arrangements provide.

The AGS will be published on the Council's website and will also form part of the Council's Statement of Accounts. The AGS is required by Regulation 6 (1) of the Accounts and Audit Regulations 2015.

## Scope of responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. It is responsible for putting in place proper arrangements for the governance of its affairs, and ensuring the effective exercise of its functions.

The Governance Framework comprises the systems and processes by which the Council is directed and controlled, and the activities through which it accounts to, and engages with the community. The framework enables the authority to monitor the achievement of its strategic objectives and consider whether those objectives have led to the delivery of appropriate, cost effective services. The Council has responsibility for conducting, at least annually a review of its effectiveness of its governance framework including the systems of internal control.

The Council has a local Code of Corporate Governance which sets out the governance arrangements at the Council. This can be found at <http://www.lewes.gov.uk/council/3748.asp>

# Annual Governance Statement

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## Key elements of the governance framework and an assessment of its effectiveness

### *The Council*

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

The four year Council Plan is reviewed and approved each year by Cabinet and Full Council. The Council Plan 2016-20 was approved by Full Council at its February 2016 meeting. The Plan is divided into three themes being customers and communities, place and value for money.

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

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

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

At its September 2015 meeting Cabinet approved the integration of staff and services with Eastbourne Borough Council called the "Joint Transformation Programme (JTP)". To support this transformation and change a detailed governance structure was put in place. This includes the:

- Joint Transformation Board (members from both councils including from the opposition groups),

# Annual Governance Statement

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- Joint Transformation Core Team (officers from both councils with designated roles)
- Joint Transformation Consultative Forum (Unison and staff representatives).
- Joint Transformation Quality Assurance Panel (an officer panel).

In May 2016 the Full Business Case for the Joint Transformation Programme (JTP) was approved by the Cabinets at both Lewes District and Eastbourne Borough Council. The JTP comprises three phases of restructuring. Phase 1 was completed in April 2017 with the appointment of seven new Heads of Service and other senior management roles. Phase 2 has commenced and a target operating model published. The workforce of Lewes District Council transferred to Eastbourne Borough Council in February 2017.

The Head of Audit and Counter Fraud has monitored the impact on the control environment of the Council's restructuring and where appropriate liaised with managers who are working to ensure the control environment keeps pace with these changes.

The General Fund budget for 2016/17 included a savings target of £0.685m including £0.4m to be generated from the JTP with EBC, of which Phase One (creating a single team of leaders and managers across LDC, EBC and Eastbourne Homes) is the main driver. This target is expected to be achieved, although because the new JTP Phase One management restructure was not fully completed until June 2017, some of the savings were deferred into 2017/18. This was reported to the Audit and Standards Committee in March 2017.

## *The Constitution*

The Council's Constitution establishes clear arrangements for decision making and the delegation of powers to Councillors and officers. It defines and documents the roles and responsibilities of the Council, Cabinet and Committees (including the Audit and Standards Committee and the Scrutiny Committee) as well as the roles and responsibilities of Councillors and senior officers. The Council has adopted the Leader and Cabinet model.

The Council's Constitution sets out the roles of the Head of Paid Service, Monitoring Officer and Chief Finance Officer (Section 151) - at Lewes District Council these roles are fulfilled by the Chief Executive, Assistant Director - Legal and Democratic Services and Deputy Chief Executive. These roles include responsibility for ensuring that agreed procedures are followed and that applicable statutes, regulations and relevant statements of good practice are complied with and expenditure is lawful. The Head of Paid Service is responsible for overall corporate management and operational responsibility (including overall management responsibility for all officers). The above officer roles sit on the Council's Corporate Management Team and have regularly discussed matters relevant to their roles in the period of the AGS.

# Annual Governance Statement

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

## *Cabinet*

The Council appoints the Leader who appoints members of Cabinet. The Cabinet currently has seven members and meets seven times in the municipal year. Each member of the Cabinet has a portfolio for which they are responsible. During the period of this AGS the Cabinet undertook a number of key tasks relevant to the governance arrangements including:

- Endorsing the opinion of the then Head of Audit, Fraud and Procurement that the overall standards of internal control were satisfactory at its September 2016 meeting.
- Receiving and endorsing the annual report on risk management including the strategic risks identified by Corporate Management Team at its July 2016 meeting.
- Considering the Council's progress and performance in respect of key projects on a quarterly basis.
- Agreeing the General Fund and Housing Revenue Account financial performance for each quarter.

