



**Brighton & Hove  
City Council**

# **AUDIT & STANDARDS COMMITTEE SUPPORTING INFORMATION**

**4.00PM, TUESDAY, 19 SEPTEMBER 2017**

**COUNCIL CHAMBER, HOVE TOWN HALL**



# ADDENDUM

**ITEM**

**Page**

**25 AUDITED STATEMENT OF ACCOUNTS 2016/17**

**1 - 158**



**Brighton & Hove City Council**

**Statement of Accounts**  
**2016/17**



**Brighton & Hove  
City Council**

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# Narrative Report

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Brighton & Hove City Council is a south coast unitary authority formed of the merger of two former borough councils covering the geographical area of Brighton and Hove. The council is celebrating its 20<sup>th</sup> year since it was created in 1997 when it took over the county council functions from East Sussex County Council for the area. In 2000, the council was awarded city status by the monarch.

The council is responsible for all local government functions and services including social care, libraries, waste collection and disposal, highway management, housing, education, planning, licensing, public health and more.

Brighton and Hove is a thriving city located between the South Downs and the sea and is home to more than 290,000 people. The city is renowned for its vibrancy, independent shops, Royal Pavilion and visitor attractions, historic lanes, vast array of pubs, restaurants and clubs, festivals and events, stunning architecture and attractive coastline and chalk cliffs.

The council's Corporate Plan covers the period 2015-19 and is set in the context of a challenging financial future and focuses on modernising services to improve digital accessibility, reducing the cost of provision where possible, and looking at alternative ways of providing services with public sector organisations and other partners, particularly integration with health services. Through modernising services and providing effective city leadership and governance, the council will be able to deliver on its key Corporate Plan service priorities which cover:

- Economy, jobs and homes;
- Children and young people;
- Health and wellbeing;
- Community safety and resilience;
- Environmental sustainability.

The council's Medium Term Financial Strategy (MTFS), four year Integrated Service and Financial plans and the current budget strategy focuses available resources and investment on key areas to support the Corporate Plan including:

- Getting basic services right and making the city an enjoyable place to live and work;
- Protecting provision for vulnerable people as the city's population grows and the cost of care rises;
- Supporting economic growth and regeneration that benefits everyone.

The MTFS normally covers a four year period but due to the unknown impact of the transfer of 100 percent of business rates to local authorities from 2020, the MTFS currently only covers three years to 2019/20. The MTFS sets out key planning assumptions and resource projections over the period, including substantial projected savings programmes and current budget gaps, together with information about key areas for capital and revenue investment and the council's financing and treasury management strategies.

All documents are available on the council's website, [www.brighton-hove.gov.uk](http://www.brighton-hove.gov.uk).

## Financial Highlights

Central government's ongoing deficit reduction measures resulted in the level of the council's local government finance settlement for 2016/17 being 12.6% lower than the settlement for 2015/16 against a national average reduction of 10.7%. This reduction, alongside growing service and inflationary pressures and reduced specific grant funding, required the council to identify and deliver substantial savings in the region of £20m for 2016/17 whilst minimising the impact on residents and essential public services.

As part of the budget strategy for 2016/17, the council set a 3.99% increase in the Brighton & Hove element of the council tax, this included an additional 2% adult social care precept to fund the increasing demands and costs of providing this service. This resulted in the council's share of council tax on a Band D property being £1392.03, an increase of £53.35 on 2015/16.

The 2016/17 budget was developed on a different basis to recent years and required a greater level of challenge in the context of a predicted budget gap of £68m over four years as well as increasing service demands and reducing government grant funding; these being the principal drivers of the budget gap. To close the gap, services explored what could or should be stopped, what needed to be redesigned, and what could or should be delivered differently. These options were looked at in the context of future affordability and sustainability, achieving ongoing cost reductions, managing demand more effectively, increasing efficiency and reducing overheads, and generating greater income. Most importantly, this also took into account how those services that should continue to be provided could still achieve good outcomes, provide good customer service and address equalities impacts.

From 2016/17, the council adopted a longer term service and financial planning approach in order to set out a clearer direction of travel and map out a budget strategy for addressing the predicted £68m budget gap over the four year period covering the Comprehensive Spending Review up to 2019/20. This approach has been anchored in services to ensure that savings proposals and ideas are specific, deliverable, and consistent with service strategies and business plans, and also reflect management accountabilities. However, common themes and threads that are cross cutting for both the council and also public service providers across the city were also identified and considered in the development of 2016/17 budget proposals. Cross cutting themes included demand management, devolution and city governance, management spans and accountability reviews, income generating and self-financing approaches, the Digital First programme for digital services and mobile working, integrated health and social care services and funding, modernisation and 'enabling' programmes, homelessness, public health and mental health intervention, consolidation of prevention work and shared service delivery of support functions through the Orbis partnership.

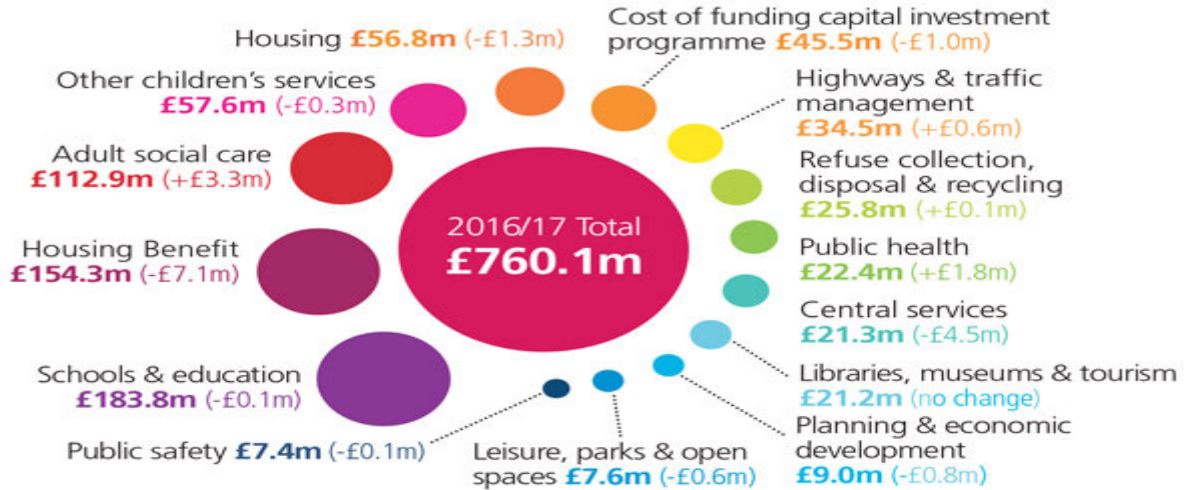
Inevitably, savings will become more challenging and complex to deliver with time as the less complex savings opportunities have been taken in the earlier years. This departure from annual proposals was therefore important to provide a timeframe across which more complex service changes could be set out and profiled within the proposals and engenders better long term planning and investment in change.

In 2016/17, the council set a gross revenue budget of approximately £760m. Within this budget, the council included appropriate provisions for pay and price increases as well as provisions to mitigate potential financial risks relating to the achievement of substantial savings proposals. The following chart shows how much the council intended to spend on individual services in 2016/17:



## Services provided

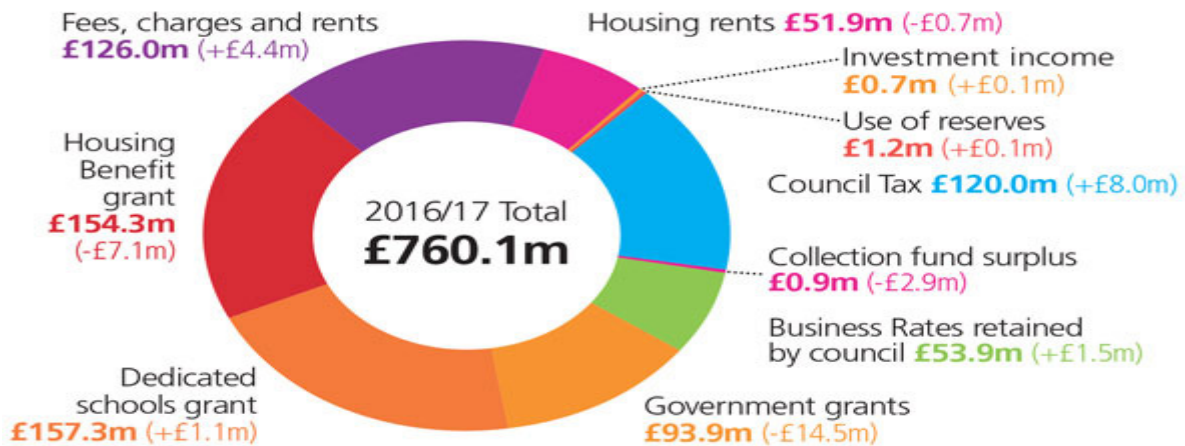
(figures in brackets show the change from 2015-16)



The following chart shows where the funding came from to fund the council's 2016/17 gross revenue budget:

## Where the money comes from

(figures in brackets show the change from 2015-16)



The council has approximately £2.014bn of non-current assets on its Balance Sheet as at 31 March 2017; these mainly comprise council housing stock and other property, plant and equipment, heritage assets and investment properties. The council's capital investment programme covers the ten year period 2016/17 to 2025/26 and sets out high level forecasts of its investment plans to support service delivery in priority areas. In 2016/17, the council planned to spend over £142m on its non-current assets; of which 49% was for new capital schemes starting in 2016/17 with the remaining 51% for the completion of existing committed schemes. The new schemes include the building of new council homes and meeting the need for new pupil places across the city. The following chart shows the 2016/17 capital investment programme across individual services:

# Capital investment programme



The funding of the capital investment programme was partly dependent upon the achievement of capital receipts from the disposal of surplus buildings and right to buy receipts. The council continues to be successful in attracting grant and other external contributions, often with partners, to generate other resources to enable a programme to be set at this level. The council also planned to fund part of the investment programme through borrowing, under strict prudential limits, as well as some funding being set aside from the revenue budget.

The council's 2016/17 revenue and capital budgets were approved on 25 February 2016. Further details of the current and previous budgets can be found on the council's website, [www.brighton-hove.gov.uk](http://www.brighton-hove.gov.uk).

## Summary of Financial Performance

The council continues to deliver services within budget and maintain appropriate levels of reserves and balances to manage increasing financial and other risks both in year and for future years. It approached the 2016/17 financial year from a strong financial base with a continuing track record in effective financial management. However, the 2016/17 budget process identified potential demand pressures of around £18m of which approximately £12m was accommodated in the approved budget. The remaining pressures were addressed by a combination of demand management, continuing vacancy management and agency spending controls, and utilisation of available risk reserves.

Overall, these measures were effective and the council achieved an underspend of £1.350m (0.7%) on its General Fund activities. This indicates that the council's corporate financial management has been effective in a challenging environment with continuing demands and that pressures and risks identified throughout the financial year have been successfully mitigated. The council has also significantly addressed the ongoing financial impact in the 2017/18 budget by providing significant resources, primarily through savings programmes, to meet demand led pressures across social care and homelessness.

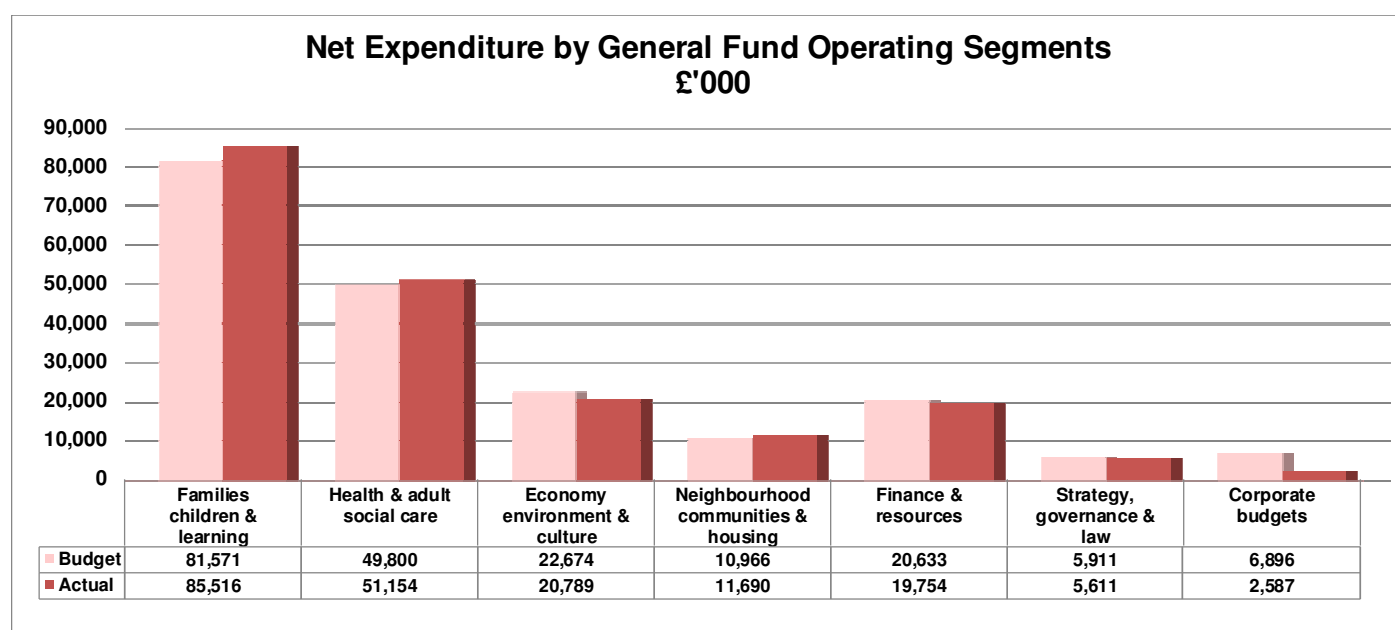
The Housing Revenue Account (HRA) has underspent by £2.206m in 2016/17. There was also an underspend of £0.585m on the Dedicated Schools Grant which, as required by the School Finance regulations, will be carried forward to support schools' funding in 2017/18.

In 2016/17, the council reshaped its executive leadership team to ensure it could continue to deliver its priorities with reducing budget resources. The reshaping and grouping of functions is designed to align support for strategic priorities and improve the way the council connects with its partners and communities. The changes also aim to streamline decision making and give service directorates clear accountabilities supported by effective corporate governance. The council reports its financial performance across the new service directorates – Families,

Children & Learning; Health & Adult Social Care; Economy, Environment & Culture; Neighbourhood, Communities & Housing; Finance & Resources and Strategy, Governance & Law. For management and reporting purposes there are three other areas for which financial information is held: the Dedicated Schools Grant; Corporate Services and the HRA. These groupings are classed as the council’s “operating segments” and further information on these is shown in appendix 1 to the financial statements which can be found on pages 109 to 110. Decisions about resource allocations are taken by Full Council on the basis of budget reports analysed across these operating segments. Both the council’s Comprehensive Income and Expenditure Statement (CIES) and Expenditure and Funding Analysis (EFA) are reported based on these operating segments. The CIES can be found on pages 30 to 32 and the EFA on pages 26 to 29.

## Revenue Outturn

The outturn for the council’s General Fund services was a contribution to the General Fund working balance of £1.350m. The following chart shows the council’s service specific spend information analysed over its General Fund operating segments and compared against the budgeted level:

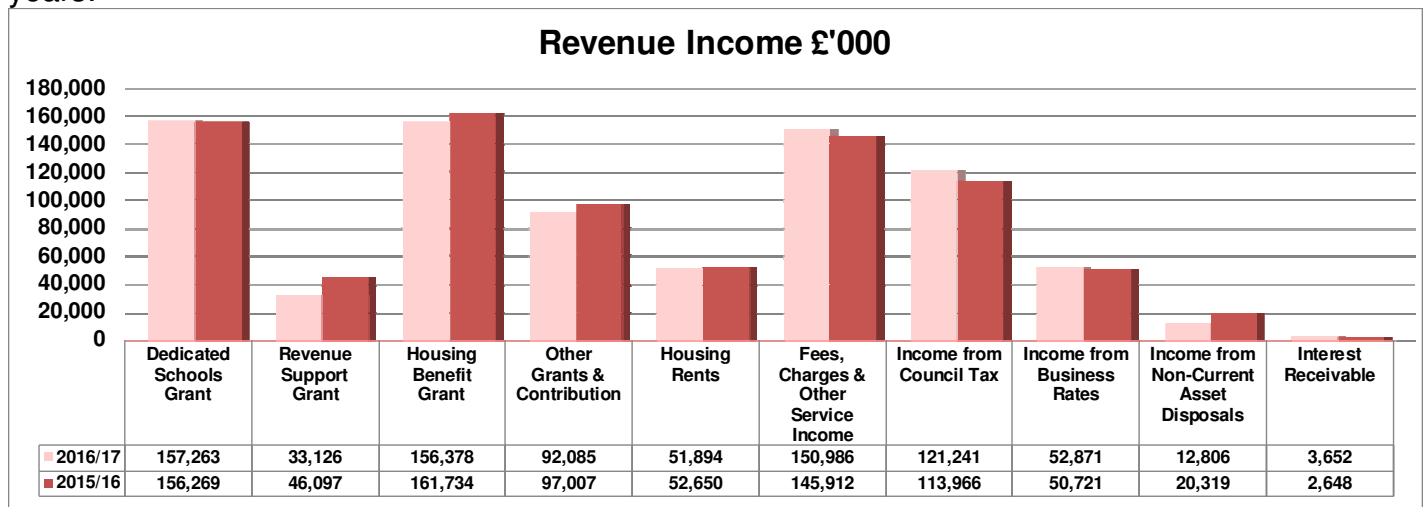


The outturn for the HRA services was a contribution to the HRA working balance of £2.206m.

The council reported further details on its spending on General Fund and HRA services to the May 2017 Policy, Resources & Growth Committee; these can be found on the council’s website, [www.brighton-hove.gov.uk](http://www.brighton-hove.gov.uk).

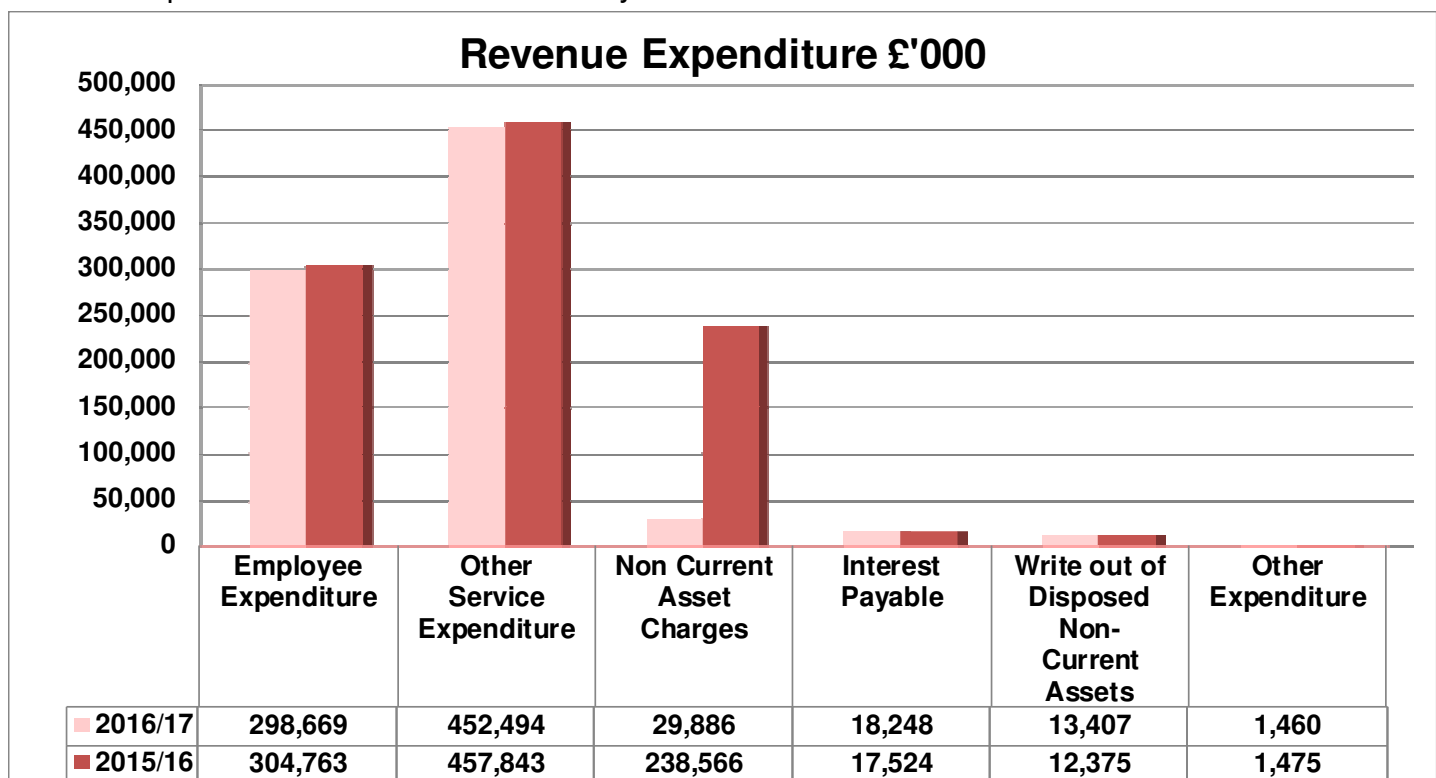
## Revenue Income and Expenditure

In 2016/17, the council received revenue income of £832.302m; this was £15.021m lower than that received in 2015/16. The following chart shows the revenue income over the two financial years:



Detail on the government grants and other grants and contributions received by the council in 2016/17 can be found in note 14. Further details on the council tax and business rates income can be found in the Collection Fund section on page 15.