## *Audit and Standards Committee*

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

The Audit and Standards Committee has met regularly during period of this AGS. The Chair's annual report on the work of the Audit and Standards Committee was reported to the June 2017 meeting of the Committee.

The Head of Audit and Counter Fraud has reported regularly to the Audit and Standards Committee on the work of Internal Audit, on governance and internal control, and provides an annual report on the systems of internal control which includes an opinion on the internal control environment. For 2016/17, the overall standards of internal control were satisfactory. Whilst recommendations have been made to improve management controls, there were no instances in which internal control issues created significant risks for the Council.



# Annual Governance Statement

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An audit of Right to Buy reported to the Audit and Standards Committee in September 2016 identified minimal assurance that there was an adequate system of internal control covering the administration of Right to Buy applications. Appropriate corrective action was taken during the audit to address immediate issues and risks, and further changes to the controls covering the processing of Right to Buy cases have been introduced.

During the period of this AGS there has been one case for consideration by the Standards Panel relating to a Lewes District Councillor. It met in February 2017 and concluded that the Councillor had failed to comply with the Code of Conduct. The Panel required the Monitoring Officer to arrange training for the Councillor on the Code, and the training took place in April 2017.

## *Scrutiny Committee*

The Council's Scrutiny Committee oversees the independent review of performance and decisions of Cabinet and other activities and functions of the Council. This is achieved through its regular meetings, appointed Scrutiny Panels and the Call In Procedure. The Scrutiny Committee has met seven times since April 2016. During the period of this AGS the Scrutiny Committee undertook a number of key tasks relevant to the Council's governance arrangements including:

- Receiving the Waste and Recycling Service Review in July 2016 with opportunity to make comments in advance of Cabinet considering the review options.
- Agreeing the work programme for 2016/17 in July 2016.
- Receiving quarterly portfolio progress and performance reports with the opportunity to make recommendations to Cabinet.
- Receiving the 2017/18 Budget Overview and Tax Base report in January 2017 with the opportunity to forward any comments to the next meeting of Cabinet.
- The Scrutiny Panel at its March 2017 meeting calling in of a draft Executive Member Decision on the Application for LDC Business Rates Discount Scheme.

## *Corporate Management Team (CMT)*

The role of CMT is to provide strategic management and planning, and ensure proper oversight of priority and budget setting, service planning and performance management. CMT also provides organisational leadership, engages with Cabinet on strategic issues/direction and, in partnership with members, and develops relationships with key stakeholders. Individual members of CMT are responsible for the performance of their relevant department/service areas, progress of their relevant portfolio themes and liaison with portfolio holding members. CMT reviews the Internal Audit Plan, Strategic Risk Register and the AGS.

# Annual Governance Statement

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In July 2016 Lewes District Council and Eastbourne Borough Council formed a joint CMT structure to manage the services of both councils. Meetings of this body take place weekly. The Scheme of Delegation was revised on the establishment of the joint CMT. AS the JTP progresses and new heads of service have been appointed interim arrangements have been put in place to ensure appropriate sub delegation and decision making powers.

As part of the Council's internal assurance framework, CMT have confirmed the proper operation of internal controls including compliance with the Constitution in those service areas for which they are responsible by completing an assurance statement and considering significant governance issues.

Under the Code of Practice for Local Authority Accounting 2016/17 the Council is required to confirm that its financial management arrangements conform with governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer (2015). The Council's arrangements conform with the requirements of the Statement and this has been confirmed by the Deputy Chief Executive (Section 151 Officer).

## *Internal Audit and Counter Fraud*

The Council has an Internal Audit and Counter Fraud Division that is an independent, objective assurance and consulting function. From July 2017 this service has been provided by a shared service between Lewes District Council and Eastbourne Borough Council. The Head of Audit Counter Fraud for the two councils was appointed to this post in April 2017.

The Division operates in accordance with the auditing guidelines in the Public Sector Internal Auditing Standards (PSIAS). Many of the standards set out in the PSIAS are also found in the Statement of the Role of the Head of Internal Audit published by CIPFA in 2010.

It is a requirement of the PSIAS for an external assessment of internal audit to be completed at least every five years. This must be completed by 31 March 2018. Through the Sussex Audit Group this is due to be completed by December 2017.

The Council has a strong counter fraud culture that is supported by Councillors and officers. The Fraud Investigations Team works closely with officers in other departments to prevent, detect and investigate fraud, particularly in the areas of housing tenancy fraud, Council Tax Fraud and Right to Buy Fraud. The outcome of this work informs the opinion on the internal control environment. The Council works closely with the national Single Fraud Investigation Service (SFIS) in the DWP to ensure an effective response to cases of Housing Benefit fraud.