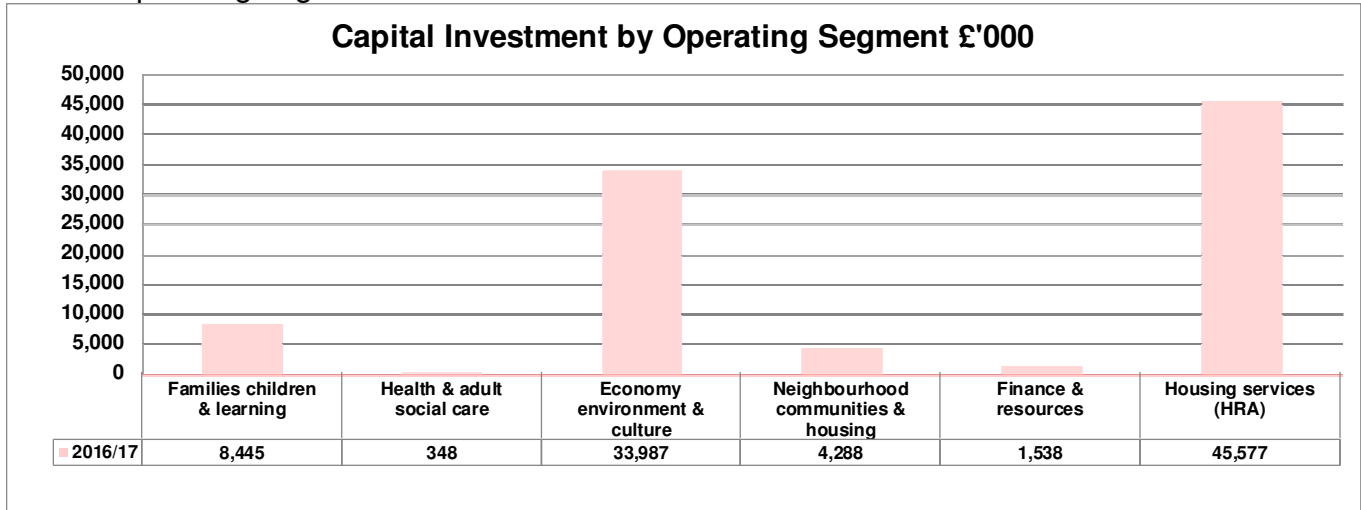
In 2016/17 the cost of services was £814.164m which was £218.382m lower than that in 2015/16; this is mainly due to the revaluation of the council's non-current assets. Further details are included in the non-current assets section on page 11. The following chart shows the revenue expenditure over the two financial years:



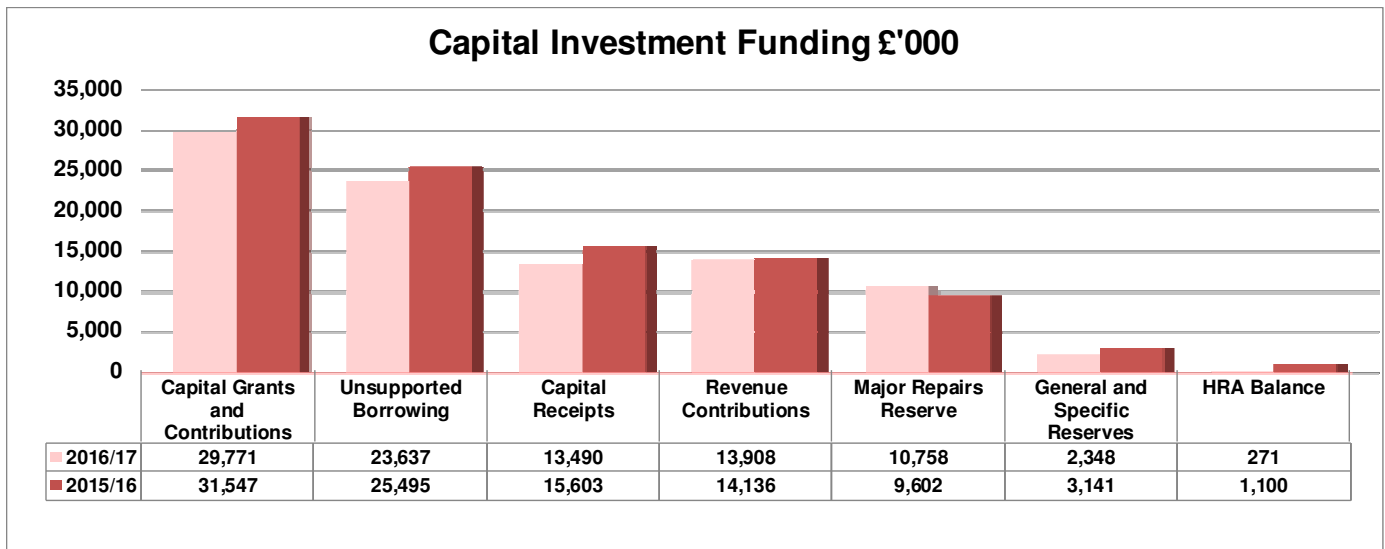
## Capital Outturn

In 2016/17, the council delivered a significant capital investment programme of approximately £94m in partnership with a wide range of external bodies, developing successful bids for funding from central government and other external bodies, as well as the prudent use of borrowing and capital receipts.

During the financial year, the council made adjustments to its budgeted capital investment programme including re-profiling of investment for slippage of capital schemes carried forward to 2017/18. No current or future resources were lost as a result of this re-profiling and slippage. Overall expenditure in the financial year was £0.678m lower than the amended profiled capital budget; the budgeted resources in respect of this underspend have been reallocated to 2017/18. The council's level of capital investment has decreased by £6.441m from 2015/16. The following chart shows the council's service specific capital investment in 2016/17 analysed over its operating segments:



The council's 2016/17 capital investment programme was funded from various internal and external sources; details of this funding are shown in the following chart:



The council reported further details on its overall expenditure and financing of the capital investment programme to the May 2017 Policy, Resources & Growth Committee; this can be found on the council's website, [www.brighton-hove.gov.uk](http://www.brighton-hove.gov.uk). Further information on the council's capital investment contractual commitments that existed as at 31 March are included in note 8.

## Balance Sheet

The council has a healthy Balance Sheet; as at 31 March 2017 the council held long term assets of £2.014bn, current assets (including cash equivalents and investments) of £131m, current liabilities (including borrowing and bank overdraft) of £81m and long term liabilities of

£598m (including net pensions liabilities of £255m). Furthermore, the council held usable reserves of £72m at 31 March 2017.

## **Reserves and Provisions**

Putting in place appropriate levels of general reserves is essential to enable the council to manage risk effectively and to provide cover for potential and unforeseen contingencies. The council's working balances (ie the General Fund balance and the HRA balance) must last the lifetime of the council unless it make contributions from future years' revenue budgets.

Determining the appropriate levels of working balance requires the council to make a professional judgement based on local circumstances including the overall budget size, risks, robustness of budget estimates, major initiatives being undertaken, budget assumptions, levels of other earmarked reserves and provisions, and the council's track record in financial management. The consequences of not keeping a minimum prudent level of balances can be serious. In the event of a major problem or a series of events, the council would run a serious risk of a deficit or of being forced to cut spending during the year in an unplanned and potentially damaging way. The council has based its estimate of a prudent level of General Fund working balance on the robustness of estimates information and the corporate risk register. In addition, the council takes into account other strategic, operational and financial risks including:

- The complexity and degree of uncertainty associated with planned economy and efficiency measures and / or service changes and the likelihood of achieving them in full;
- The level of balances required to complement resources potentially available under the Bellwin Scheme for Emergency Financial Assistance to Local Authorities in the event of a major emergency;
- Risks of rising demand, increasing costs and / or falling income due to economic conditions or potential legislative changes;
- The risk of major legal challenges, both current and in the future;
- Risks in the financial inter-relationship between NHS partners and the council;
- The need to retain a general contingency to provide against unforeseen circumstances that may arise. For example, delays in council tax billing which could arise from a major systems or power failure;
- The need to retain reserves for general day to day cash flow needs.

In addition, the cash flow risk for unitary authorities is significant given the full range of services provided. Taking all of these factors into account, the council considers that a £9m General Fund working balance (excluding school balances) is appropriate, which represents about 4 weeks of council tax revenue. The current minimum level of working balance for the HRA the council deems appropriate is set at £3m; this represents 5% of gross HRA expenditure.

The reserves held by the council reflects Full Council's decisions in setting the annual budget and the council's Chief Finance Officer's assessment of the adequacy of reserves and balance under section 25 of the Local Government Act 2003.

Schools' balances, whilst consolidated into the council's accounts, are a matter for School Governing Bodies. Nevertheless, under the council's Scheme for Financing Schools it has a duty to scrutinise the appropriateness of school balances. The council's Scheme for Financing Schools is in line with the requirements of the Secretary of State for Education and the arrangements in place are considered adequate. The level of school balances the council held at 31 March 2017 was £1.293m. The council may license budget deficits up to a maximum of 40% of the collective school balances.

The underspends in 2016/17 for both the General Fund and HRA have been consolidated into the council's working balances. As at 31 March 2017, the General Fund working balance was £11.267m and the HRA working balance was £8.060m.

The council also holds earmarked reserves for both the General Fund and HRA. The General Fund earmarked reserves as at 31 March 2017 were £35.594m, a decrease of £3.282m. The HRA earmarked reserves as at 31 March 2017 were £1.327m, a decrease of £1.011m. Further information on the specific earmarked reserves held by the council is provided in note 7.

The council has also set aside amounts in provisions for specific future liabilities. The level of provisions held as at 31 March was £8.762m, an increase of £1.154m. Further information on the provisions held is provided in note 13.

### **Non-Current Assets**

The council holds various non-current assets which are categorised as property, plant and equipment (PPE), heritage assets, investment property, assets held for sale or intangible assets.

The value of the council's non-current assets (including current assets held for sale) has increased in the financial year by £90.223m, from the level reported in 2015/16 to £1,968.285m in 2016/17.

The council made a capital investment on these assets of £80.359m and disposed of assets to the value of £13.007m during the financial year.

The council has also revalued other assets during the financial year which has had the effect of £86.699m revaluation gains being recognised in the revaluation reserve, £96.313m revaluation losses of which £41.045m was charged to the revaluation reserve and £55.268m charged to the CIES and £76.735m to reverse previous revaluation and impairment losses which was charged to the CIES. Details of significant revaluation losses have been included in note 8.

The council did not recognise any impairment losses in 2016/17.

The annual valuation of investment property led to these assets being revalued upwards by £0.733m.

The council has also depreciated its non-current assets by £44.983m during the financial year.

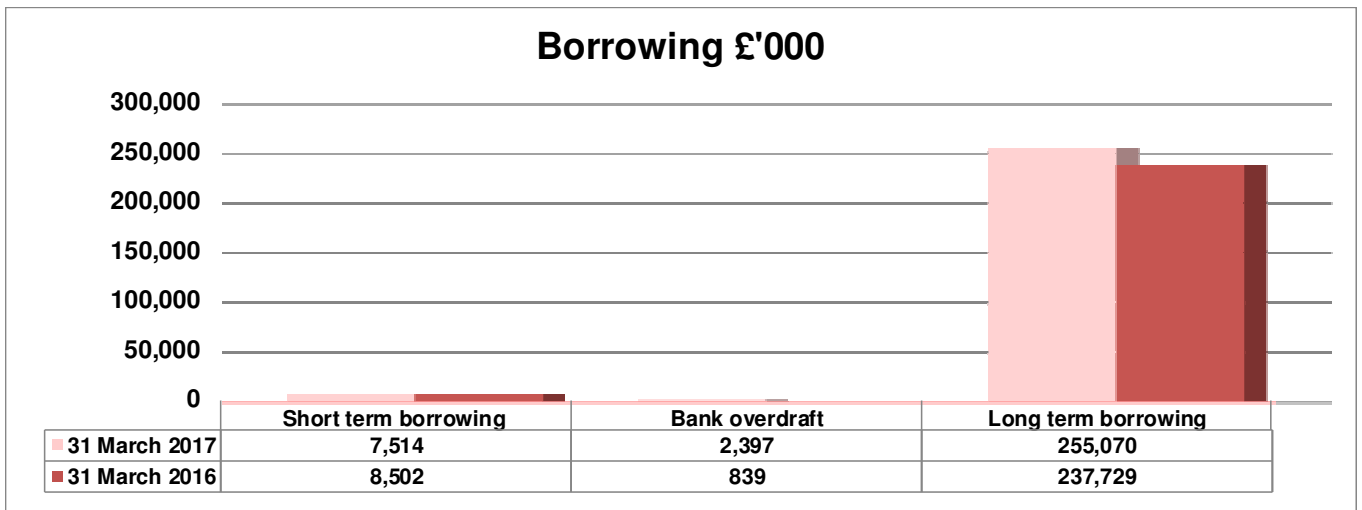
Further information on the non-current assets held by the council is included in note 8.

### **Borrowings**

At 31 March 2017, the council's level of borrowing was £264.981m (including the bank overdraft of £2.397m). In accordance with the CIPFA Code of Practice on Treasury Management the council has based its management of the borrowing portfolio on a consolidated approach and not by individual services.

The council's Treasury Management Policy Statement (TMPS) for 2016/17 was approved by the Policy, Resources & Growth committee in March 2016. The TMPS includes treasury management practices which identify the procedures that the council follows to achieve the aims of the TMPS. The treasury management practices are supplemented by a number of "schedules" which contain specific details of the systems and routines employed by the council and the records maintained.

The council's borrowing strategy concentrates on managing the risk of when to undertake new long term borrowing. If borrowing is taken too early the difference between the borrowing rate and the investment rate could place severe pressures on the revenue budget in the short term. If the decision is delayed there is a possibility that long term interest rates would have risen, also placing pressures on the revenue budget in the long term. The council's TMPS sets out measures to reduce this risk through a series of forward deals, variable rate borrowing and short term borrowing. The level of borrowing (including the bank overdraft) has increased during the financial year by £17.911m. The following chart shows the council's level of borrowing as at 31 March:



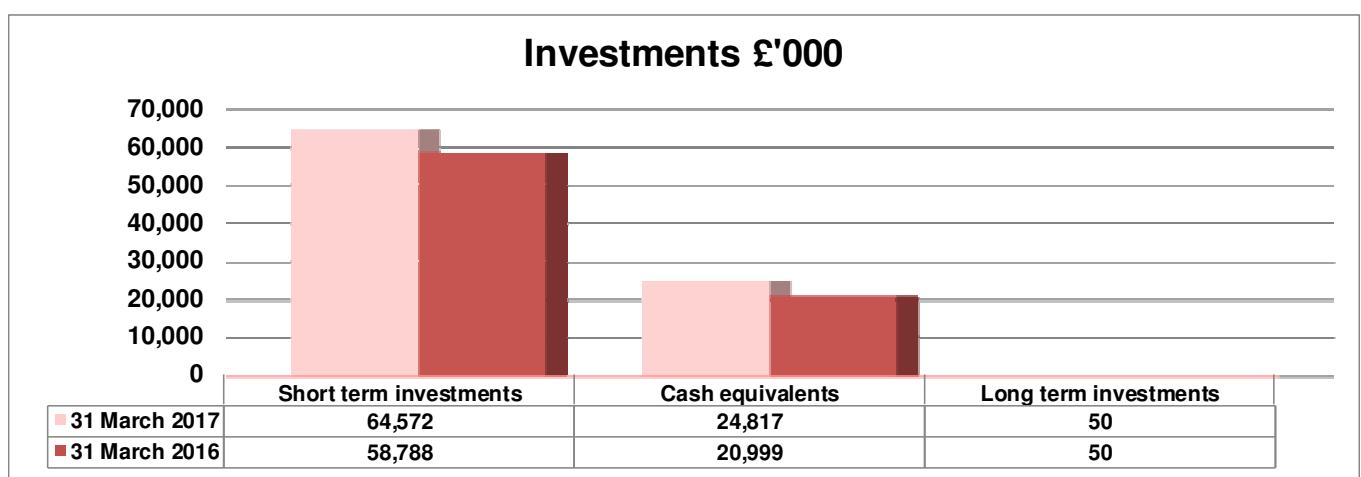
The council has raised new loans of £20.127m and repaid £3.905m during the financial year in respect of borrowings. Further information on borrowings is provided in note 10.

### Investments

At 31 March 2017, the council held investments of £89.439m. Investments are made by the council's treasury management team and its external cash manager. The council uses an external cash manager to take advantage of investment opportunities in specialist markets, such as government stock.

The council's Annual Investment Strategy (AIS) for 2016/17 was approved by Full Council in March 2016. The AIS gives priority to security and liquidity. Security is achieved by selecting only those institutions that meet stringent credit rating criteria or, in the case of non-rated UK building societies, have a substantial asset base, and having limits on the amount invested with any one institution. For the purpose of determining credit ratings the council uses independent credit rating agencies. Rating criteria is only one factor taken into account by the council in determining investment counterparties. Other factors, such as articles in the financial press, are monitored and action taken where it is felt the risk attached to a particular counterparty has or is likely to worsen. Action will include the suspension of a counterparty in appropriate circumstances. Liquidity is achieved by limiting the maximum period for investment.

The level of the council's investments has increased during the financial year by £9.602m. The following chart shows the level of investments made as at 31 March:



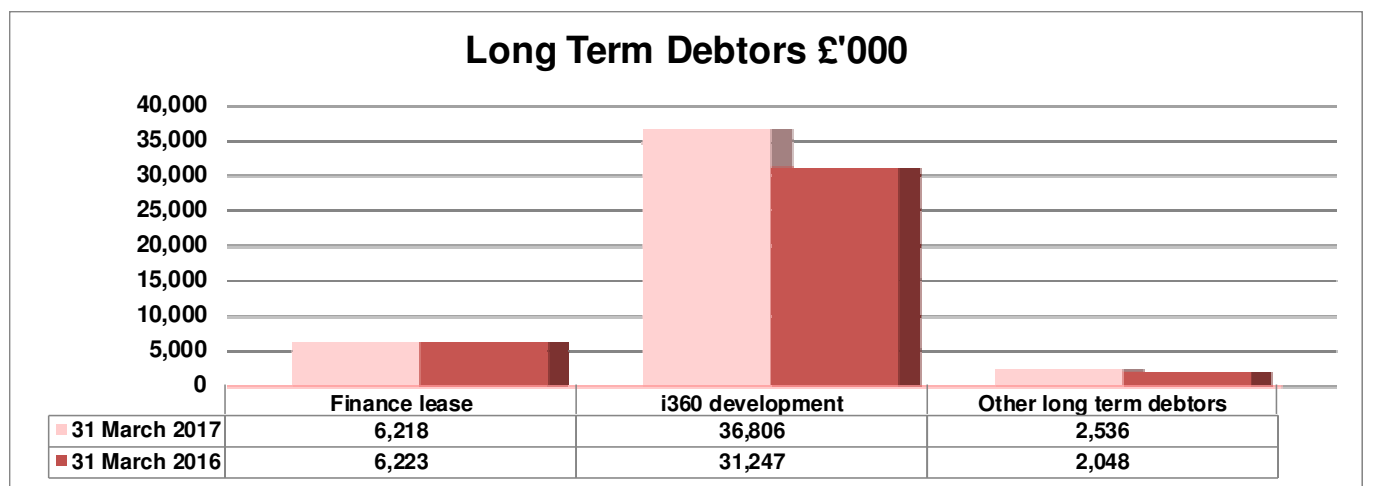
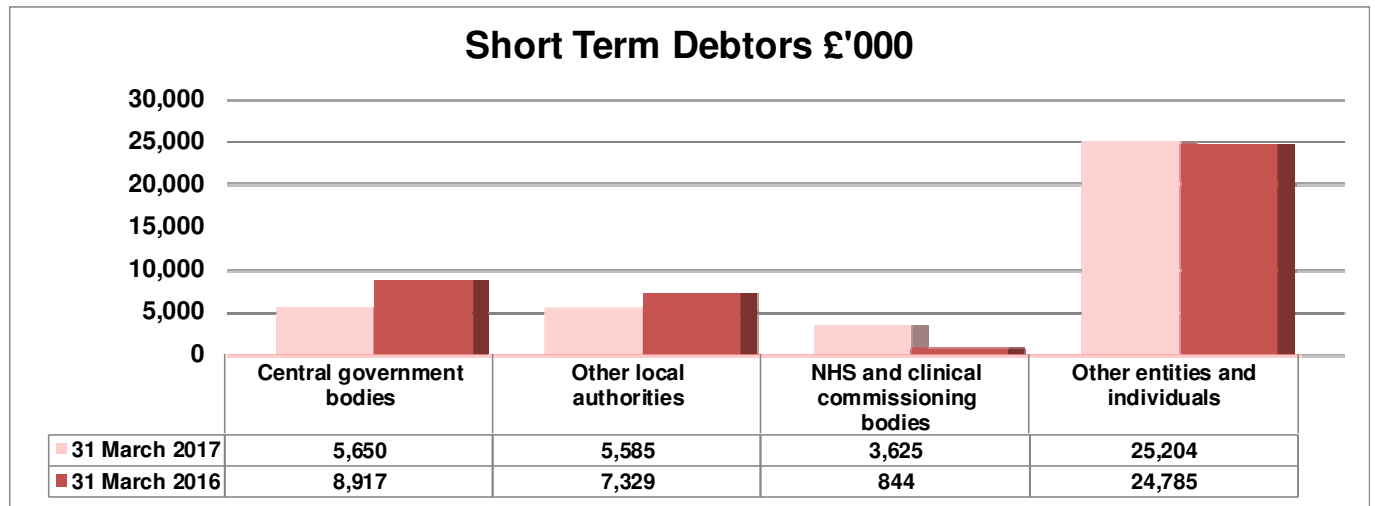
During the financial year, the council placed new short term investments of £553.886m, of which £497.686m relates to cash equivalents and the council has realised cash from the maturity of short term investments of £544.727m of which £493.927m relates to cash equivalents. Further information on investments is provided in note 10.