# Annual Governance Statement

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Summaries of the cases investigated and the outcomes have been included in the regular reports to the Audit and Standards Committee, as well as the Annual Report on Fraud and Corruption which is reported to this meeting of the Committee. The preparatory work on the National Fraud Initiative 2016/17 began in April 2016, with the required datasets being submitted in October 2016. Regular reports on the progress of the exercise have been provided to the Audit and Standards Committee.

In April 2016, the Head of Audit and Counter Fraud reviewed the Council's compliance with the CIPFA Code of Practice on managing the risk of fraud and corruption. The results confirmed that the Council has adopted a response that is appropriate for its fraud and corruption risks and there are adequate means to maintain its vigilance to tackle fraud. Since this review there has been nothing that has arisen to require this opinion to change.

The Council has a local Code of Corporate Governance, which is reviewed annually. In 2016, the Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives issued updated guidance for delivering good governance in local government. A revised Code of Corporate Governance taking account of the 2016 guidance was approved by the September 2017 meeting of the Audit and Standards Committee. The work has ensured a consistent approach to corporate governance at both Lewes District Council and Eastbourne Borough Council.

## *Managing Risks*

The Council's risk management framework is outlined in its Risk Management Strategy, and it is fully established and embedded within the Council. There are robust systems for identifying and evaluating risk in the decision making and service planning processes. Strategic risks are updated and reported annually to the Audit and Standards Committee (June 2016) and Cabinet (July 2016). Each risk is owned by a member of CMT. Operational risks are reviewed as part of service planning. Key staff are trained in the assessment, management and monitoring of risk. Risk assessment and management is an integral part of key Council projects.

The Audit and Standards Committee receives updates on risk management at every meeting. The reports during 2016/17 noted that most risks are mitigated by the effective operation of controls or other measures. Whilst there are some risks that are outside the Council's control, such as a major incident, flu pandemic, a downturn in the national economy or a major change in government policy or legislation, the Council has sound planning and response measures to mitigate the impact of such events and continues to monitor risks and the effectiveness of controls.

## *Business Continuity*

The Council has a Business Continuity Plan (BCP), which was updated in September 2014. An Internal Audit review of the BCP in June 2016 identified some areas for improvement in the Council's BCP arrangements. There is a risk that a loss of IT services

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# Annual Governance Statement

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would mean that the priorities for restoration of services that are set out in the BCP may not be achieved in all circumstances. This risk is partially mitigated through preventative measures, and more effective mitigation is gradually being put in place with the significant upgrading of the Council's IT infrastructure and with the introduction of IT shared services with Eastbourne Borough Council. As part of the ongoing improvements the Assistant Director of Business Transformation was designated the lead officer for business continuity in July 2016 and standardisation of BCP arrangements at both councils is underway.

## *Communication and Partnership Working*

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

The Council has a system for reviewing partnership working and has identified a small number of strategic partnerships which require more robust governance arrangements. Partnership governance is subject to an annual review process. Good governance in partnerships is also reflected in the Council's Local Code of Corporate Governance.

The Council has service level agreements (SLAs) for three strategic partnerships with voluntary and community associations that receive Council funding. These agreements include enhanced monitoring and governance arrangements. The guidance for partnership working was reviewed in April 2016 to take account of the changing nature of the partnerships that the Council is involved with. This guidance incorporates the requirement for an annual review to be undertaken by partnership lead officers.

## *Measuring and managing performance*

The Council has clear annual business planning and performance management arrangements in place. Performance and project management is supported by the corporate software system (Covalent).

Progress and performance information is reported to Corporate Management Team, Scrutiny Committee, and Cabinet each quarter. Operational performance monitoring takes place at monthly service review meetings. The quality of services is monitored through regular/ ad hoc consultation with, and feedback from, service users in the form of commissioned survey research, comments and complaints and the Council's own online surveys.

The Council's strategic priorities, projects and performance targets were determined as part of a review of portfolio responsibility during summer 2015 and restated in the updated Council Plan for 2016-2020. These priorities were communicated via the website

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and internally through the Corporate Briefing and Infolink. A review of the Council Plan for the first year (2016/17) was reported to Cabinet in June 2017. At the same meeting the Council's progress and performance in respect of key targets for the fourth quarter of 2016/17 and the year to date, where relevant, were also reported. The Business Planning and Performance Team is responsible for overseeing the Council's business planning, project management and performance management arrangements to ensure efficient and effective delivery of the Joint Transformation Programme and improvement targets over the short to medium term.