The council has a £0.050m long term equity investment in the UK Municipal Bonds Agency plc through the purchase of a shareholding in the company; this agency seeks to raise capital funding for local authorities at preferential rates.

## Debtors

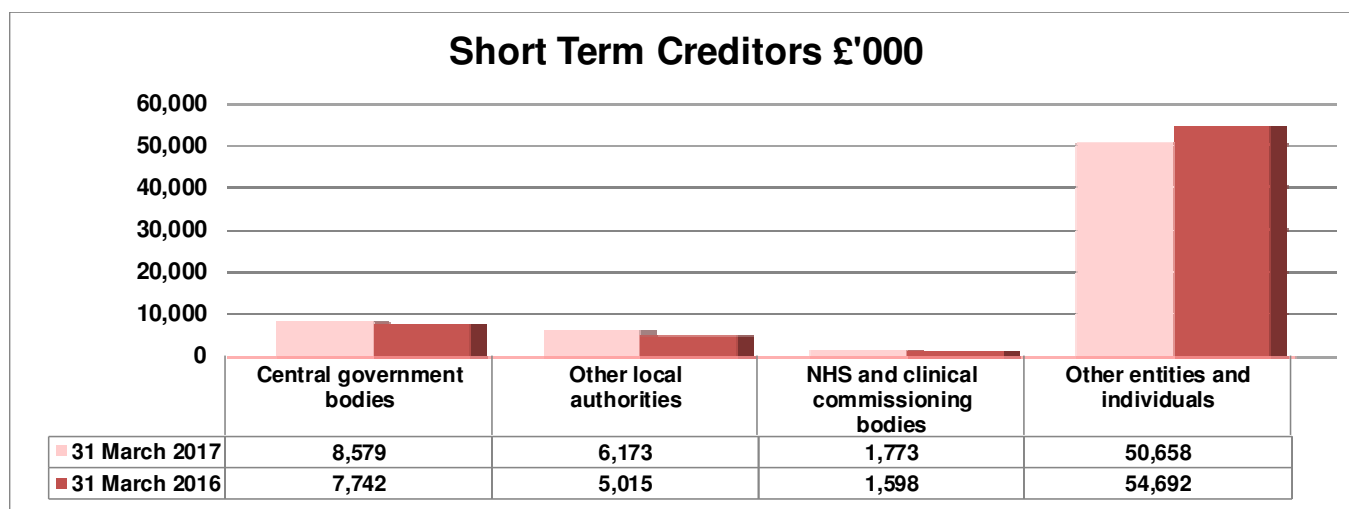
At 31 March 2017, £85.624m was owed to the council by debtors over the short term (i.e. 12 months) and the longer term. The level of short term debtors has decreased during the financial year by £1.811m; the level of long term debtors has increased by £6.042m. The following charts show the level of debts owed to the council at 31 March:



The council provided financial support to the East Sussex Credit Union in April 2016 with a membership deposit of £28,000 and a subordinated loan of £250,000 for the purpose of providing safe, affordable, accessible financial products to some of the city's most financially excluded and at-risk residents. The loan is interest free and repayable in 5 years' time.

## Creditors

At 31 March 2017, the council owed £67.183m to creditors; these amounts are owed over the short term. The level of short term creditors has decreased during the financial year by £1.864m. The following chart shows the amounts owed by the council at 31 March:



## Pensions Liability

The council participates in the Local Government Pension Scheme (LGPS). East Sussex County Council acts as the Administering Authority of the East Sussex Pension Fund and is responsible for the management and administration of the Fund in line with the Local Government Pension Scheme Regulations. The scheme is a funded defined benefit scheme, meaning that the council and employees pay contributions into a Fund, calculated at a level intended to balance the pension liabilities with investment assets. Hymans Robertson LLP, an independent firm of actuaries, assesses the position of the East Sussex Pension Fund.

Hymans Robertson LLP carried out an actuarial valuation of the East Sussex Pension Fund as at 31 March 2016 under regulation 62 of the Local Government Pension Scheme Regulations 2013. The purpose of this valuation is to assess the value of the assets and liabilities of the Fund as at 31 March 2016 and to calculate the required rate of employers' contributions to the Fund for the period from 1 April 2017 to 31 March 2020.

The council's net liability for future pension payments, as estimated by the pension actuary, Hymans Robertson LLP, has decreased from £270.279m at 31 March 2016 to £254.897m at 31 March 2017, a decrease of £15.382m.

The overall deficit on the pension fund of £254.897m represents the difference between the value of pension fund assets as at 31 March 2017 and the estimated present value of the future pension payments (ie liabilities) committed at that date. The value of pension fund assets has increased by £185.597m from the level reported as at 31 March 2016 to £1,002.449m as at 31 March 2017. The value of future pension payments liabilities has also increased by £170.215m from the level reported at 31 March 2016 to £1,257.346m as at 31 March 2017.

The liabilities reflect the council's long term underlying commitments to pay post employment benefits. These pension liabilities will be paid out over a period of many years, during which time the assets will continue to generate returns towards funding the liabilities.

The application of actuarial assumptions and other experience adjustments in relation to the pension liabilities has resulted in the pension liabilities increasing by £126.895m of which the majority (£184.332m) relates to financial assumptions; further details are included in the assumptions table in note 23. Effectively, the financial assumptions made by the actuary at 31 March 2017 are less favourable than those made at 31 March 2016. Specifically the discount rate used in the actuarial calculations has decreased during the financial year. Pension Scheme benefits are linked to price and salary inflation, therefore within the actuary's calculations, the real discount rate (ie net of price inflation) is compared from year to year when assessing the effect of changes in financial assumptions. The discount rate is set by reference to long term yields. The discount rate has decreased from 3.5% to 2.6%. A lower real discount rate leads to a higher value being placed on the liabilities.

Statutory arrangements for funding the pension deficit mean that the current financial position is robust although future funding of pension liabilities is expected to add to the financial pressures facing local authorities. The deficit on the pension fund will need to be made good by increased contributions over the working life of employees, as assessed by the pension actuary.

The council recognises a reserve for the estimated net pension liability. Therefore, the net liability in relation to post employment benefits has no direct effect on the council tax requirement.

Further information on pension costs is provided in notes 22 and 23.

## **Collection Fund**

The Collection Fund reflects the council's statutory obligation, as a billing authority, to establish and maintain a separate fund for the collection and distribution of amounts due in respect of council tax and business rates (ie non-domestic rates) in accordance with section 89 of the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and 2012).

### **Non Domestic Rates (NDR)**

The council is responsible for collecting non-domestic rates in Brighton and Hove. Under the Business Rates Retention Scheme, the council is allowed to retain 49% of the NDR income it collects. Of the remainder 50% is paid over to central government and 1% to the East Sussex Fire Authority.

In 2016/17, the council received £110.297m non-domestic rates income of which £53.932m was retained by the council. The council also received a top up grant of £1.656m from central government; this grant is paid to the council as its share of locally retained NDR is less than its baseline funding level set by central government.

The level of NDR income on each business property depends on its 'rateable value' as calculated by the Valuation Office Agency (VOA). Where local businesses believe the current value for business properties is wrong they can appeal. Where rating appeals are successful, the settlement of the appeal is funded by the council. The council has estimated the impact of outstanding appeals as at 31 March 2017 and has included a provision of £2.518m to cover its share. Further details on the judgement the council has made in calculating the provision are provided in note 3.

The council has also included a short term creditor of £1.670m in respect of the amount of non-domestic rates the council owes to central government and the East Sussex Fire Authority for their share of the in year surplus, the business rates appeal provision, prepayments and the impairment allowance for doubtful debts less their share of non-domestic rates arrears.

### **Council Tax**

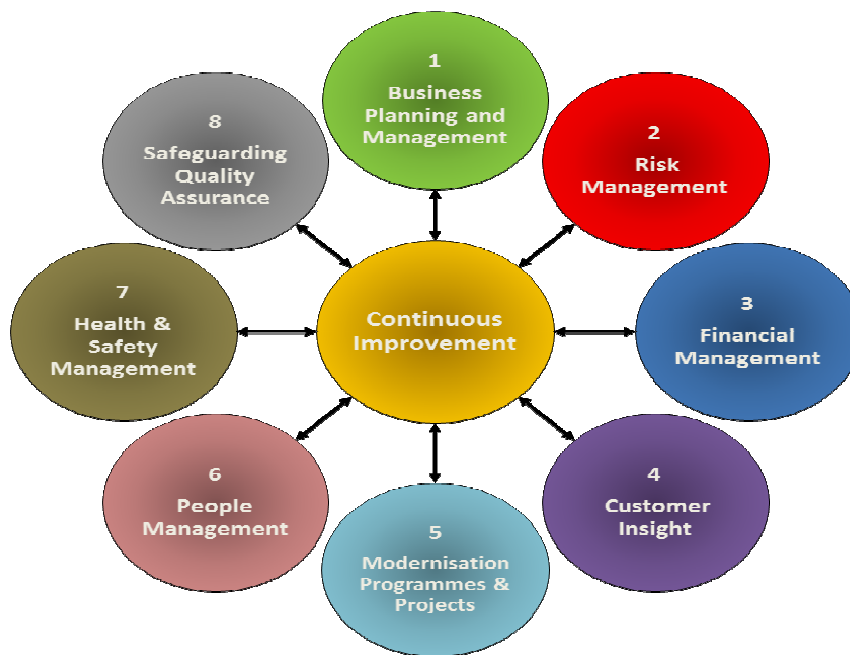
Council tax income derives from charges raised according to the value of residential properties. In 2016/17, the council collected council tax income of £142.561m (after reductions made under the localised scheme). The amount included in the council's CIES was £123.009m (including £0.044m re Rottingdean Parish precept), being its share (approximately 85%) of the council tax income; the remaining income was collected on behalf of the preceptors, Sussex Police & Crime Commissioner and East Sussex Fire Authority.

## **Performance Indicators**

The council's Executive Leadership Team (ELT) developed and agreed a set of Corporate Key Performance Indicators (KPIs) which are mapped to the Corporate Plan in order to demonstrate delivery of the Corporate Plan outcomes. Using this KPI set the council can track performance outcomes and identify corrective actions where necessary. Performance reports are reviewed by ELT quarterly; accountable directors discuss corrective actions and ELT prioritises options. Members review performance at Policy, Resources & Growth (PR&G) Committee twice a year.

The full set of Corporate KPIs and relevant linkages are shown in appendix 3 on pages 114 to 120.

The council's Performance Management Framework (see diagram below) shows how the council embeds risk and performance indicators to enable all performance to be addressed collectively. The Framework consists of the following eight elements:



The framework is supported by information and intelligence collated by the performance improvement and programmes service, the public health team, the policy team and other services who between them are the custodians of a wealth of research information that is collected covering social, health, economic, crime and environmental issues. The council uses the information to assist in understanding the community it serves and the impacts it is making.

Where performance is a cause for concern members or ELT can request additional exception reporting and incorporate it into the council's risk register if needed.

The council ensures year on year performance improvement through a rigorous target setting process. Corporate KPIs and indicators have performance targets using the following criteria:

- Using the latest available benchmarking data (eg statistical neighbour data, national data or any other comparable data) or any statutory / contractual target, whichever is more challenging. Officers must explain why a particular set of benchmarking data has been selected;
- Where no benchmarking or statutory / contractual data is available, a sound rationale needs to be explained for a target figure (eg improvement from the current performance);
- Where performance is already better than benchmarking / comparable data, an improvement target is set to drive continuous improvement;
- In exceptional circumstances, where resources are reducing or being reallocated, or there are significant external factors which will impact on performance, a maintenance or reduction target can be set. This has to be clearly evidenced and agreed by ELT;
- Revisions to targets set for any reason requires ELT approval.

Year-end performance for 2016/17 is due to be reported to the Policy, Resources & Growth Committee in July 2017.

## Direction of Travel and Strategic Approach

In the longer term, the council's approach will be to transform how it, as a local authority, operates to improve outcomes and reduce overall costs. It will lead partners in efforts to help people into employment as a route to improved health, family stability and reduced need for social care and welfare benefits. The council will also need to become financially more self-sufficient through economic growth, increased community involvement and increased social action.

The Government has previously announced that funding for local government will be reduced by approximately 10% per annum on average and this reduction has been built into the council's MTFS forecasts based on information in the four year Comprehensive Spending Review.

The council is now one year into its four year plan and savings of around £18m were delivered by the end of 2016/17. The remaining 3 years (2017/18 to 2019/20) will be more challenging as demands and costs continue to grow while government funding from the Revenue Support Grant will reduce by a further £26m. The council's agreement to sign up to the Government's '4-year settlement offer' provides certainty over some elements of government funding, but some other grants (eg Education Services Grant), are continuing to change. Taking into account known grant and funding changes together with assessed demand and cost pressures, an overall budget gap of £46.7m is predicted between 2017/18 and 2019/20. This means that substantial savings need to be found to balance the budget including an approved £21m savings programme in 2017/18. Overall, the direction of travel for local government finance continues to be for local authorities to aim to be self-sustaining amid an overall national context of reductions in public sector spending.

The budget gap is driven by a number of key factors:

- Increased demand for Adults Social Care services, for example, due to people living longer but with increasingly complex social care needs;
- Increased costs across children's services due to increasing numbers of children on child protection plans, the increasing cost of care leavers and the cost of care;
- Increased costs of social care contractual costs, Deprivation of Liberty Safeguard assessments and National Living Wage impacts;
- Inflationary pressures, for example, increasing costs of temporary accommodation leased by the council to tackle homelessness, due to private sector rent increases and housing supply issues;
- Substantially reducing government grant funding, particularly in relation to Revenue Support Grant and Education Services Grant.

The council has delivered savings of over £76m in the previous four years, meaning that further measures inevitably become harder to identify, carry greater delivery risks and may have greater impacts on residents, customers and service users.

The council is a large public service provider and commissioner covering around 700 individual services that support many different priorities and statutory requirements. The budget strategy is inevitably multi-stranded and complex as reflected by the wide range of savings proposals identified in the four year integrated service plans.

Given the financial challenges, the council's proposed budget strategy is to focus on getting basic services right and making the city an enjoyable place to live and work, protecting provision for vulnerable people as the city's population grows and the cost of care rises whilst continuing to support economic growth and regeneration that benefits everyone.

Budget and savings proposals will continue to be supported by the approach outlined in the council's Efficiency Plan developed in 2016/17 and submitted as part of the application process

for the Government's '4-year settlement offer'. In summary, this includes the following approaches:

- Modernisation of services including exploring different models of service delivery to improve efficiency, value for money, and outcomes for residents, including developing accessible digital services where appropriate. Where it is decided to retain council services, they will be redesigned and benchmarked to ensure costs are appropriate and that management and administrative costs are continually challenged.
- Exploring innovative solutions including commercial opportunities for self-financing through income generation in some services, while continuing to ensure non-statutory fees and charges fully recover costs and that procurement and contract management continues to drive value in the £300m spent on services provided by third parties.

The council will continue to lobby government to take into account a number of issues that are key to the financial resilience of the council. In addition, the council needs to continue to plan for a resilient and buoyant tax base in order to protect vital public services in the city.

There is some added clarity in 2017/18 following the Comprehensive Spending Review; however, there remain significant areas of uncertainty over the medium term as mentioned above. In general, factors that can have a material effect on the financial position of the council include:

- The lack of certainty in future resource levels and future funding distribution models;
- Changes in function and funding;
- Changes in how some services are funded;
- Changes in the economy including the impact on business rates income;
- Changes in employer costs (eg pension or national insurance changes);
- The level of future successful appeals against the business rating list;
- Impact of levels of house building on both council tax and new homes bonus;
- Achievement of performance targets for performance related funding;
- Climate change and weather impacts;
- Ability to manage identified service pressures;
- Decisions on council tax and council tax reduction;
- Democratic support for change including partnership working and integration.

Risks to the council's MTFs arise from both external and internal factors. External risks include, for example, government policy decisions that can have an adverse impact on the council. External risks are generally the most difficult to manage and plan for. Internal risks can also arise for a number of reasons, such as cost overruns, changing priorities or poor systems for demand management. It is therefore vital to have adequate mechanisms to manage all risks if financial stability is to be achieved.

The council's four year Integrated Service and Financial plans and associated MTFs aim to minimise the impact of some of the major financial risks and the impact on the delivery of the city's Corporate Plan commitments.

## **Housing and Planning Act**

The current HRA medium term financial plan and 30 year projections provide a balanced HRA Business Plan, however impending government legislation included in the Housing and Planning Act 2016 may significantly impact on the long term health of the plan.

The Housing and Planning Act 2016 proposals include a requirement for local housing authorities to pay the Government a sum in line with the anticipated receipt from the sale of high value council housing. The council will be able to retain some of the sale funds to support new house building to increase the overall housing numbers in the city. The legislation allows for the payment to be calculated using a formula, providing local authorities with the flexibility to choose

to retain an individual high value property, while making the payment from other sources. The Government has yet to consult with local authorities on the specific regulations and the formula assumptions. Therefore, at this stage the financial implications are unknown. Once the specific details are announced, via a determination from the Government, the medium and long term plans will be updated. The latest information from the Government suggests that implementation of this policy will be after 2017/18.

## **Highways Network Asset**

During March 2017, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that currently, and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.

## **Explanation of the Financial Statements**

The objectives of the Statement of Accounts (ie financial statements) are to provide information about the financial position, financial performance and cash flows of the council that is useful to a wide range of users for assessing the stewardship and accountability of the council's elected members and management of the resources entrusted to them and for making and evaluating economic decisions about the allocation of those resources.

The financial statements are presented on an International Financial Reporting Standards (IFRS) basis and have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and cover the period 1 April 2016 to 31 March 2017. The Code specifies the format of the financial statements, disclosures and terminology that are appropriate for local authorities.

The Code includes amendments to the provisions on the presentation of financial statements to reflect the new formats and reporting requirements for the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS) and has introduced a new Expenditure and Funding Analysis as a result of CIPFA's "Telling the Story" review of improvements to the presentation of local authority financial statements. The new formats for the CIES and MiRS are both changes in accounting policies and require the restatement of the preceding year information (ie for the 2015/16 financial year). Further details are included in note 1 to the financial statements.

The council is required to present a complete set of financial statements (including comparative information). The financial statements are set out on pages 26 to 108 and are presented as follows:

## **Expenditure and Funding Analysis (EFA)**

The objective of the EFA is to demonstrate to council tax and rent payers how the funding available to the council (ie government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by the council in accordance with generally accepted accounting practices. The EFA 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 fully in the Comprehensive Income and Expenditure Statement. The analysis of income and expenditure on the face of the EFA is specified by the council's operating segments which are based on the council's internal management reporting structure.

## **Comprehensive Income and Expenditure Statement (CIES)**

The CIES shows the accounting cost in the financial year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation or rents. Authorities raise taxation and rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the EFA and the MiRS. The analysis of income and expenditure on the face of the CIES is specified by the council's operating segments which are based on the council's internal management reporting structure.