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

## *Complaints and Whistleblowing*

Customer complaints and compliments continue to be monitored as part of monthly performance monitoring and management arrangements for the Service Delivery Directorate. Data is also reported to the Scrutiny Committee and Cabinet each quarter.

The Council Whistleblowing Policy sets out how staff, Councillors partners and contractors can raise concerns in relation to their work for the Council. In 2016/17 Corporate Management Team and the Head of Audit and Counter Fraud have confirmed there have been no reported cases of whistleblowing.

## *External Audit*

The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The core duties of the external auditor are to give an opinion on the financial statements and to review arrangements for securing value for money. In addition it can consider electors' questions and objections and make formal recommendations as well as report in the public interest. To ensure there is an effective relationship with the external auditor council officers provide a range of information and responses in a timely manner as well as carefully considering audit findings and recommendations.

The Council's external Auditor, BDO, reports to the Audit and Standards Committee. Key reports during 2016/17 were:

Annual Audit Letter for 2015/16 (October 2016) – This report summarised the key issues from the work carried out by BDO during the year, and was presented to the November 2016 meeting of the Committee. The key issues were:

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- BDO issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2016 on 7 October 2016, shortly after the national deadline of 30 September 2016.
- BDO identified a number of misstatements on the Cash Flow Statement and in the classification of short term investments. These were corrected before completion of the financial statements.
- BDO were satisfied that the Narrative Report, which local authorities include in the Statement of Accounts to offer interested parties guidance on the most significant matters, was consistent with the financial statements.
- BDO did not identify any significant deficiencies in the Council's framework of internal controls, but did report on areas where improvements in controls could be made including declarations of related party transactions, the documentation of Council Tax discounts, and access to some IT systems.
- BDO were satisfied that the Annual Governance Statement (AGS) was not misleading or inconsistent with other information they were aware of from their audit work.
- BDO issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- BDO found that the Council has adequate arrangements for budget setting and budget monitoring, and the Council has identified sufficient savings over the next four years to balance its budget.
- BDO noted that many of the savings will arise from the Joint Transformation Programme with EBC, and BDO were satisfied that there are effective governance arrangements in place to oversee delivery of the project.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for further work other than to submit the WGA Assurance Statement. This was submitted on 7 October 2016 ahead of national deadline.
- BDO reviewed the governance arrangements for Council's New Homes Project, and made a number of recommendations for improvement that should be applied to future projects.

Grant Claims and Returns Certification for year ended 31 March 2015 (April 2016). The report was presented to the June 2016 meeting of the Committee. The key points were:

- The audit identified a high level of errors within the cases tested, which required a significant amount of extra testing by BDO and the Council. No amendments were made to the final claim submitted to DWP.
- The main errors were in the administration of benefits involving non-HRA rent rebates and rent allowances. There were a small number of cases of incorrect classification of expenditure as non-HRA, when the expenditure should have been classified as HRA rent rebates.
- The audit identified deficiencies in the Council's systems and controls around the identification of prior year uncashed payments, resulting in an under claim of £556.

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- As a result of the errors found in administering benefits, BDO qualified the claim across all benefit expenditure types. The additional work required to be completed by the Council and BDO meant that the audited claim was submitted to DWP in March 2016, four months after the deadline date.
- The certification of the returns for the Pooling of Housing Capital Receipts was completed satisfactorily without amendment of certification. The main reported issue was the need for the Council to have in place appropriate plans to use retained receipts by certain milestone dates, otherwise the receipts must be paid to DCLG.

The DWP made a marginal adjustment to the submitted claim which was agreed at a total value of approximately £35.8m.

## Significant governance issues

Each member of Corporate Management Team has completed an Assurance Statement including the identification of significant governance issues for 2016/17. For 2016/17 there have been no significant governance issues identified.

## Opinion on assurance

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

We have been advised by the Audit and Standards Committee of the results of the assessment of effectiveness of the governance framework. It is our opinion that Council's governance arrangements in 2016/17 are fit for purpose and provide a robust platform for achieving the Council's priorities and meeting the challenges in 2017/18.



Councillor Andy Smith,  
Leader of the Council

Date: 28 September 2017



Robert Cottrill,  
Chief Executive

Date: 28 September 2017

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## Contact details

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The information in this document can be made available in large print, on audio tape or disk, or in another language upon request.

Contact the Council on 01273 471600 or email [finance@lewes.gov.uk](mailto:finance@lewes.gov.uk)

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