## **Movement in Reserves Statement (MiRS)**

The MiRS shows the movement during the financial year on the different reserves held by the council, analysed into "usable reserves" (ie those that can be applied to fund expenditure or reduce local taxation) and "unusable reserves". The MiRS shows how the movements in year of the council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax or rents for the year. The net increase or decrease shows the statutory General Fund / HRA balance movements in the year following those adjustments.

## **Balance Sheet**

The Balance Sheet shows the value as at the end of the financial year of the assets and liabilities recognised by the council. The net assets (assets less liabilities) are matched by the reserves held. Movement in these reserves is reported in the MiRS.

## **Housing Revenue Account Income and Expenditure Statement**

The Housing Revenue Account Income and Expenditure Statement shows the economic cost in the financial year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants.

## **Cash Flow Statement**

The Cash Flow Statement shows the changes in the council's cash and cash equivalents during the financial year. The statement shows how the council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the council's operations are funded by way of taxation and grant income or from the recipients of services provided by the council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing).

## **Collection Fund**

The Collection Fund Statement shows the transactions of the council, as a billing authority, in relation to the collection from taxpayers and ratepayers and distribution to local precepting authorities and the Government business rates (ie non-domestic rates) only) of council tax and non-domestic rates.

## **Notes to the Financial Statements**

The notes to the financial statements comprise explanatory information.

The financial statements also include a Statement of Responsibilities which sets out the council's and its Chief Finance Officer's responsibilities in respect of the financial statements.

The council uses rounding to the nearest £'000 in presenting amounts in its financial statements; some notes are rounded to the nearest £ to aid the presentation and understanding of the financial statements. The council has abbreviated £million as the symbol 'm' and £billion as the symbol 'bn'.



## **Looking Ahead to the 2017/18 Accounts**

The council continues to explore a wide range of opportunities to modernise services, reduce costs, and attract housing and regeneration development opportunities. This involves exploring alternative service delivery models including charitable trusts, such as the proposals for the Royal Pavilion & Museums and the Music Service, or shared service provision such as the current move toward partnership working with Surrey County Council and East Sussex County Council for the provision of support service functions such as Finance, ICT and Legal Services; the latter service being also with West Sussex County Council. Elsewhere, the council is entering into a joint venture with Hyde Housing for the provision of 1,000 affordable homes in the city and has also created a wholly owned housing company to provide a vehicle for further housing developments. All of these initiatives and other potential financial vehicles may have significant implications for the council's financial statements in 2017/18 and beyond and will be accommodated in accordance with the relevant accounting standards and the Code.

### **Further Information**

Further information about the financial statements is available from Corporate Financial Services, 3rd Floor, Bartholomew House, Bartholomew Square, Brighton. In addition, interested members of the public have a statutory right to inspect the financial statements and their availability is advertised on the council's website, [www.brighton-hove.gov.uk](http://www.brighton-hove.gov.uk).

**David Kuenssberg CPFA**

**Executive Director Finance & Resources (Section 151 Officer)**

# Statement of Responsibilities

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## The Council's Responsibilities

The council is required to:

- (i) 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 council that officer is the Executive Director Finance & Resources;
- (ii) manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- (iii) approve the Statement of Accounts.

## The Executive Director Finance & Resources Responsibilities

The Executive Director Finance & Resources is responsible for the preparation of the council's Statement of Accounts in accordance with proper practices as set out in the CIPFA<sup>1</sup> Code of Practice on Local Authority Accounting in the United Kingdom. The Executive Director Finance & Resources is required to sign and date the Statement of Accounts, stating that it presents a true and fair view of the financial position of the council at the Balance Sheet date and its income and expenditure for the financial year.

In preparing this Statement of Accounts the Executive Director Finance & Resources has:

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

The Executive Director Finance & Resources has also:

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

I certify that the Statement of Accounts presents a true and fair view of the financial position of Brighton & Hove City Council as at 31 March 2017 and its income and expenditure for the financial year ended 31 March 2017.

**David Kuenssberg CPFA**  
**Executive Director Finance & Resources (Section 151 Officer)**  
**19 September 2017**

<sup>1</sup> Chartered Institute of Public Finance and Accountancy

# Certification by Chair

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I confirm that this Statement of Accounts was approved by the Audit & Standards Committee at a meeting held on 19 September 2017.

**Signed on behalf of Brighton & Hove City Council**

**Councillor J Miller  
Chair  
Audit & Standards Committee**

**Date 19 September 2017**



**Brighton & Hove City Council**

**Financial Statements  
2016/17**

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# Expenditure and Funding Analysis (EFA)

Expenditure and Funding Analysis								
Year Ended 31 March 2016			Note		Year Ended 31 March 2017			
Net Expenditure chargeable to the General Fund & HRA balances	Adjustments between Funding & Accounting Basis	Net Expenditure in the Comprehensive Income & Expenditure Statement			Net Expenditure chargeable to the General Fund & HRA balances	Adjustments between Funding & Accounting Basis	Net Expenditure in the Comprehensive Income & Expenditure Statement	
£'000	£'000	£'000			£'000	£'000	£'000	
91,651	13,839	105,490		Families, children & learning	84,307	16,223	100,530	
52,389	1,334	53,723		Health & adult social care	51,753	1,545	53,298	
25,785	31,061	56,846		Economy, environment & culture	22,169	32,036	54,205	
15,199	3,019	18,218		Neighbourhood, communities & housing	12,160	3,706	15,866	
20,746	2,460	23,206		Finance & resources	20,277	553	20,830	
6,780	72	6,852		Strategy, governance & law	5,834	(527)	5,307	
(21,055)	(2,922)	(23,977)		Housing Revenue Account (HRA)	22,783	(40,443)	(17,660)	
545	14,635	15,180		Corporate services	14,696	3,073	17,769	
(122,227)	(5,217)	(127,444)		Dedicated schools grant (DSG)	(122,853)	(4,711)	(127,564)	
0	(79,591)	(79,591)		Exceptional item - revaluation gain reversing previous revaluation loss (HRA)	(42,459)	0	(42,459)	
0	253,747	253,747		Exceptional item - revaluation loss (GF)	0	0	0	
123,757	0	123,757		Schools	126,405	0	126,405	
25,286	(25,286)	0		Adjustments between Funding & Accounting Basis for Items within the Operating Segments	29,953	(29,953)	0	
0	(2,402)	(2,402)		Support service and management and administration charges to / (from) the Housing Revenue Account (HRA)	0	(2,244)	(2,244)	
<b>218,856</b>	<b>204,749</b>	<b>423,605</b>		<b>Cost of Services</b>	<b>225,025</b>	<b>(20,742)</b>	<b>204,283</b>	
(215,897)	(22,484)	(238,381)		Other income and expenditure	(222,062)	(359)	(222,421)	
<b>2,959</b>	<b>182,265</b>	<b>185,224</b>		<b>(Surplus) / Deficit on the Provision of Services</b>	<b>2,963</b>	<b>(21,101)</b>	<b>(18,138)</b>	
(62,436)				Opening General Fund and HRA balance at 1 April (including earmarked reserves)	(60,156)			
2,959				Less (surplus) / deficit on General Fund and HRA balance in year	2,963			
(679)				Net transfer to / (from) other usable reserves	945			
<b>(60,156)</b>				<b>Closing General Fund and HRA balance at 31 March (including earmarked reserves)</b>	<b>(56,248)</b>			
General Fund	HRA	Total	Note		General Fund	HRA	Total	
£'000	£'000	£'000			£'000	£'000	£'000	
Analysed between General Fund and HRA Balances								
(55,288)	(7,148)	(62,436)		Opening General Fund and HRA balance at 1 April (including earmarked reserves)	(51,604)	(8,552)	(60,156)	
3,710	(751)	2,959		Less (surplus) / deficit on General Fund and HRA balance in year	4,750	(1,787)	2,963	
(26)	(653)	(679)		Net transfer to / (from) other usable reserves	(7)	952	945	
<b>(51,604)</b>	<b>(8,552)</b>	<b>(60,156)</b>		<b>Closing General Fund and HRA balance at 31 March (including earmarked reserves)</b>	<b>(46,861)</b>	<b>(9,387)</b>	<b>(56,248)</b>	

Note: the Expenditure and Funding Analysis is a note to the financial statements, however, it is positioned here as it provides an analysis of the net expenditure that is chargeable in the CIES (i.e. (surplus) / deficit on the provision of services) between that net expenditure which is chargeable to the General Fund Balance (i.e. the overall movement on the General Fund Balance as shown in the MiRS) and the adjustments made to the General Fund Balance in accordance with generally accepted accounting practices as shown in the MiRS.

## Notes to the Expenditure and Funding Analysis (EFA)

The following note sets out the adjustments that are made to the total comprehensive income and expenditure recognised by the council in the year in accordance with proper accounting practice to arrive at the net expenditure chargeable to the General Fund balance and HRA balance (ie the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure):

Note to the Expenditure and Funding Analysis				
Adjustments from General Fund and HRA (Surplus) / Deficit to arrive at the Comprehensive Income and Expenditure Statement - 2016/17	Adjustments for Capital Purposes (note 1) £'000	Net Change for the Pensions Adjustment (Note 2) £'000	Other Adjustments (Note 3) £'000	Total Adjustments £'000
Families, children & learning	13,136	0	3,087	16,223
Health & adult social care	1,195	0	350	1,545
Economy, environment & culture	34,822	0	(2,786)	32,036
Neighbourhood, communities & housing	3,710	0	(4)	3,706
Finance & resources	1,043	754	(1,244)	553
Strategy, governance & law	125	0	(652)	(527)
Housing Revenue Account (HRA)	(39,240)	0	(1,203)	(40,443)
Corporate services	773	0	2,300	3,073
Dedicated Schools Grant (DSG)	0	0	(4,711)	(4,711)
Exceptional item - revaluation gain reversing a previous revaluation loss (HRA)	0	0	0	0
Exceptional item - revaluation loss (GF)	0	0	0	0
Adjustments between funding & accounting basis for items within the operating segments	(33,249)	3,267	29	(29,953)
Support service and management and administration charges to / from the Housing Revenue Account (HRA)	0	0	(2,244)	(2,244)
<b>Net Cost of Services</b>	<b>(17,685)</b>	<b>4,021</b>	<b>(7,078)</b>	<b>(20,742)</b>
Other income and expenditure from the Expenditure and Funding Analysis	(18,562)	9,517	8,686	(359)
<b>Difference between General Fund and HRA (Surplus) / Deficit and Comprehensive Income and Expenditure Statement (Surplus) / Deficit</b>	<b>(36,247)</b>	<b>13,538</b>	<b>1,608</b>	<b>(21,101)</b>

### Note to the Expenditure and Funding Analysis

Adjustments from General Fund and HRA (Surplus) / Deficit to arrive at the Comprehensive Income and Expenditure Statement - 2015/16	Adjustments for Capital Purposes (note 1)	Net Change for the Pensions Adjustment (Note 2)	Other Adjustments (Note 3)	Total Adjustments
	£'000	£'000	£'000	£'000
Families, children & learning	11,977	0	1,862	13,839
Health & adult social care	894	0	440	1,334
Economy, environment & culture	33,571	0	(2,510)	31,061
Neighbourhood, communities & housing	2,670	0	349	3,019
Finance & resources	938	1,298	224	2,460
Strategy, governance & law	187	0	(115)	72
Housing Revenue Account (HRA)	200	0	(3,122)	(2,922)
Corporate services	15	0	14,620	14,635
Dedicated Schools Grant (DSG)	0	0	(5,217)	(5,217)
Exceptional item - revaluation gain reversing a previous revaluation loss (HRA)	(79,591)	0	0	(79,591)
Exceptional item - revaluation loss (GF)	253,747	0	0	253,747
Adjustments between funding & accounting basis for items within the operating segments	(34,574)	9,267	21	(25,286)
Support service and management and administration charges to / from the Housing Revenue Account (HRA)	0	0	(2,402)	(2,402)
<b>Net Cost of Services</b>	<b>190,034</b>	<b>10,565</b>	<b>4,150</b>	<b>204,749</b>
Other income and expenditure from the Expenditure and Funding Analysis	(32,802)	11,769	(1,451)	(22,484)
<b>Difference between General Fund and HRA (Surplus) / Deficit and Comprehensive Income and Expenditure Statement (Surplus) / Deficit</b>	<b>157,232</b>	<b>22,334</b>	<b>2,699</b>	<b>182,265</b>

### Note 1 – Adjustments for Capital Purposes

These adjustments include:

- items charged to services in relation to non-current assets (depreciation, impairment and revaluation gains and losses);
- adjustments for capital disposals (ie income on disposal on non-current assets and the amounts written off for those assets);
- adjustments for the statutory charges of capital financing (ie minimum revenue provision) and other revenue contributions as these are not chargeable under generally accepted accounting practices;
- adjustments for grants - capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and non-specific grant income and expenditure line in the CIES is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

### Note 2 – Net Change for the Pensions Adjustments

These adjustments relate to the removal of pension contributions and the addition of IAS 19 *Employee Benefits* pension related expenditure and income:

- For services (ie operating segments) this represents the removal of the employer pension contributions made by the council as allowed by statute and the replacement with current service costs and past service costs;



- For other income and expenditure this represents the net interest on the defined benefit liability charged to the CIES.

### **Note 3 - Other Adjustments**

This column includes other differences between amounts debited / credited to the CIES and amounts payable / receivable to be recognised under statute and includes:

- adjustments to the General Fund / HRA surplus / deficit for the timing for premiums and discounts;
- adjustments to the General Fund surplus / deficit for employees' paid absences.
- adjustments for the timing difference between what is chargeable under statutory regulations for council tax and non-domestic rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code.

Further detail on these adjustments is provided in the note to the Movement in Reserves Statement.

# Comprehensive Income and Expenditure Statement (CIES)

Comprehensive Income and Expenditure Statement							
Year Ended 31 March 2016 (Restated)			Note		Year Ended 31 March 2017		
Gross Expenditure	Gross Income	Net Expenditure			Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000			£'000	£'000	£'000
120,924	(15,514)	<b>105,410</b>		Families, children & learning	118,000	(17,470)	<b>100,530</b>
107,808	(54,085)	<b>53,723</b>		Health & adult social care	106,489	(53,191)	<b>53,298</b>
113,373	(56,527)	<b>56,846</b>		Economy, environment & culture	114,882	(60,677)	<b>54,205</b>
36,976	(18,959)	<b>18,017</b>		Neighbourhood, communities & housing	37,766	(21,900)	<b>15,866</b>
194,406	(172,783)	<b>21,623</b>		Finance & resources	187,335	(166,505)	<b>20,830</b>
11,134	(4,820)	<b>6,314</b>		Strategy, governance & law	10,531	(5,224)	<b>5,307</b>
35,725	(59,702)	<b>(23,977)</b>		Housing Revenue Account (HRA)	39,367	(59,271)	<b>(19,904)</b>
13,553	1,627	<b>15,180</b>		Corporate services	15,314	2,455	<b>17,769</b>
179,445	(183,132)	<b>(3,687)</b>		Dedicated schools grant (DSG)	183,110	(184,269)	<b>(1,159)</b>
(79,591)	0	<b>(79,591)</b>		Exceptional item - revaluation gain reversing a previous revaluation loss (HRA)	(42,459)	0	<b>(42,459)</b>
253,747	0	<b>253,747</b>		Exceptional item - revaluation loss (GF)	0	0	<b>0</b>
<b>987,500</b>	<b>(563,895)</b>	<b>423,605</b>		<b>Cost of Services</b>	<b>770,335</b>	<b>(566,052)</b>	<b>204,283</b>
<b>Other operating expenditure</b>							
		<b>(7,944)</b>		(Gain) / loss on the disposal of non-current assets			<b>601</b>
		<b>211</b>		Precepts and levies			<b>215</b>
		<b>1,264</b>		Payments to the government housing capital receipts pool			<b>1,245</b>
		<b>6,366</b>		Non-current asset charges on assets leased to academy schools			<b>4,234</b>
		<b>(103)</b>		<b>Total Other Operating Expenditure</b>			<b>6,295</b>
<b>Financing</b>							
		<b>17,545</b>		Interest payable			<b>18,248</b>
		<b>11,769</b>		Net interest on the net defined benefit pension liability			<b>9,517</b>
		<b>(2,648)</b>		Interest receivable			<b>(3,652)</b>
		<b>(2,818)</b>		Income and expenditure in relation to investment properties			<b>(2,993)</b>
		<b>(2,005)</b>		Changes in the fair value of investment properties			<b>(733)</b>
		<b>21,843</b>		<b>Total Financing and Investment Income and Expenditure</b>			<b>20,387</b>
<b>Taxation</b>							
		<b>(113,966)</b>		Council tax income (including share of council tax surplus / deficit)			<b>(121,241)</b>
		<b>1,659</b>		Share of non-domestic rates (surplus) / deficit			<b>1,061</b>
		<b>(52,380)</b>		Locally retained element of non-domestic rates income			<b>(53,932)</b>
		<b>(64,998)</b>		Non ring fenced government grants			<b>(51,119)</b>
		<b>(30,436)</b>		Capital grants and contributions			<b>(23,872)</b>
		<b>(260,121)</b>		<b>Total Taxation and Non-Specific Grant Income and Expenditure</b>			<b>(249,103)</b>
		<b>185,224</b>		<b>(Surplus) / Deficit on the Provision of Services</b>			<b>(18,138)</b>

	Year Ended 31 March 2016	Note		Year Ended 31 March 2017
	Net Expenditure			Net Expenditure
	£'000			£'000
<b>Items that will not be reclassified to the (Surplus) / Deficit on the Provision of Services</b>				
	242,645	8	(Surplus) / deficit on revaluation of non-current assets	(45,654)
	(114,577)	23	Remeasurements of the net defined benefit liability	(28,920)
	128,068		<b>Total Items that will not be reclassified to the (Surplus) / Deficit on the Provision of Services</b>	(74,574)
<b>Items that may be reclassified to the (Surplus) / Deficit on the Provision of Services</b>				
	2	6, 10	(Surplus) / deficit on revaluation of available for sale financial assets	(101)
	2		<b>Total Items that may be reclassified to the (Surplus) / Deficit on the Provision of Services</b>	(101)
	128,070		<b>Other Comprehensive Income and Expenditure</b>	(74,675)
	313,294		<b>Total Comprehensive Income and Expenditure</b>	(92,813)

Note: the cost of services figures have been restated as described in note 1 to the financial statements.

## Notes to the Comprehensive Income and Expenditure Statement (CIES)

The council's expenditure and income is subjectively analysed as follows:

<b>Expenditure and Income analysed by Nature</b>		
	2015/16	2016/17
	£'000	£'000
Employee expenses	304,763	298,669
Other service expenses	457,843	452,494
Non-current asset charges	238,566	29,886
Interest payable	17,524	18,248
Precepts and levies	211	215
Payments to Housing Capital Receipts Pool	1,264	1,245
Write out of disposed non-current assets	12,375	13,407
<b>Total Expenditure</b>	<b>1,032,546</b>	<b>814,164</b>
Fees, charges and other service income	(198,562)	(202,880)
Income from non-current asset disposals	(20,319)	(12,806)
Interest receivable	(2,648)	(3,652)
Income from council tax	(113,966)	(121,241)
Income from non-domestic rates	(50,721)	(52,871)
Government grants and contributions	(461,107)	(438,852)
<b>Total Income</b>	<b>(847,323)</b>	<b>(832,302)</b>
<b>(Surplus) / Deficit on the Provision of Services</b>	<b>185,223</b>	<b>(18,138)</b>

The fees, charges and other service income (ie income received from external customers) is analysed further in the below table on an operating segment basis:

<b>Income received from External Customers analysed over Operating Segments</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
Families, children & learning	(9,172)	(9,958)
Health & adult social care	(33,556)	(31,862)
Dedicated schools grant	(9,623)	(10,843)
Economy, environment & culture	(52,876)	(58,012)
Neighbourhood, communities & housing	(17,842)	(19,779)
Finance & resources	(8,440)	(7,395)
Strategy, governance & law	(3,541)	(3,658)
Housing Revenue Account (HRA)	(59,585)	(59,271)
Corporate services	(921)	(256)
Other income and expenditure	(3,006)	(1,846)
<b>Total Income received from External Customers</b>	<b>(198,562)</b>	<b>(202,880)</b>

Further details on the income received by the council, in the form of grant and contributions, from government bodies is detailed in note 14.

### **Exceptional Items of Income and Expense**

The council has included an exceptional item of £42.459m on the face of its CIES relating to the reversal of previous financial year's revaluation losses on council dwellings charged to the CIES in previous financial years.

Further information on these exceptional items is included in the non current assets section of the narrative report.

# Movement in Reserves Statement (MiRS)

Movement in Reserves Statement						
	Balance as at 1 April 2016	Total Comprehensive Income and Expenditure	Adjustments between Accounting Basis and Funding Basis under Regulations	Other Adjustments between reserves	Net (Increase) / Decrease	Balance as at 31 March 2017
2016/17	£'000	£'000	£'000	£'000	£'000	£'000
<b>USABLE RESERVES</b>						
<b>Usable reserves held for revenue purposes</b>						
General fund balance (including GF earmarked reserves)	(51,604)	41,550	(36,800)	(7)	4,743	(46,861)
HRA balance (including HRA earmarked reserves)	(8,552)	(59,688)	57,901	952	(835)	(9,387)
<b>Usable reserves held for capital purposes</b>						
Capital receipts reserve	(14,269)	0	3,674	(952)	2,722	(11,547)
Major repairs reserve	48	0	0	0	0	48
Capital grants unapplied	(3,559)	0	(273)	7	(266)	(3,825)
<b>Total Usable Reserves</b>	<b>(77,936)</b>	<b>(18,138)</b>	<b>24,502</b>	<b>0</b>	<b>6,364</b>	<b>(71,572)</b>
<b>UNUSABLE RESERVES</b>						
<b>Unusable reserves held for revenue purposes</b>						
Collection fund adjustment account	(521)	0	721	0	721	200
Financial instruments adjustment account	981	0	30	0	30	1,011
Available for sale financial instruments reserve	1	(101)	0	0	(101)	(100)
Pensions reserve	270,279	(28,920)	13,538	0	(15,382)	254,897
Accumulated absences account	3,022	0	856	0	856	3,878
<b>Total Unusable Reserves Held for Revenue Purposes</b>	<b>273,762</b>	<b>(29,021)</b>	<b>15,145</b>	<b>0</b>	<b>(13,876)</b>	<b>259,886</b>
<b>Unusable reserves held for capital purposes</b>						
Revaluation reserve	(431,328)	(45,654)	5,903	0	(39,751)	(471,079)
Capital adjustment account	(1,131,045)	0	(45,558)	0	(45,558)	(1,176,603)
Deferred capital receipts reserve	(6,229)	0	8	0	8	(6,221)
<b>Total Unusable Reserves Held for Capital Purposes</b>	<b>(1,568,602)</b>	<b>(45,654)</b>	<b>(39,647)</b>	<b>0</b>	<b>(85,301)</b>	<b>(1,653,903)</b>
<b>Total Unusable Reserves</b>	<b>(1,294,840)</b>	<b>(74,675)</b>	<b>(24,502)</b>	<b>0</b>	<b>(99,177)</b>	<b>(1,394,017)</b>
<b>Total Reserves</b>	<b>(1,372,776)</b>	<b>(92,813)</b>	<b>0</b>	<b>0</b>	<b>(92,813)</b>	<b>(1,465,589)</b>

Movement in Reserves Statement						
	Balance as at 1 April 2015	Total Comprehensive Income and Expenditure	Adjustments between Accounting Basis and Funding Basis under Regulations	Other Adjustments between reserves	Net (Increase) / Decrease	Balance as at 31 March 2016
2015/16 Comparative Figures	£'000	£'000	£'000	£'000	£'000	£'000
<b>USABLE RESERVES</b>						
<b>Usable reserves held for revenue purposes</b>						
General fund balance (including GF earmarked reserves)	(55,288)	288,616	(284,906)	(26)	3,684	(51,604)
HRA balance (including HRA earmarked reserves)	(7,148)	(103,392)	102,641	(653)	(1,404)	(8,552)
<b>Usable reserves held for capital purposes</b>						
Capital receipts reserve	(11,562)	0	(3,360)	653	(2,707)	(14,269)
Major repairs reserve	0	0	48	0	48	48
Capital grants unapplied	(1,761)	0	(1,824)	26	(1,798)	(3,559)
<b>Total Usable Reserves</b>	<b>(75,759)</b>	<b>185,224</b>	<b>(187,401)</b>	<b>0</b>	<b>(2,177)</b>	<b>(77,936)</b>
<b>UNUSABLE RESERVES</b>						
<b>Unusable reserves held for revenue purposes</b>						
Collection fund adjustment account	(4,027)	0	3,506	0	3,506	(521)
Financial instruments adjustment account	960	0	21	0	21	981
Available for sale financial instruments reserve	(1)	2	0	0	2	1
Pensions reserve	362,522	(114,577)	22,334	0	(92,243)	270,279
Accumulated absences account	3,850	0	(828)	0	(828)	3,022
<b>Total Unusable Reserves Held for Revenue Purposes</b>	<b>363,304</b>	<b>(114,575)</b>	<b>25,033</b>	<b>0</b>	<b>(89,542)</b>	<b>273,762</b>
<b>Unusable reserves held for capital purposes</b>						
Revaluation reserve	(678,815)	242,645	4,842	0	247,487	(431,328)
Capital adjustment account	(1,289,703)	0	158,658	0	158,658	(1,131,045)
Deferred capital receipts reserve	(6,251)	0	22	0	22	(6,229)
<b>Total Unusable Reserves Held for Capital Purposes</b>	<b>(1,974,769)</b>	<b>242,645</b>	<b>163,522</b>	<b>0</b>	<b>406,167</b>	<b>(1,568,602)</b>
<b>Total Unusable Reserves</b>	<b>(1,611,465)</b>	<b>128,070</b>	<b>188,555</b>	<b>0</b>	<b>316,625</b>	<b>(1,294,840)</b>
<b>Total Reserves</b>	<b>(1,687,224)</b>	<b>313,294</b>	<b>1,154</b>	<b>0</b>	<b>314,448</b>	<b>(1,372,776)</b>

The note below provides more detail on the usable reserves and the adjustments made between the accounting basis and funding basis under regulations. Note 6 provides more detail on the unusable reserves.

# Notes to the Movement in Reserves Statement (MiRS)

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The following analysis sets out the adjustments that are made to the total comprehensive income and expenditure recognised by the council in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the council to meet future capital and revenue expenditure and sets out a description of the reserves that the adjustments are made against.

## General Fund Balance

The General Fund balance 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 (or the deficit of resources that the council is required to recover) at the year end. The General Fund balance shows the resources available to meet future running costs for non HRA housing services; it is not available to be applied to fund HRA services.

## Housing Revenue Account Balance

The Housing Revenue Account balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI 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 or (where in deficit) that is required to be recovered from tenants in future years.

## Capital Receipts Reserve

The capital receipts reserve holds the proceeds from the disposal of non-current assets, which are restricted by statute from being used other than to fund new capital investment or to be set aside to finance historical capital investment. Capital receipts may also be used under the flexible use of capital receipts direction to meet expenditure on any project that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs or to improve the quality of service delivery in future years. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

## Major Repairs Reserve

The council is required to maintain a major repairs reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historic capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the end of the financial year.

## Capital Grants Unapplied Account

The capital grants unapplied account holds the 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. The account also holds grants and contributions received towards capital projects for which there are no

conditions for repayment attached where expenditure has yet to be incurred. The balance is restricted by grant terms as to the capital investment against which it can be applied and / or the financial year in which this can take place.

<b>Adjustments between Accounting Basis and Funding Basis under Regulations</b>						
	<b>General Fund Balance</b>	<b>HRA Balance</b>	<b>Capital Receipts Reserve</b>	<b>Major Repairs Reserve</b>	<b>Capital Grants Unapplied</b>	<b>Total Adjustments</b>
<b>2016/17</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Adjustments to the Revenue Resources</b>						
<b>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements</b>						
Pension costs (transferred to / (from) the pensions reserve)	(11,556)	(1,982)	0	0	0	(13,538)
Financial instruments (transferred to / (from) the financial instruments adjustment account)	31	(61)	0	0	0	(30)
Council tax and NDR (transferred to / (from) the collection fund adjustment account)	(721)	0	0	0	0	(721)
Employees' paid absences (transferred to the accumulated absences account)	(857)	1	0	0	0	(856)
Reversals of entries included in the CIES in relation to capital expenditure (these items are charged to the capital adjustment account)	(66,162)	34,114	0	(10,758)	0	(42,806)
<b>Total Adjustments to Revenue Resources</b>	<b>(79,265)</b>	<b>32,072</b>	<b>0</b>	<b>(10,758)</b>	<b>0</b>	<b>(57,951)</b>
<b>Adjustments between Revenue and Capital Resources</b>						
Non current asset sale proceeds	3,545	9,196	(12,741)	0	0	0
Payments to the government housing capital receipts pool	(1,245)	0	1,245	0	0	0
Statutory and voluntary provision for the repayment of debt (transfer from the capital adjustment account)	8,914	3,000	0	0	0	11,914
Capital expenditure financed from revenue balances (transfer from the capital adjustment account)	1,005	13,174	0	0	0	14,179
Use of capital receipts to fund voluntary severance costs	(1,680)	0	1,680	0	0	0
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>10,539</b>	<b>25,370</b>	<b>(9,816)</b>	<b>0</b>	<b>0</b>	<b>26,093</b>
<b>Adjustments to the Capital Resources</b>						
Use of the capital receipts reserve to finance capital expenditure	0	0	13,490	0	0	13,490
Use of the major receipts reserve to finance capital expenditure	0	0	0	10,758	0	10,758
Use of earmarked reserves to finance capital expenditure	2,287	60	0	0	0	2,347
Reversal of entries included in the CIES in relation to capital grants unapplied	868	0	0	0	(868)	0
Application of capital grants to finance capital expenditure	28,777	399	0	0	595	29,771
Cash payments in relation to deferred capital receipts	(6)	0	0	0	0	(6)
<b>Total Adjustments to Capital Resources</b>	<b>31,926</b>	<b>459</b>	<b>13,490</b>	<b>10,758</b>	<b>(273)</b>	<b>56,360</b>
<b>Total Adjustments</b>	<b>(36,800)</b>	<b>57,901</b>	<b>3,674</b>	<b>0</b>	<b>(273)</b>	<b>24,502</b>



<b>Adjustments between Accounting Basis and Funding Basis under Regulations</b>						
	<b>General Fund Balance</b>	<b>HRA Balance</b>	<b>Capital Receipts Reserve</b>	<b>Major Repairs Reserve</b>	<b>Capital Grants Unapplied</b>	<b>Total Adjustments</b>
<b>2015/16 Comparative Figures</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Adjustments to the Revenue Resources</b>						
<b>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements</b>						
Pension costs (transferred to / (from) the pensions reserve)	(21,414)	(920)	0	0	0	(22,334)
Financial instruments (transferred to / (from) the financial instruments adjustment account)	32	(53)	0	0	0	(21)
Council tax and NDR (transferred to / (from) the collection fund adjustment account)	(3,506)	0	0	0	0	(3,506)
Employees' paid absences (transferred to the accumulated absences account)	830	(2)	0	0	0	828
Reversals of entries included in the CIES in relation to capital expenditure (these items are charged to the capital adjustment account)	(313,891)	72,724	0	(9,554)	0	(250,721)
<b>Total Adjustments to Revenue Resources</b>	<b>(337,949)</b>	<b>71,749</b>	<b>0</b>	<b>(9,554)</b>	<b>0</b>	<b>(275,754)</b>
<b>Adjustments between Revenue and Capital Resources</b>						
Non current asset sale proceeds	9,321	10,834	(20,155)	0	0	0
Payments to the government housing capital receipts pool	(1,264)	0	1,264	0	0	0
Statutory and voluntary provision for the repayment of debt (transfer from the capital adjustment account)	8,946	4,300	0	0	0	13,246
Capital expenditure financed from revenue balances	969	14,267	0	0	0	15,236
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>17,972</b>	<b>29,401</b>	<b>(18,891)</b>	<b>0</b>	<b>0</b>	<b>28,482</b>
<b>Adjustments to the Capital Resources</b>						
Use of the capital receipts reserve to finance capital expenditure	0	0	15,603	0	0	15,603
Use of the major receipts reserve to finance capital expenditure	0	0	0	9,602	0	9,602
Use of earmarked reserves to finance capital expenditure	2,803	338	0	0	0	3,141
Reversal of entries included in the CIES in relation to capital grants unapplied	2,975	0	0	0	(2,975)	0
Application of capital grants to finance capital expenditure	29,243	1,153	0	0	1,151	31,547
Cash payments in relation to deferred capital receipts	50	0	(72)	0	0	(22)
<b>Total Adjustments to Capital Resources</b>	<b>35,071</b>	<b>1,491</b>	<b>15,531</b>	<b>9,602</b>	<b>(1,824)</b>	<b>59,871</b>
<b>Total Adjustments</b>	<b>(284,906)</b>	<b>102,641</b>	<b>(3,360)</b>	<b>48</b>	<b>(1,824)</b>	<b>(187,401)</b>

# Balance Sheet

Balance Sheet			
As at 31 March 2016	Note		As at 31 March 2017
£'000			£'000
<b>Long Term Assets</b>			
1,631,443	8	Property, plant and equipment	1,718,320
197,767	8	Heritage assets	199,803
46,030	8	Investment property	46,763
2,652	8	Long term intangible assets	3,249
50	10	Long term investments	50
39,518	11	Long term debtors	45,560
<b>1,917,460</b>		<b>Long Term Assets</b>	<b>2,013,745</b>
<b>Current Assets</b>			
58,788	10	Short term investments	64,572
923		Inventories	907
41,875	11	Short term debtors	40,064
20,999	10	Cash equivalents	24,817
170	8	Short term assets held for sale	150
478	13	Short term intangible assets	478
<b>123,233</b>		<b>Current Assets</b>	<b>130,988</b>
<b>Current Liabilities</b>			
(839)	10	Bank overdraft	(2,397)
(8,502)	10	Short term borrowing	(7,514)
(69,047)	12	Short term creditors	(67,183)
(3,593)	13	Short term provisions	(4,128)
<b>(81,981)</b>		<b>Current Liabilities</b>	<b>(81,222)</b>
<b>Long Term Liabilities</b>			
(4,015)	13	Long term provisions	(4,634)
(237,729)	10	Long term borrowing	(255,070)
(322,069)	23, 16	Other long term liabilities	(304,355)
(22,123)	14	Capital grant receipts in advance	(33,863)
<b>(585,936)</b>		<b>Long Term Liabilities</b>	<b>(597,922)</b>
<b>1,372,776</b>		<b>Net Assets</b>	<b>1,465,589</b>
(77,936)	5, 7	Usable reserves	(71,572)
(1,294,840)	6	Unusable reserves	(1,394,017)
<b>(1,372,776)</b>		<b>Total Reserves</b>	<b>(1,465,589)</b>

These financial statements replace the unaudited financial statements certified by the Executive Director Finance & Resources on 30 May 2017.

**David Kuenssberg CPFA**  
**Executive Director Finance & Resources (Section 151 Officer)**  
**19 September 2017**

# Housing Revenue Account Income and Expenditure Statement

Housing Revenue Account Income and Expenditure Statement		
Year Ended 31 March 2016		Year Ended 31 March 2017
£'000		£'000
	<b>Expenditure</b>	
10,046	Repairs and maintenance	10,081
13,791	Supervision and management	12,978
1,619	Rents, rates, taxes and other charges	1,563
(69,792)	Non-current asset charges - depreciation, amortisation, revaluation and impairment	(28,422)
51	Debt management costs	45
147	Movement in allowance for bad debts	429
<b>(44,138)</b>	<b>Total Expenditure</b>	<b>(3,326)</b>
	<b>Income</b>	
(51,234)	Dwelling rents	(50,486)
(1,416)	Non-dwelling rents	(1,408)
(6,081)	Charges for services and facilities	(6,463)
(933)	Other income	(914)
<b>(59,664)</b>	<b>Total Income</b>	<b>(59,271)</b>
<b>(103,802)</b>	<b>Net Expenditure / (Income) of HRA Services as included in the CIES</b>	<b>(62,597)</b>
234	HRA share of corporate and democratic core	234
<b>(103,568)</b>	<b>Net Expenditure / (Income) of HRA Services</b>	<b>(62,363)</b>
	<b>Share of the operating income and expenditure included in the CIES</b>	
(4,305)	(Gain) / loss on disposal of HRA non current assets	(4,022)
(8)	Changes in the fair value of investment properties	(13)
(32)	Investment property income	(35)
5,251	Interest payable	5,423
(35)	Interest receivable	(48)
(1,153)	Capital grants and contributions	(399)
(5)	Non-ring fenced government grant	0
463	Net interest on the net defined benefit liability	1,769
<b>(103,392)</b>	<b>(Surplus) / Deficit on the Provision of HRA Services</b>	<b>(59,688)</b>

# Cash Flow Statement

Cash Flow Statement		
2015/16		2016/17
£'000		£'000
<b>(185,224)</b>	<b>Net surplus / (deficit) on the provision of services</b>	<b>18,138</b>
233,795	Non-current asset charges - depreciation, amortisation, revaluation and impairment	23,503
(1,429)	Increase / (decrease) in creditors	26
687	(Increase) / decrease in debtors	1,589
22,334	Movement in the pension liability (element charged to the surplus / deficit on the provision of services)	13,538
12,152	Carrying amount of non-current asset disposals	13,007
(1,997)	Movement in the fair value of investment properties	(720)
(441)	Contributions to / (from) provisions	1,154
(1,310)	Adjustments for effective interest rates	979
(138)	Other adjustments	18
<b>263,653</b>	<b>Adjustment to surplus / (deficit) on the provision of services for non-cash movements</b>	<b>53,094</b>
(33,371)	Capital grants and contributions	(30,044)
(20,253)	Proceeds from the disposal of non-current assets	(12,775)
<b>(53,624)</b>	<b>Adjustment for items included in the net surplus / (deficit) on the provision of services that are investing and financing activities</b>	<b>(42,819)</b>
<b>24,805</b>	<b>Net Cash Flows from Operating Activities</b>	<b>28,413</b>
(73,042)	Purchase of non-current assets (including the movement in capital creditors and debtors)	(76,895)
(75,725)	Purchase of short and long term investments	(56,200)
60,200	Proceeds from short term investments	50,800
(21,193)	Long term loans granted	0
20,253	Proceeds from the disposal of non-current assets	12,775
35,075	Capital grants and contributions received	38,202
(36)	Other capital cash payments / (receipts)	(6,925)
<b>(54,468)</b>	<b>Net Cash Flows from Investing Activities</b>	<b>(38,243)</b>
35,573	Cash receipts of short and long term borrowing	20,127
(3,754)	Billing authorities - council tax and non-domestic rates adjustments	(4,132)
(7,188)	Repayment of short term and long term borrowing	(3,905)
<b>24,631</b>	<b>Net Cash Flows from Financing Activities</b>	<b>12,090</b>
<b>(5,032)</b>	<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>	<b>2,260</b>
(1,732)	Bank current accounts	(839)
26,924	Short term deposits	20,999
<b>25,192</b>	<b>Cash and Cash Equivalents as at 1 April</b>	<b>20,160</b>
(839)	Bank current accounts	(2,397)
20,999	Short term deposits	24,817
<b>20,160</b>	<b>Cash and Cash Equivalents as at 31 March</b>	<b>22,420</b>

<b>Net Cash Flows from Operating Activities relating to Interest</b>		
<b>2015/16</b>		<b>2016/17</b>
<b>£'000</b>		<b>£'000</b>
2,648	Interest received	3,652
1,664	Adjustments for differences between effective interest rates and actual interest receivable (including movement in interest debtor)	(600)
<b>4,312</b>	<b>Interest Received</b>	<b>3,052</b>
(17,545)	Interest paid	(18,248)
(243)	Adjustments for differences between effective interest rates and actual interest payable (including movement in interest creditor)	(131)
<b>(17,788)</b>	<b>Interest Paid</b>	<b>(18,379)</b>
<b>(13,476)</b>	<b>Net Cash Flows from Operating Activities relating to Interest</b>	<b>(15,327)</b>

# Collection Fund Statement

Collection Fund Statement				
Year Ended 31 March 2016		Year Ended 31 March 2017		
		Council Tax	Non Domestic Rates	Total
£'000		£'000	£'000	£'000
(134,000)	Council tax	(142,561)	0	(142,561)
(105,912)	Non-domestic rates	0	(110,297)	(110,297)
(239,912)		(142,561)	(110,297)	(252,858)
	<b>Contributions towards previous year's Collection Fund deficit</b>			
0	Central Government		(1,112)	(1,112)
0	Brighton & Hove City Council		(1,089)	(1,089)
0	East Sussex Fire Authority		(22)	(22)
0			(2,223)	(2,223)
(239,912)	<b>Total amount required by statute to be credited to the Collection Fund</b>	(142,561)	(112,520)	(255,081)
	<b>Precepts and demands from major preceptors and the council - council tax</b>			
112,030	Brighton & Hove City Council	120,026		120,026
12,036	Sussex Police & Crime Commissioner	12,832		12,832
7,115	East Sussex Fire Authority	7,473		7,473
131,181		140,331		140,331
	<b>Shares of non-domestic rates income to major preceptors and the council</b>			
52,380	Brighton & Hove City Council		53,932	53,932
1,069	East Sussex Fire Authority		1,100	1,100
53,449			55,032	55,032
53,449	Payment with respect to central share (including allowable deductions) of the non-domestic rates income to be paid to central government		55,032	55,032
179	Transitional protection payment receivable		187	187
53,628			55,219	55,219
	<b>Impairment of debts / appeals for council tax</b>			
977	Write off of uncollectable amounts	1,128		1,128
(423)	Allowance for impairment	(316)		(316)
554		812		812
	<b>Impairment of debts / appeals for non-domestic rates</b>			
311	Write off of uncollectable amounts		125	125
160	Allowance for impairment		864	864
471			989	989
1,327	Movement in the provision for business rates appeals		798	798
422	Charge to General Fund for allowable collection fund costs for non-domestic rates		424	424
1,749			1,222	1,222
	<b>Contributions towards previous year's Collection Fund surplus</b>			
3,660	Central Government			0
3,782	Brighton & Hove City Council	1,964		1,964
21	Sussex Police & Crime Commissioner	211		211
85	East Sussex Fire Authority	125		125
7,548		2,300	0	2,300
248,580	<b>Total amount required by statute to be debited to the Collection Fund</b>	143,443	112,462	255,905
8,668	<b>Total movement on the Collection Fund Balance</b>	882	(58)	824
(7,743)	<b>Total Opening Collection Fund Balance</b>	(2,676)	3,601	925
925	<b>Total Closing Collection Fund Balance</b>	(1,794)	3,543	1,749

# Other Notes to the Financial Statements

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## 1 Accounting Policies

The council has included its accounting policies in a separate section of the financial statements which can be found on pages 123 to 142.

The council has introduced a change in accounting policy in respect of the new formats and reporting requirements for the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS) and the introduction of a new Expenditure and Funding Analysis (EFA) as a result of CIPFA's "Telling the Story" review of improvements to the presentation of local authority financial statements.

The EFA brings together the council's performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the General Fund and HRA balances. Proper accounting practices measure the resources that have been generated and consumed in the year whilst statutory provisions determine how much of the council's expenditure needs to be met from council tax each year. The EFA takes the net expenditure that is chargeable to taxation and rents and reconciles it to the CIES.

The change in accounting policy in relation to the new format of the CIES represents the analysis of income and expenditure on the face of the CIES now being specified by the council's operating segments which are based on the council's internal management reporting structure. The analysis was previously reported on CIPFA's *Service Reporting Code of Practice (SeRCOP)*.

The change in accounting policy in relation to the new format of the MiRS represents the reporting requirements are now reduced to the absolute minimum with the split of Total Comprehensive Income and Expenditure being removed as well as earmarked reserves no longer being separated out on the face of the MiRS.

These changes in accounting policy required full retrospective restatement in accordance with the requirements of the Code and IAS 1 and therefore the council has restated the preceding year information (ie for the 2015/16 financial year). There is no impact on the council's Balance Sheet.

Further explanations of these financial statements are included in the Narrative Report.

## 2 Accounting Standards that have been issued but have not yet been adopted

Under the Code, the council is required to disclose details on the impact of an accounting change required by a new accounting standard that has been issued but not yet adopted by the Code. The new standards introduced by the 2017/18 Code are not relevant to the council.

## 3 Critical Judgements and Assumptions Made

In preparing the financial statements, the council has had to make judgements, estimates and assumptions for certain items that affect the application of policies and reported levels of assets, liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience, current trends and other relevant factors that are considered to be reasonable. These estimates and assumptions have been used to inform the basis for judgements about the carrying values of assets and liabilities, where these are not readily available from other sources. However, because these cannot be determined with

certainty, actual results could be materially different from those assumptions and estimates made. Estimates, judgements and underlying assumptions are regularly reviewed by the council.

Changes in accounting estimates are adjustments of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with assets and liabilities. Changes in accounting estimates result from new information or new developments, and accordingly are not corrections of errors.

The critical accounting judgements and assumptions made and the key sources of estimation uncertainty identified by the council, which have a significant effect on the financial statements are:

- **Retirement Benefit Obligation** – The estimation of the net pension liability depends upon a number of complex judgements and estimates 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 actuaries is engaged to provide the council with expert advice about the assumptions it should consider applying. Changes in these assumptions can have a significant effect on the value of the council's retirement benefit obligation. The key assumptions made are set out in note 23;
- **Provisions / Contingent Liabilities** – The council is required to exercise judgement in assessing whether a potential liability should be accounted for as a provision or contingent liability. In calculating the level of provisions the council also exercises judgement; they are measured at the council's best estimate of the costs required to settle or discharge the obligation at the Balance Sheet date. The level of the council's provisions and details of its contingent liabilities are set out in notes 13 and 17 respectively;
- **Impairment of Financial Assets** – The council provides for the impairment of its receivables based on the age and type of each debt. The percentages applied reflect an assessment of the recoverability of each debt;
- **Property, Plant and Equipment** – Assets are depreciated over useful lives that are dependent on assumptions such as the level of repairs and maintenance that will be incurred in relation to individual types of asset, the expected length of service potential of the asset and the likelihood of the council's usage of the asset. The council carries out an annual impairment review of its asset base which takes into account such factors as the current economic climate and local property value indices;
- **Fair Value Measurement** – When fair values of financial assets and liabilities cannot be measured based on quoted prices in active markets (ie Level 1 inputs), their fair value is measured using valuation techniques (eg quoted prices for similar assets or liabilities in active markets or the discounted cash flow (DCF) model). Where possible, the inputs for these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the council's assets and liabilities. Where Level 1 inputs are not available, the council employs relevant experts to identify the most appropriate valuation techniques to determine fair value. Information about the valuation techniques and inputs used in determining the fair value of the assets and liabilities of the council are disclosed in notes 8 and 10;
- **Asset Componentisation** – The council has componentised its building assets using categories of typical buildings that the vast majority of its asset base would fall under. The council has exercised judgement on the main components that make up these typical buildings based on professional advice from the council's quantity surveyors. The council



has also exercised judgement in classifying its assets under each typical building category and whether assets fall outside these categories and require individual attention for asset componentisation purposes;

- **Future Levels of Government Funding and Levels of Reserves** – The future levels of funding for local authorities have a high degree of uncertainty. The council has set aside amounts in provisions, working balances and reserves which it considers are appropriate based on local circumstances including its overall budget size, risks, robustness of budget estimates, major initiatives being undertaken, budget assumptions, other earmarked reserves and provisions and the council's track record in financial management;
- **Classification of Leases** – The council has entered into a number of lease arrangements in respect of property and other assets. The council has exercised judgement in the classification of leases (ie operating or finance lease) using such factors as the length of the lease and rent levels. It also reviews contractual arrangements to assess for lease type arrangements which may indicate the substance of a lease (eg contract values and length of contract). The council classifies all leases under 40 years as operating leases unless it is clear that all risks and rewards have transferred. In cases, where the council has deemed that a lease contains both an operating and finance lease element, it applies a materiality percentage of 20% in classifying both elements as a finance lease. Where the council sublets assets acquired under operating leases, these are treated, for disclosure purposes, as separate leases and are disclosed under operating leases where the council acts as the lessor. Details of the council's leases and lease type arrangements are set out in note 15;
- **Payments due under Private Finance Initiative (PFI)** – The council recognises and discloses its payments due under PFI arrangements based on financial models prepared at the time the PFI project commenced. The estimation of the repayment of PFI liability is based on a judgement of the overall cost of the assets and the rate of return within each PFI project. The payment of services is based on a projection for future inflation. Changes in these assumptions can have a significant effect on the value of the payments under the PFI projects. The key assumptions relating to PFI arrangements are set out in note 16;
- **Voluntary Aided Schools** – The council has determined that the buildings relating to voluntary aided schools do not meet the definition criteria of control under IAS 16 Property, Plant and Equipment; properties are owned by the diocese and the school(s) occupies the premises under a licence with no interest being passed to the council. The council does not have sufficient control over the property to meet the definition criteria of an asset and therefore does not recognise the assets on its Balance Sheet;
- **Academy Schools** – The council has exercised judgement of the treatment of the assets of schools which have converted to academy status based on the current status of the asset and the terms and conditions of any leases that are in place as at the Balance Sheet date. In respect of both Brighton Aldridge Community Academy (BACA) and Portslade Aldridge Community Academy (PACA), the new schools are operational and have been transferred to the possession of BACA and PACA respectively. The schools land and buildings are subject to long term leases (125 years) to commence on completion of the contract; however, the final (legal) execution of the leases has been subject to delay and were not in place as at the Balance Sheet date. Therefore, the assets remain under the control of the council until the long term leases are signed and the council continues to hold the assets on its Balance Sheet for the financial year;
- **Heritage Assets** – The council has exercised judgement on the classification of assets held meeting the criteria of a heritage asset. Where there are clear indications of assets having an operational nature, there is no judgement exercised; however, in some cases,

there is not a straightforward distinction. In such cases, the council has based its categorisation on the asset being of a nature that would attract visitors to the city;

- **Brighton & Hove Seaside Community Homes Ltd** – The council has exercised judgement of the existence of a group relationship between the company and the council based on the definition of control and three tests set out in IFRS10 Consolidated Financial Statements. The council's main exercise of judgement is in relation to these tests and whether the council has the power to control the company, has exposure or rights to variable returns and the ability to affect the company's returns. Following an assessment of the relationship, the council has concluded that the arrangement does not meet the definition under IFRS10 for group accounting purposes;
- **Business rate appeals** – The council has applied judgement in calculating the provision for business rate appeals based on data from the Valuation Office Agency (VOA) regarding outstanding appeals where estimates of the likelihood of success, the amount of the reduction and the backdating of the appeal have been based upon averages of historic settled appeals data. Different averages have been calculated for the different types of appeal;
- **Better Care Fund (BCF)** – The Brighton and Hove Better Care Fund is a joint arrangement, under a S75 agreement, between the council and the Brighton & Hove Clinical Commissioning Group for the commissioning of health and social care services from the Brighton & Hove Better Care Fund. The council has exercised judgement in accounting for the BCF as a joint operation under IFRS 11 *Joint Arrangements*. Although the parties to the BCF pooled budget agreement have joint control, no separate vehicle has been created in this arrangement;
- **The Keep** – The Keep is an archive and historical resource centre. The council has exercised judgement in recognising the Keep as a joint operation with East Sussex County Council under IFRS 11 *Joint Arrangements*. The council includes a one third share of the asset on its Balance Sheet.
- **Minimum Revenue Provision (MRP)** – The council is required to set aside a prudent sum for the repayment of debt (MRP); this is provided for on a 2% straight line basis.

## 4 Events after the Reporting Period

These accounts were authorised for issue by the Executive Director Finance & Resources on 30 May 2017. Events taking place after this date are not reflected in the financial statements or notes.

In accordance with Financial Reporting Standard 21 'Events after the balance sheet date', the council is required to disclose events occurring after the balance sheet date (31 March) but before the financial statements are authorised for issue. The council must determine if such an event is an adjusting or non-adjusting event based on whether or not the event was in evidence before or after the balance sheet date. In this respect, the council exchanged contracts on the sale of Kings House, Grand Avenue, Hove (a large, multi-storey building used by the council as an administrative office until October 2016) on 18 July 2017 with completion due on 16 October 2017. This asset carried a valuation of £1,387,018.83 on the balance sheet as at 31 March 2017 in respect of land and buildings at the site. This valuation is necessarily lower than market value because at the balance sheet date it was valued on an existing use basis as an administrative office which was also surplus to the council's requirements – this resulted in a relatively low valuation. The asset was not valued as an 'asset held for sale' because this is only appropriate where sale is expected within 6 months. The council had marketed the property for over 30 months with sale being conditional on planning approvals and although sale was being pursued with a third party during 2016/17, this was not ultimately successful. The property was re-marketed in April 2017 but, based on the earlier experience,

there was no reasonable expectation of sale within 6 months. In the event, an unconditional offer (i.e. without planning approvals) was received in May 2017 and a sale concluded at a value of £26,150,000, which is £24,762,981.17 higher than the valuation as at the balance sheet date. As this event occurred after the balance sheet date it will be treated as a non-adjusting event and will therefore be reflected in the comparative figures for non-current assets in the 2017/18 accounts.

## **5 Usable Reserves**

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

## **6 Unusable Reserves**

### **Capital Adjustment Account (CAA)**

The CAA absorbs the timing differences arising from different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The CAA is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses, revaluation losses and amortisations are charged to the CIES (with reconciling postings from the revaluation reserve to convert fair value amounts to a historical cost basis). The account is credited with the amounts set aside by the council as finance for costs of acquisition, construction and enhancement.

The CAA also contains accumulated gains and losses on investment properties and revaluation gains accumulated on revalued non-current assets before 1 April 2007, the date that the revaluation reserve was created to hold such gains. The account is matched by non-current assets on the Balance Sheet and therefore is not a resource available to the council. The following table shows the balances on the CAA at the beginning and end of the financial year and the detailed movements during the year:

<b>Capital Adjustment Account</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balance as at 1 April</b>	<b>(1,289,703)</b>	<b>(1,131,045)</b>
<b>Adjustments between accounting basis and funding basis under regulations</b>		
Charges for depreciation and impairment of non-current assets	54,589	44,075
Revaluation losses on non-current assets	260,627	55,181
Upward revaluations reversing previous revaluation losses on non-current assets	(82,321)	(76,722)
Amortisation of intangible assets	904	908
Revenue expenditure funded from capital under statute	6,768	7,103
Amounts of non-current assets written off on disposal as part of the gain / loss on disposal to the CIES	12,152	13,007
Adjusting amounts written out to the revaluation reserve	(4,292)	(5,930)
Use of the capital receipts reserve to finance new capital investment	(15,603)	(13,490)
Use of the HRA balance to finance new capital investment	(1,100)	(271)
Use of the major repairs reserve to finance new capital investment	(9,602)	(10,758)
Capital grants and contributions credited to the CIES that have been applied to capital financing	(30,396)	(29,176)
Application of grants to capital financing from the capital grants unapplied account	(1,151)	(595)
Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(4,298)	(4,453)
Voluntary provision for the financing of capital investment charged against the General Fund and HRA balances	(8,948)	(7,461)
Capital investment charged against the General Fund and HRA balances	(14,136)	(13,908)
Movements in the market value of investment properties debited / (credited) to the CIES	(1,997)	(720)
Use of earmarked reserves to finance new capital investment	(3,141)	(2,348)
Other adjustments	603	0
<b>Total adjustments between accounting basis and funding basis under regulations</b>	<b>158,658</b>	<b>(45,558)</b>
<b>Balance as at 31 March</b>	<b>(1,131,045)</b>	<b>(1,176,603)</b>

## Revaluation Reserve

The revaluation reserve contains the gains arising from increases in the value of revalued non-current assets (excluding investment property revaluations which are posted to the CAA). The balance on the reserve 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 CAA. The reserve is matched by non-current assets on the Balance Sheet and therefore is not a resource available to the council.

The following table shows the balances on the revaluation reserve at the beginning and end of the financial year and the detailed movements during the year:

<b>Revaluation Reserve</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balance as at 1 April</b>	<b>(678,815)</b>	<b>(431,328)</b>
<b>Other comprehensive income and expenditure</b>		
Upward revaluation of non-current assets	(72,636)	(86,699)
Downward revaluation of non-current assets and impairment losses not charged to the surplus / deficit on the provision of services	315,281	41,045
<b>Total other comprehensive income and expenditure</b>	<b>242,645</b>	<b>(45,654)</b>
<b>Adjustments between accounting basis and funding basis under regulations</b>		
Difference between fair value depreciation and historical cost depreciation	3,545	4,434
Accumulated gains on non-current asset disposals	1,106	1,163
Other amounts written off to / (from) the capital adjustment account	(359)	306
Other adjustments	550	0
<b>Total adjustments between accounting basis and funding basis under regulations</b>	<b>4,842</b>	<b>5,903</b>
<b>Balance as at 31 March</b>	<b>(431,328)</b>	<b>(471,079)</b>

### Deferred Capital Receipts Reserve

The deferred capital receipts reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the council does not treat those gains as usable for financing new capital investment until they are backed by capital receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the capital receipts reserve. As at 31 March, the balance on the reserve was £6.221m (£6.229m 31 March 2016).

### Collection Fund Adjustment Account

The collection fund adjustment account manages the differences arising from the recognition of council tax and non-domestic rates income in the CIES as it falls due from council tax payers and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. The amount held in this account is not a resource available to the council. As payments out of the Collection Fund are controlled by statutory provisions, the amount that can be credited / debited against the General Fund balance for surpluses / deficits is limited to the January estimate of the share of the Collection Fund balance for the previous financial year. The following table shows the balances on the collection fund adjustment account at the beginning and end of the financial year and the detailed movements in the year:

<b>Collection Fund Adjustment Account</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balance as at 1 April</b>	<b>(4,027)</b>	<b>(521)</b>
<b>Adjustments between accounting basis and funding basis under regulations</b>		
Amount by which council tax and non-domestic rates income credited to the CIES is different from council tax and non-domestic rates income calculated in accordance with statutory requirements	3,506	721
<b>Total adjustments between accounting basis and funding basis under regulations</b>	<b>3,506</b>	<b>721</b>
<b>Balance as at 31 March</b>	<b>(521)</b>	<b>200</b>

## Available for Sale Financial Instruments Reserve

The available for sale financial instruments reserve contains the gains arising from increases in the value of investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- disposed of and the gains are realised.

The reserve is matched by borrowings and investments on the Balance Sheet and therefore is not a resource available to the council. The movement on this reserve in the financial year relates solely to the revaluation of investments.

As at 31 March, the balance on the reserve was £0.100m. Available for sale investments were revalued upwards within the financial year by £0.101m.

## Financial Instruments Adjustment Account

The financial instruments adjustment account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains in line with statutory provisions. The council also uses the account to manage premiums paid on the early redemption of loans. Premiums are debited to the CIES when they are incurred, but reversed out of the General Fund balance to the financial instruments adjustment account in the MiRS. Over time, the expense is posted back to the General Fund balance in accordance with statutory arrangements for spreading the burden on the council tax requirement. The movement on this reserve in the financial year relates solely to the amount by which finance costs charged to the CIES are different to those chargeable in accordance with statutory requirements. There were no premiums paid on the early redemption of loans in the year.

As at 31 March, the balance on the reserve was £1.011m (£0.981m 31 March 2016).

## Pensions Reserve

The pensions reserve is a specific accounting mechanism used to reconcile the payments made for the year to various statutory pension schemes in accordance with those schemes' requirements and the net charge in the council's recognised liability for the same period. The 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 CIES 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 pension funds 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. The reserve normally is at the same level as the pensions liability carried on the top half of the Balance Sheet. The following table shows the balances on the pensions reserve at the beginning and end of the financial year and the detailed movements in the year:

<b>Pensions Reserve</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balance as at 1 April</b>	<b>362,522</b>	<b>270,279</b>
<b>Other comprehensive income and expenditure</b>		
Remeasurements of the net defined benefit liability	(114,577)	(28,920)
<b>Total other comprehensive income and expenditure</b>	<b>(114,577)</b>	<b>(28,920)</b>
<b>Adjustments between accounting basis and funding basis under regulations</b>		
Reversal of items relating to retirement benefits charged to the surplus / deficit on the provision of services	47,835	39,752
Employer's pensions contributions payable	(25,501)	(26,214)
<b>Total adjustments between accounting basis and funding basis under regulations</b>	<b>22,334</b>	<b>13,538</b>
<b>Balance as at 31 March</b>	<b>270,279</b>	<b>254,897</b>

### **Accumulated Absences Account**

The accumulated absences account absorbs the differences that would otherwise arise on the General Fund and HRA balances from accruing for employees' paid absences earned but not taken in the financial year (eg annual leave entitlement carried forward at 31 March). Statutory arrangements require that the impact on the General Fund and HRA balances is neutralised by transfers to / from the accumulated absences account. The following table shows the balances on the Accumulated Absences Account at the beginning and end of the financial year and the detailed movements in the year:

<b>Accumulated Absences Account</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balance as at 1 April</b>	<b>3,850</b>	<b>3,022</b>
<b>Adjustments between accounting basis and funding basis under regulations</b>		
Settlement / cancellation of accrual made at the end of the preceding reporting period	(3,850)	(3,022)
Amounts accrued at the end of the current reporting period	3,022	3,878
<b>Total adjustments between accounting basis and funding basis under regulations</b>	<b>(828)</b>	<b>856</b>
<b>Balance as at 31 March</b>	<b>3,022</b>	<b>3,878</b>

## 7 Earmarked Reserves

The following table shows amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in the financial year:

Transfers to / from Earmarked Reserves							
	Balance at 1 April 2015	2015/16 Transfers To	2015/16 Transfers From	Balance at 31 March 2016	2016/17 Transfers To	2016/17 Transfers From	Balance at 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>EARMARKED GENERAL FUND RESERVES</b>							
Schools LMS reserves	(5,534)	0	1,167	(4,367)	0	3,074	(1,293)
Capital reserves	(2,741)	(254)	2,146	(849)	(854)	1,040	(663)
Departmental carry forwards	(1,492)	(487)	1,492	(487)	(975)	487	(975)
Restructure redundancy reserve	(1,499)	(2,362)	2,720	(1,141)	(384)	1,525	0
Brighton Centre redevelopment reserve	(3,606)	(24)	230	(3,400)	(23)	332	(3,091)
Brighton i360 reserve	(730)	(1,070)	0	(1,800)	(1,429)	839	(2,390)
Insurance reserves	(5,600)	(164)	27	(5,737)	(40)	216	(5,561)
PFI reserves	(6,226)	(563)	1,439	(5,350)	(355)	380	(5,325)
Revenue grants carry forward reserve	(2,963)	(621)	2,531	(1,053)	(1,420)	621	(1,852)
City Deal New England House development reserve	(4,900)	0	0	(4,900)	0	0	(4,900)
Modernisation fund reserve	0	(2,244)	323	(1,921)	(249)	783	(1,387)
Other earmarked reserves	(9,530)	(1,347)	3,006	(7,871)	(3,027)	2,741	(8,157)
<b>Total</b>	<b>(44,821)</b>	<b>(9,136)</b>	<b>15,081</b>	<b>(38,876)</b>	<b>(8,756)</b>	<b>12,038</b>	<b>(35,594)</b>
<b>EARMARKED HRA RESERVES</b>							
Capital reserves	(463)	(653)	165	(951)	0	951	0
Restructure redundancy reserve	(388)	0	0	(388)	0	0	(388)
Other earmarked reserves	(1,068)	(127)	196	(999)	0	60	(939)
<b>Total</b>	<b>(1,919)</b>	<b>(780)</b>	<b>361</b>	<b>(2,338)</b>	<b>0</b>	<b>1,011</b>	<b>(1,327)</b>
<b>Total Earmarked Reserves</b>	<b>(46,740)</b>	<b>(9,916)</b>	<b>15,442</b>	<b>(41,214)</b>	<b>(8,756)</b>	<b>13,049</b>	<b>(36,921)</b>

### Local Management of Schools (LMS) Reserve

The Local Management of Schools (LMS) reserve holds the balances held by the council's schools under a scheme of delegation. These reserves are held by each school and are used solely to provide education to the pupils of that school. The following table shows the level of reserves held by the council's schools as at 31 March:



<b>Reserves Held by Schools</b>				
	<b>Balance as at 31 March 2016</b>	<b>2016/17</b>		<b>Balance as at 31 March 2017</b>
		<b>Unspent Balance</b>	<b>Overspent Balance</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Nursery schools	26	(7)	0	(7)
Primary schools	(2,901)	(2,207)	622	(1,585)
Secondary schools	(1,283)	(393)	527	134
Special schools	(209)	(287)	452	165
<b>Total</b>	<b>(4,367)</b>	<b>(2,894)</b>	<b>1,601</b>	<b>(1,293)</b>

Schools reserves are disclosed over the four phases of education; nursery, primary, secondary and special. Whilst the total reserves will be a credit balance, it is possible that individual phases may be in debit as schools reserves are viewed by the council as a whole.

### **Other Earmarked Reserves**

The capital reserves hold resources earmarked to fund capital schemes as part of the council's capital investment strategy.

The departmental carry forwards reserve holds approved carry forwards of budget to meet future specific costs. For example, projects, initiatives and partnership work with agreed commitments.

The restructure redundancy reserve funds approved redundancy payments and associated severance and pension payments. The payments are either paid by services or are funded through this reserve subject to meeting defined business case criteria including demonstrating appropriate levels of future savings.

The Brighton Centre redevelopment reserve holds set aside resources which will be used to contribute towards the redevelopment of the Brighton Centre (Waterfront Development).

The Brighton i360 reserve - the council has provided a substantial loan facility to the developer of the Brighton i360. The i360 is expected to generate significant additional revenues to the council in addition to the one off arrangement and commitment fees, and an annual risk margin on the loan provided. The council's Policy & Resources Committee agreed that the resources generated by the Brighton i360 development should be allocated towards reinvestment in the wider development of the seafront and its infrastructure. This would also include undertaking essential works to the seafront so that existing scarce resources do not have to be re-prioritised from current and future revenue and capital service budgets. The Brighton i360 reserve holds the resources which have been set aside towards future seafront projects.

The insurance reserve is used to cover liabilities under policy excesses and to finance any claims for small risks not insured externally. In addition, the council carries a substantial amount of self-insurance which is financed from this reserve. An element of the insurance reserve is used to fund training on risk management to support the delivery of the risk management strategy and to fund measures to address any operational hazards and risks identified. The level of the reserve is informed by independent actuarial assessment of insurance risks.

The Private Finance Initiative (PFI) reserve relates to the schools, joint waste, and library PFI schemes. PFI contract payments generally increase gradually over the contract period. This reserve is used to offset the higher annual net costs during the later years of the contracts.

The revenue grants carry forward reserve holds revenue grants received by the council that have no conditions attached for which expenditure has not yet been incurred.

The City Deal New England House development reserve holds the funding secured as part of the Greater Brighton city deal to develop New England House into a growth hub.

The modernisation fund reserve represents money approved by the council's Corporate Modernisation Delivery Board to fund projects and teams which add value for money or lead to cost reductions in council services.

## **8 Non-Current Assets**

The council holds various non-current assets which are categorised as property, plant and equipment (PPE), heritage assets, investment property, assets held for sale or intangible assets.

Operational PPE is further categorised into a number of sub categories, namely council dwellings, other land and buildings, vehicles, plant, furniture and equipment, infrastructure assets and community assets. Non-operational PPE is categorised as assets under construction and surplus assets.

Properties classified as heritage assets include the Royal Pavilion, the Volks Railway, West Blatchington Windmill and the Rottingdean Windmill. Non-property heritage assets include historic motor vehicles, museum and gallery collections and works of art and rare books.

The following table shows the gross carrying amount and the accumulated depreciation at the beginning and end of the financial year and summarises the movement in value over the year for each sub category of non-current assets:

**Non-Current Assets**

2016/17	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total PPE	Heritage Assets	Investment Property	Assets Held for Sale (Short Term)	Intangible Assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross carrying amount	738,053	754,213	51,756	196,170	4,774	14,492	11,278	<b>1,770,736</b>	197,767	46,030	170	11,478	<b>2,026,181</b>
Accumulated depreciation / amortisation	(9,144)	(9,755)	(33,180)	(87,214)	0	0	0	<b>(139,293)</b>	0	0	0	(8,826)	<b>(148,119)</b>
<b>Net Carrying Amount at 1 April 2016</b>	<b>728,909</b>	<b>744,458</b>	<b>18,576</b>	<b>108,956</b>	<b>4,774</b>	<b>14,492</b>	<b>11,278</b>	<b>1,631,443</b>	<b>197,767</b>	<b>46,030</b>	<b>170</b>	<b>2,652</b>	<b>1,878,062</b>
<b>Capital Additions</b>													
Additions	28,394	16,370	4,649	5,017	72	24,210	14	<b>78,726</b>	117	0	0	1,516	<b>80,359</b>
<b>Asset Disposals</b>													
Derecognition - disposals	(5,273)	(2,716)	(18,982)	(2,732)	(2,419)	0	0	<b>(32,122)</b>	(700)	0	(20)	(4,515)	<b>(37,357)</b>
Derecognition - disposals (depreciation)	65	86	18,302	1,393	0	0	0	<b>19,846</b>	0	0	0	4,504	<b>24,350</b>
<b>Transactions in respect of the surplus on revaluation of non current assets within the CIES recognised in the revaluation reserve</b>													
Revaluation increases	29,881	53,018	0	0	0	0	1,110	<b>84,009</b>	2,690	0	0	0	<b>86,699</b>
Revaluation losses	(111)	(38,378)	0	0	0	0	(2,485)	<b>(40,974)</b>	(71)	0	0	0	<b>(41,045)</b>
<b>Transactions charged to the surplus / deficit on the provision of services in the CIES</b>													
Reversal of previous revaluation losses and impairment losses	42,446	34,289	0	0	0	0	0	<b>76,735</b>	0	0	0	0	<b>76,735</b>
Depreciation / amortisation charge	(10,455)	(18,946)	(3,687)	(10,787)	0	0	(200)	<b>(44,075)</b>	0	0	0	(908)	<b>(44,983)</b>
Revaluation losses	(3,093)	(41,126)	0	0	0	0	(11,049)	<b>(55,268)</b>	0	0	0	0	<b>(55,268)</b>
Revaluation of investment property	0	0	0	0	0	0	0	<b>0</b>	0	733	0	0	<b>733</b>
<b>Other transactions</b>													
Assets reclassified	2,360	(11,299)	0	0	0	(5,124)	14,063	<b>0</b>	0	0	0	0	<b>0</b>
<b>Net Carrying Amount at 31 March 2017</b>	<b>813,123</b>	<b>735,756</b>	<b>18,858</b>	<b>101,847</b>	<b>2,427</b>	<b>33,578</b>	<b>12,731</b>	<b>1,718,320</b>	<b>199,803</b>	<b>46,763</b>	<b>150</b>	<b>3,249</b>	<b>1,968,285</b>
Gross carrying amount	813,123	740,449	37,423	198,455	2,427	33,578	12,731	<b>1,838,186</b>	199,803	46,763	150	8,479	<b>2,093,381</b>
Accumulated depreciation / amortisation	0	(4,693)	(18,565)	(96,608)	0	0	0	<b>(119,866)</b>	0	0	0	(5,230)	<b>(125,096)</b>
<b>Net Carrying Amount at 31 March 2017</b>	<b>813,123</b>	<b>735,756</b>	<b>18,858</b>	<b>101,847</b>	<b>2,427</b>	<b>33,578</b>	<b>12,731</b>	<b>1,718,320</b>	<b>199,803</b>	<b>46,763</b>	<b>150</b>	<b>3,249</b>	<b>1,968,285</b>

**Non-Current Assets**

2015/16 Comparative Figures	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total PPE	Heritage Assets	Investment Property	Assets Held for Sale (Short Term)	Intangible Assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross carrying amount	645,443	1,284,150	50,651	185,697	7,965	1,639	4,466	<b>2,180,011</b>	215,843	43,992	180	10,112	<b>2,450,138</b>
Accumulated depreciation / amortisation	(8,194)	(33,333)	(30,734)	(77,314)	0	0	(31)	<b>(149,606)</b>	0	0	0	(7,922)	<b>(157,528)</b>
<b>Net Carrying Amount at 1 April 2015</b>	<b>637,249</b>	<b>1,250,817</b>	<b>19,917</b>	<b>108,383</b>	<b>7,965</b>	<b>1,639</b>	<b>4,435</b>	<b>2,030,405</b>	<b>215,843</b>	<b>43,992</b>	<b>180</b>	<b>2,190</b>	<b>2,292,610</b>
<b>Capital Additions</b>													
Additions	25,930	20,309	2,250	10,375	124	11,802	1	<b>70,791</b>	1,044	0	0	1,366	<b>73,201</b>
<b>Asset Disposals</b>													
Derecognition - disposals	(6,712)	(5,766)	(1,145)	0	0	0	0	<b>(13,623)</b>	0	0	(180)	0	<b>(13,803)</b>
Derecognition - disposals (depreciation)	85	444	1,122	0	0	0	0	<b>1,651</b>	0	0	0	0	<b>1,651</b>
<b>Transactions in respect of the surplus on revaluation of non current assets within the CIES recognised in the revaluation reserve</b>													
Revaluation increases	1,666	62,090	0	0	0	0	7,295	<b>71,051</b>	1,585	0	0	0	<b>72,636</b>
Revaluation losses	0	(293,152)	0	0	0	0	(1,127)	<b>(294,279)</b>	(20,705)	0	0	0	<b>(314,984)</b>
Impairment losses	(4)	(293)	0	0	0	0	0	<b>(297)</b>	0	0	0	0	<b>(297)</b>
<b>Transactions charged to the surplus / deficit on the provision of services in the CIES</b>													
Reversal of previous revaluation losses and impairment losses	79,591	2,717	0	0	0	0	13	<b>82,321</b>	0	0	0	0	<b>82,321</b>
Depreciation / amortisation charge	(9,144)	(21,463)	(3,568)	(9,900)	0	0	(75)	<b>(44,150)</b>	0	0	0	(904)	<b>(45,054)</b>
Revaluation losses	0	(258,168)	0	0	0	0	(2,463)	<b>(260,631)</b>	0	0	0	0	<b>(260,631)</b>
Impairment losses	(241)	(10,198)	0	0	0	0	0	<b>(10,439)</b>	0	0	0	0	<b>(10,439)</b>
Revaluation of investment property	0	0	0	0	0	0	0	<b>0</b>	0	2,005	0	0	<b>2,005</b>
<b>Other transactions</b>													
Assets reclassified	489	(1,387)	0	98	(3,315)	713	3,199	<b>(203)</b>	0	33	170	0	<b>0</b>
Other movements in gross carrying amount	0	(1,617)	0	0	0	338	0	<b>(1,279)</b>	0	0	0	0	<b>(1,279)</b>
Other movements in depreciation	0	125	0	0	0	0	0	<b>125</b>	0	0	0	0	<b>125</b>
<b>Net Carrying Amount at 31 March 2016</b>	<b>728,909</b>	<b>744,458</b>	<b>18,576</b>	<b>108,956</b>	<b>4,774</b>	<b>14,492</b>	<b>11,278</b>	<b>1,631,443</b>	<b>197,767</b>	<b>46,030</b>	<b>170</b>	<b>2,652</b>	<b>1,878,062</b>
Gross carrying amount	738,053	754,213	51,756	196,170	4,774	14,492	11,278	<b>1,770,736</b>	197,767	46,030	170	11,478	<b>2,026,181</b>
Accumulated depreciation / amortisation	(9,144)	(9,755)	(33,180)	(87,214)	0	0	0	<b>(139,293)</b>	0	0	0	(8,826)	<b>(148,119)</b>
<b>Net Carrying Amount at 31 March 2016</b>	<b>728,909</b>	<b>744,458</b>	<b>18,576</b>	<b>108,956</b>	<b>4,774</b>	<b>14,492</b>	<b>11,278</b>	<b>1,631,443</b>	<b>197,767</b>	<b>46,030</b>	<b>170</b>	<b>2,652</b>	<b>1,878,062</b>

## Summary of Transactions for Heritage Assets

The following table shows a summary of the transactions on heritage assets:

Summary of Transactions on Heritage Assets		
	2015/16	2016/17
	£'000	£'000
<b>Cost of acquisitions</b>		
Royal Pavilion	1,020	0
Volks Railway	24	117
<b>Total Cost of Acquisitions</b>	<b>1,044</b>	<b>117</b>
<b>Carrying amount of assets disposed</b>		
Volks Railway	0	700
<b>Total Carrying Amount of Assets Disposed</b>	<b>0</b>	<b>700</b>
<b>Carrying amount as at 31 March</b>		
Royal Pavilion	153,771	156,313
Collections	31,960	31,960
West Blatchington Windmill	1,034	1,142
Rottingdean Windmill	545	475
Rare Books	8,240	8,240
Volks Railway	2,217	1,673
<b>Total Carrying Amount as at 31 March</b>	<b>197,767</b>	<b>199,803</b>

## Valuations

Land and building valuations were based upon valuation reports issued by valuers appointed by the council. The valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS). The council requires that all valuers are RICS qualified. The council's valuation experts work closely with finance officers reporting directly to the Chief Finance Officer on a regular basis regarding all valuation matters.

### Property, Plant and Equipment (PPE)

The council carries out a rolling programme for revaluing its PPE assets that ensures that all PPE assets required to be measured at current value are revalued at least every five years. The exception is the valuation of HRA dwellings and garages and car park assets which are undertaken annually; methods of valuation for these assets are conducted following government guidance on stock valuation for resource accounting.

Valuations are carried out by the council's internal valuers and by independent property managing companies contracted by the council: Cluttons, Savills UK Ltd and Montagu Evans. The valuation of the council's council dwellings is carried out annually by Savills UK Ltd.

The following table shows the progress of the council's rolling programme for the revaluation of PPE assets:

Rolling Programme for the Revaluation of Property, Plant and Equipment								
	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Carried at historical cost	0	0	37,423	198,455	2,427	33,578	0	271,883
Valued at current value:								
2016/17	813,123	631,770	0	0	0	0	9,475	1,454,368
2015/16	0	53,502	0	0	0	0	3,256	56,758
2014/15	0	28,836	0	0	0	0	0	28,836
2013/14	0	15,348	0	0	0	0	0	15,348
2012/13	0	9,549	0	0	0	0	0	9,549
Capital investment	0	1,444	0	0	0	0	0	1,444
<b>Gross carrying amount</b>	<b>813,123</b>	<b>740,449</b>	<b>37,423</b>	<b>198,455</b>	<b>2,427</b>	<b>33,578</b>	<b>12,731</b>	<b>1,838,186</b>
Accumulated depreciation	0	(4,693)	(18,565)	(96,608)	0	0	0	(119,866)
<b>Net carrying amount</b>	<b>813,123</b>	<b>735,756</b>	<b>18,858</b>	<b>101,847</b>	<b>2,427</b>	<b>33,578</b>	<b>12,731</b>	<b>1,718,320</b>

Note: the capital investment in the above table relates to capital investment on assets which have not been revalued since the capital investment was incurred.

## Surplus Assets

The fair value of the council's surplus assets is determined using the market value methodology. This method includes the yield methodology and adjusted sales comparison approach, or may include a development or residual appraisal if it is considered an alternative use provides the highest and best value. The approach is consistent with IFRS 13 *Fair Value Measurement*. The method involves a degree of judgement and uses data which is not widely publicly available. Inputs to the valuations, some of which are "unobservable" as defined by IFRS 13, include capitalisation rates, discount rates and comparable market values for both rents and vacant possession values. For these reasons, all valuations of the council's surplus assets are classified as Level 3 as defined by IFRS 13. There were no transfers between levels during the financial year.

### Valuation process

Property is valued according to the market value method which includes both comparison and residual (cost based) approaches:

- yield methodology: the value of the income stream, by reference to market rent for similar properties, and capitalisation rates from similar properties traded in the same geographic region;
- adjusted sales comparison approach: the vacant possession value of similar properties and discount rates for similar properties traded in the same geographic region;
- residual appraisals: gross development values, construction costs, professional fees, finance costs, developer profit, statutory costs and development periods for assets considered to have development potential.

The valuer's role is to undertake the valuations by assessing all major inputs to the valuation process, including market rents, comparable vacant possession values for similar properties, yields and costs. The council's internal estates manager and lead valuer review the output from the valuation including the valuation techniques used for each property, adjustments made to default values for unobservable inputs, and the correlation of valuation inputs to data from the council's property and financial systems. They assess valuation movements compared to the prior year valuation (at a property value, regional and property type level),

and review ratios of let value to vacant possession value, values per square foot, effective yields and comparisons to property market indices.

The following table shows quantitative information about fair value measurement of surplus assets using significant unobservable inputs (level 3):

<b>Quantitative Information about Fair Value Measurement (Surplus Assets)</b>				
<b>Property Type</b>	<b>Fair Value at 31 March 2017</b>	<b>Valuation techniques used to measure Fair Value</b>	<b>Unobservable inputs</b>	<b>Range of unobservable inputs</b>
	<b>£'000</b>			
Surplus assets	12,731	Development appraisal	Rental values	Office: £64 to £175 psm
			Capital values	Residential: £2,650 to £7,000 psm
			Capitalisation rate	Office: 5% to 12%
			Construction costs	Residential: £1,560 to £2,153 psm
			Land values	Office: £1,481 to £1,617 psm Student housing: £20,000 to £25,000 per unit

Note: per square metre has been abbreviated to 'psm' in the above table.

The following table shows the relationship of significant unobservable inputs to fair value and the impact of significant changes to those outputs:

<b>Relationship of Unobservable Inputs to Fair Value (Surplus Assets)</b>		
<b>Unobservable input</b>	<b>Impact on Fair Value of Changes to Input</b>	
	<b>Increase in Input</b>	<b>Decrease in Input</b>
Adjusted comparable vacant possession values	Increase in fair value	Decrease in fair value
Rental values	Increase in fair value	Decrease in fair value
Capitalisation rates	Decrease in fair value	Increase in fair value
Construction costs	Decrease in fair value	Increase in fair value

## **Heritage Assets**

The valuations for all heritage assets are based on insurance valuations. The assets are insured by Zurich Municipal and Aviva Insurance Ltd and are based on a 1 November valuation date.

## **Investment Property**

The fair value of the council's investment property is measured annually. Valuations are carried out by the council's internal valuers and by independent property managing companies contracted by the council: Cluttons, Montagu Evans and Savills UK Ltd.

The majority of the council's assets which are classified as investment properties are leased out under short term operating leases. These properties are used by the lessees for commercial purposes.

The fair value of the council's investment property portfolio is determined using a variety of techniques depending on the property type and the terms of the lease. These techniques include the yield methodology, adjusted sales comparison approach, and discounted cash flow. They involve a degree of judgement and use data which is not widely publicly available. Inputs to the valuations, some of which are "unobservable" as defined by IFRS 13, include capitalisation rates, discount rates and comparable market values for both rents and vacant possession values. For these reasons, all valuations of the council's investment property

portfolio are classified as level 3. There were no transfers between levels during the financial year.

Valuation process

The council’s investment property is valued according to one or more of the following two approaches:

- yield methodology - the value of the income stream for the term of the lease, by reference to the current rent for the property, rent review provisions, market rent for similar properties, and capitalisation rates from similar properties traded in the same geographic region;
- adjusted sales comparison approach - the vacant possession value of similar properties, the time until vacant possession will be achieved, and discount rates for similar properties traded in the same geographic region.

The council’s external valuers provide capitalisation and discount rates and undertake the majority of the valuations. Their role is to undertake the valuations by assessing all major inputs to the valuation process, including market rents, comparable vacant possession values for similar properties and the unexpired term of leases. The council’s internal estates manager and lead valuer review the output from the valuation including the valuation techniques used for each property, adjustments made to default values for unobservable inputs, and the correlation of valuation inputs to data from the council’s property and financial systems. They assess valuation movements compared to the prior year valuation (at a property valuer, regional and property type level), and review ratios of let value to vacant possession value, values per square foot, effective yields and comparisons to property market indices.

The following table shows quantitative information about fair value measurement of investment properties using significant unobservable inputs (level 3):

<b>Quantitative Information about Fair Value Measurement (Investment Property)</b>				
<b>Property Type</b>	<b>Fair Value at 31 March 2017</b>	<b>Valuation techniques used to measure Fair Value</b>	<b>Unobservable inputs</b>	<b>Range of unobservable inputs</b>
	<b>£'000</b>			
Urban commercial	46,763	Yield methodology	Rental values	Retail: £131 to £1,151 psm
				Office: £134 to £213 psm
				Car Park: £3 to £5 per space per day
				Garden Centre: £10 to £15 psm
				Public House (Ground Lease): £100 to £150 psm
			Capitalisation rate	Retail: 5% to 10%
				Office: 8% to 9.5%
				Car Park: 8%
				Garden Centre: 7%
				Public House (Ground Lease): 5 to 6%

*Note: per square metre has been abbreviated to ‘psm’ in the above table.*



The following table shows the relationship of significant unobservable inputs to fair value and the impact of significant changes to those outputs:

<b>Relationship of Unobservable Inputs to Fair Value (Investment Property)</b>		
<b>Unobservable input</b>	<b>Impact on Fair Value of Changes to Input</b>	
	<b>Increase in Input</b>	<b>Decrease in Input</b>
Adjusted comparable vacant possession values	Increase in fair value	Decrease in fair value
Rental values	Increase in fair value	Decrease in fair value
Capitalisation rates	Decrease in fair value	Increase in fair value

In estimating the fair value of the council’s investment properties, the highest and best use of the properties is their current use.

The amount of gains / losses in the financial year arising from changes in the fair value of the council’s investment property was £0.733m.

### **Useful Lives**

Assets of the same type generally have the same life but there are exceptions for specific assets. Operational buildings and surplus assets are generally valued with a life of either 20 or 50 years as advised by the council’s valuers. In respect of the assets valued using depreciated replacement cost methodology as at 31 March 2017, the majority of assets were deemed to have a total useful life of 60 years with a remaining useful life of between 4 and 58 years.

The asset life of council dwellings is set at 60 years. Asset lives for vehicles, plant, furniture and equipment are generally set at between five and ten years depending on the nature of the asset. The asset life for infrastructure assets is set at 20 years.

Asset lives for garages and car parks in respect of the HRA are set at 35 years.

All intangible assets have been assessed as having a finite useful life, based on assessments of the period that the intangible assets are expected to be of use to the council. The useful lives applied are generally between three and ten years depending on the nature of the intangible asset.

### **Impairment and Revaluation Losses**

As part of the annual inspection and ongoing management of its property portfolio, the council makes an assessment of the impact of obsolescence, physical damage and changes of use which could affect asset values.

During 2016/17 the council has recognised significant revaluation losses on the following buildings: Kings House (£8.8m), Portslade Aldridge Community Academy (£14m) and Prince Regent Swimming Pool (£8.3m). These revaluation losses occurred as a result of the revaluation of assets in accordance with the council’s asset revaluation policy.

### **Contractual Commitments**

At 31 March 2017, the council had entered into the following contractual commitments in respect of non-current assets:

<b>Contractual Commitments in respect of Non Current Assets</b>		
<b>Scheme Name</b>	<b>Description</b>	<b>Total £'000</b>
<b>Council Dwellings</b>		
Housing stock programme	Council dwellings works in progress	15,187
<b>Other Land and Buildings</b>		
Highways	Local transport plan works	415
Housing HRA	Building works on various sites for Housing	5784
Property	Building works on BHCC sites	105
Workstyles	Building works on various sites for Workstyles Project	236
Regeneration Project	Seafront Investment - Landscaping	929
Regeneration Project	Royal Pavilion Estate	14368
Education	New Pupil Places	5
<b>Vehicles, Plant, Furniture and Equipment</b>		
Equipment	ASC IT Infrastructure	10
Equipment	CEM Parking	7
Equipment	Customer First in a Digital Age project	264
Equipment	Controlled Parking Schemes	7
Equipment	ICT Core Infrastructure	31
Equipment	Microphone & Voting Sys. HTH C. Chamber	25
Equipment	Parking Machine Purchase & Upgrade	62
<b>Intangible Assets</b>		
Internal Customer Access to Information	Software and services	131
Information Management	Software and services	22

## **Income and Expenses in respect of Investment Property**

The council lets properties in its investment portfolio at the full market rent achievable on the basis of the leases granted. The council received £2.993m of income in relation to investment properties in 2016/17 (£2.818m 2015/16). No revenue expenditure was incurred in relation to investment properties.

## **Intangible Assets acquired by way of a Government Grant**

The council received grant funding of £0.102m (£0.053m 2015/16) to fund the acquisition of intangible assets in respect of ICT systems.

## **HRA Non-Current Assets**

The council makes a local assessment of its capital spending needs to determine the amount to be paid into the Major Repairs Reserve; this assessment is based on the amount which needs to be set aside for depreciation, namely the cost of replacing or renewing all the components of the council dwellings plus an amount for the fabric of the building.

To assist local authorities in the change to the statutory accounting arrangements brought about by the introduction of self-financing in April 2012, allow time for the new calculations to be assessed and evaluated and also allow time to move to depreciation, revaluation and impairment losses being real charges to the HRA and impacting on the HRA balance, regulations were introduced under the Item 8 Determination to allow a five year transition period (April 2012 to March 2017) whereby the council is able to:

- use a notional Major Repairs Allowance (MRA) figure as a measure of the assessment for depreciation, which is equal to the assumption about the need to spend on major repairs used in the self-financing valuation for the respective financial year;

- utilise a credit transfer for any excess of council dwellings depreciation above an amount equal to the notional MRA;
- reverse revaluation and impairment losses on council dwellings out of the HRA where the HRA revaluation reserve cannot meet the loss.

The council has opted to use the transitional arrangements in respect of revaluation and impairment losses. However, as the 2016/17 actual depreciation charge is lower than the notional major repairs allowance, the council has not applied an adjusting credit transfer in respect of depreciation. Transitional arrangements only apply to HRA council dwellings; these charges are not notional and have a real impact on HRA finances.

The following table shows the gross carrying amount and the accumulated depreciation at the beginning and end of the financial year and summarises the movement in value over the year for HRA non-current assets:

HRA Non-Current Assets								
	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total PPE	Investment Properties	Intangible Assets	Total
2016/17	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross carrying amount	738,053	15,362	859	8,087	762,361	202	471	763,034
Accumulated depreciation / amortisation	(9,144)	(493)	(837)	0	(10,474)	0	(434)	(10,908)
<b>Net Carrying Amount at 1 April 2016</b>	<b>728,909</b>	<b>14,869</b>	<b>22</b>	<b>8,087</b>	<b>751,887</b>	<b>202</b>	<b>37</b>	<b>752,126</b>
<b>Capital additions</b>								
Additions	28,394	61	0	17,128	45,583	0	0	45,583
<b>Asset disposals</b>								
Derecognition - disposals	(5,273)	(45)	(452)	0	(5,770)	0	(32)	(5,802)
Derecognition - disposals (depreciation)	65	8	458	0	531	0	32	563
<b>Transactions in respect of the surplus on revaluation of non-current assets within the HRA Income and Expenditure Statement</b>								
Revaluation increases	29,881	915	0	0	30,796	0	0	30,796
Revaluation losses	(111)	(52)	0	0	(163)	0	0	(163)
<b>Transactions charged to the surplus / deficit on the provision of services within the HRA Income and Expenditure Statement</b>								
Reversal of previous revaluation losses	42,446	13	0	0	42,459	0	0	42,459
Depreciation / amortisation charge	(10,455)	(245)	(20)	0	(10,720)	0	(37)	(10,757)
Revaluation losses	(3,093)	(87)	0	0	(3,180)	0	0	(3,180)
Revaluation of investment property	0	0	0	0	0	13	0	13
<b>Other transactions</b>								
Assets reclassified	2,360	0	0	(2,360)	0	0	0	0
<b>Net Carrying Amount at 31 March 2017</b>	<b>813,123</b>	<b>15,437</b>	<b>8</b>	<b>22,855</b>	<b>851,423</b>	<b>215</b>	<b>0</b>	<b>851,638</b>
Gross carrying amount	813,123	15,882	408	22,855	852,268	215	439	852,922
Accumulated depreciation / amortisation	0	(445)	(400)	0	(845)	0	(439)	(1,284)
<b>Net Carrying Amount at 31 March 2017</b>	<b>813,123</b>	<b>15,437</b>	<b>8</b>	<b>22,855</b>	<b>851,423</b>	<b>215</b>	<b>0</b>	<b>851,638</b>

HRA Non-Current Assets								
2015/16 Comparative Figures	Council Dwellings	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total PPE	Investment Properties	Intangible Assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross carrying amount	645,443	16,772	858	1,088	664,161	161	471	664,793
Accumulated depreciation / amortisation	(8,194)	(500)	(755)	0	(9,449)	0	(346)	(9,795)
<b>Net Carrying Amount at 1 April 2015</b>	<b>637,249</b>	<b>16,272</b>	<b>103</b>	<b>1,088</b>	<b>654,712</b>	<b>161</b>	<b>125</b>	<b>654,998</b>
<b>Capital additions</b>								
Additions	25,930	55	0	5,850	31,835	0	0	31,835
<b>Asset disposals</b>								
Derecognition - disposals	(6,712)	0	0	0	(6,712)	0	0	(6,712)
Derecognition - disposals (depreciation)	85	0	0	0	85	0	0	85
<b>Transactions in respect of the surplus on revaluation of non-current assets within the HRA Income and Expenditure Statement</b>								
Revaluation increases	1,666	393	0	0	2,059	0	0	2,059
Revaluation losses	0	(81)	0	0	(81)	0	0	(81)
Impairment losses	(4)	0	0	0	(4)	0	0	(4)
<b>Transactions charged to the surplus / deficit on the provision of services within the HRA Income and Expenditure Statement</b>								
Reversal of previous revaluation losses	79,591	0	0	0	79,591	0	0	79,591
Depreciation / amortisation charge	(9,144)	(241)	(81)	0	(9,466)	0	(88)	(9,554)
Revaluation losses	0	(4)	0	0	(4)	0	0	(4)
Impairment losses	(241)	0	0	0	(241)	0	0	(241)
Revaluation of investment property	0	0	0	0	0	8	0	8
<b>Other transactions</b>								
Assets reclassified	489	(33)	0	811	1,267	33	0	1,300
Other movements in gross carrying amount	0	(1,617)	0	338	(1,279)	0	0	(1,279)
Other movements in depreciation	0	125	0	0	125	0	0	125
<b>Net Carrying Amount at 31 March 2016</b>	<b>728,909</b>	<b>14,869</b>	<b>22</b>	<b>8,087</b>	<b>751,887</b>	<b>202</b>	<b>37</b>	<b>752,126</b>
Gross carrying amount	738,053	15,362	859	8,087	762,361	202	471	763,034
Accumulated depreciation / amortisation	(9,144)	(493)	(837)	0	(10,474)	0	(434)	(10,908)
<b>Net Carrying Amount at 31 March 2016</b>	<b>728,909</b>	<b>14,869</b>	<b>22</b>	<b>8,087</b>	<b>751,887</b>	<b>202</b>	<b>37</b>	<b>752,126</b>

## Council Dwellings

The council was responsible for managing 11,498 council dwellings at 31 March 2017 (11,551 at 31 March 2016) made up as follows:

Council Dwellings						
	0 Bed	1 Bed	2 Bed	3 Bed	4+ Bed	Total
<b>2016/17</b>						
Bedsits	617	23	0	0	0	<b>640</b>
Bungalows	26	173	27	23	1	<b>250</b>
Flats	1	3372	2797	186	0	<b>6356</b>
Houses	0	23	1417	2373	276	<b>4089</b>
Maisonettes	0	0	98	59	6	<b>163</b>
<b>Total</b>	<b>644</b>	<b>3,591</b>	<b>4,339</b>	<b>2,641</b>	<b>283</b>	<b>11,498</b>
<b>2015/16</b>						
Bedsits	666	17	0	0	0	<b>683</b>
Bungalows	26	173	27	23	1	<b>250</b>
Flats	2	3,332	2,821	189	0	<b>6,344</b>
Houses	0	23	1,433	2,383	271	<b>4,110</b>
Maisonettes	0	0	98	60	6	<b>164</b>
<b>Total</b>	<b>694</b>	<b>3,545</b>	<b>4,379</b>	<b>2,655</b>	<b>278</b>	<b>11,551</b>

The following table summarises the movement in council dwellings within the year:

Movement in Council Dwellings		
	2015/16	2016/17
<b>Stock at 1 April</b>	<b>11,670</b>	<b>11,551</b>
Sales	(75)	(50)
Transferred to Brighton & Hove Seaside Community Homes Ltd	(54)	(29)
Conversions	10	26
<b>Stock at 31 March</b>	<b>11,551</b>	<b>11,498</b>

The council has removed £5.207m of council dwellings net book asset values from its Balance Sheet in respect of the movements detailed in the above table.

The vacant possession value in respect of council dwellings at 1 April 2017 was £2,464m as valued by the valuers, Savills UK Ltd, compared with the value of £813m for its existing use as social housing. The difference of £1,651m represents the cost of providing council housing at less than open market rents.

### Housing Local Delivery Vehicle

Brighton & Hove Seaside Community Homes Ltd is a not for profit charitable company set up and funded by a third party independent to the council as a local delivery vehicle to raise investment for improvements to council dwellings. The company was incorporated in March 2009 and has leased 499 empty properties from the council taking them on over a five year period covering November 2011 to 31 March 2017. The properties are let to homeless households and people with particular needs nominated by the council.

## 9 Capital Investment and Capital Financing

The council made £94.183m of capital investments in 2016/17. The following table shows the total amount of capital investment analysed for each category of non-current asset together with the resources that have been used to finance the capital investment:

<b>Capital Investment and Capital Financing</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
<b>Capital investment</b>		
Property, plant and equipment	70,792	78,703
Heritage assets	1,044	117
Intangible assets	1,365	1,516
Revenue expenditure funded from capital under statute	6,768	7,103
Long term investments	25	0
Long term debtor	20,514	6,744
Current intangible asset - Carbon Reduction Commitment	116	0
<b>Total Capital Investment</b>	<b>100,624</b>	<b>94,183</b>
<b>Sources of finance</b>		
Capital receipts	(15,603)	(13,490)
Capital grants and contributions	(31,547)	(29,771)
Major repairs reserve (HRA)	(9,602)	(10,758)
Reserves	(3,141)	(2,348)
HRA balance	(1,100)	(271)
Revenue contributions	(14,136)	(13,908)
Unsupported borrowing	(25,495)	(23,637)
<b>Total Financing</b>	<b>(100,624)</b>	<b>(94,183)</b>

The council's capital financing requirement represents capital investment historically that is funded from borrowing which will be repaid in future financial years. In 2016/17, £23.637m of capital investment was financed through unsupported borrowing (ie not supported by the Government) and therefore impacted on the council's capital financing requirement. Where capital investment is funded by borrowing, a charge is made to revenue as non-current assets are used by the council. The following table shows the council's capital financing requirement position:

<b>Opening Capital Financing Requirement</b>	<b>334,424</b>	<b>346,673</b>
<b>Explanation of movements in capital financing requirement</b>		
Increase in underlying need to borrow (unsupported by government financial assistance)	25,495	23,637
Repayment of loans (MRP)	(13,246)	(11,914)
<b>Increase / (Decrease) in Capital Financing Requirement</b>	<b>12,249</b>	<b>11,723</b>
<b>Closing Capital Financing Requirement</b>	<b>346,673</b>	<b>358,396</b>

A reconciliation of the capital financing requirement to the Balance Sheet is shown in the following table:

<b>Capital Investment and Capital Financing</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
<b>The capital financing requirements reflects the following Balance Sheet items:</b>		
Non-current assets	1,878,062	1,968,285
Adjustment to non-current assets for revaluation losses on HRA non dwelling assets charged to the HRA balance under HRA self financing	493	555
Long term debtors	30,441	37,188
Long term investments	50	50
Capital adjustment account	(1,131,045)	(1,176,603)
Revaluation reserve	(431,328)	(471,079)
<b>Total</b>	<b>346,673</b>	<b>358,396</b>

## **Minimum Revenue Provision (MRP)**

The council is required by statute to set aside a prudent sum for the repayment of debt (MRP). Guidance issued by the Government requires Full Council to approve an annual statement on the amount of debt that will be repaid in a financial year; the council's annual statement was approved on 25 February 2016. The following table shows the amount set aside from revenue:

<b>Minimum Revenue Provision</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
GF supported debt (debt where central government provide revenue support)	2,328	2,327
GF unsupported debt (debt where no central government support is received)	4,648	4,461
HRA unsupported debt	4,300	3,000
Charge equal to write down on PFI liabilities	1,970	2,126
<b>Total Amount Set Aside from Revenue</b>	<b>13,246</b>	<b>11,914</b>

## **HRA Capital Investment and Financing**

The council had £45.577m of capital investment in respect of the HRA in 2016/17. The following table shows the resources that have been used to finance the capital investment:

<b>HRA Capital Investment and Financing</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
Capital investment	31,835	45,577
<b>Total Capital Investment</b>	<b>31,835</b>	<b>45,577</b>
Major repairs reserve	(9,602)	(10,758)
Revenue contributions	(13,167)	(12,903)
Reserves	(1,669)	(60)
HRA balance	(1,100)	(271)
Capital receipts	(4,368)	(7,893)
Capital grants and contributions	(1,923)	(399)
Unsupported borrowing	(6)	(13,293)
<b>Total Funding</b>	<b>(31,835)</b>	<b>(45,577)</b>

The following table shows a summary of the total capital receipts received in 2016/17 in respect of the HRA:

HRA Capital Receipts		
	2015/16	2016/17
	£'000	£'000
Right to buy sales of houses and flats	7,887	7,134
Sale of land and other property	88	737
Mortgages repayments	8	2
Discount repayments	58	52
Transferred properties to Brighton & Hove Seaside Community Homes Ltd	2,899	1,339
<b>Total</b>	<b>10,940</b>	<b>9,264</b>

## 10 Financial Assets and Liabilities – Financial Instruments

### Categories of Financial Instruments

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

Categories of Financial Instruments				
	Long Term		Short Term	
	31 March 2016	31 March 2017	31 March 2016	31 March 2017
	£'000	£'000	£'000	£'000
<b>Investments</b>				
Loans and receivables	0	0	49,067	61,390
Available for sale financial assets	0	0	30,720	27,999
Unquoted equity investments	50	50	0	0
<b>Total Investments</b>	<b>50</b>	<b>50</b>	<b>79,787</b>	<b>89,389</b>
<b>Debtors</b>				
Loans and receivables	39,518	45,560	0	0
Financial assets carried at contract amounts	0	0	30,353	33,390
<b>Total Debtors</b>	<b>39,518</b>	<b>45,560</b>	<b>30,353</b>	<b>33,390</b>
<b>Borrowings</b>				
Financial liabilities carried at amortised cost	(237,729)	(255,070)	(9,341)	(9,911)
<b>Total Borrowings</b>	<b>(237,729)</b>	<b>(255,070)</b>	<b>(9,341)</b>	<b>(9,911)</b>
<b>Creditors</b>				
Financial liabilities carried at contract amounts	0	0	(48,982)	(44,025)
<b>Total Creditors</b>	<b>0</b>	<b>0</b>	<b>(48,982)</b>	<b>(44,025)</b>
<b>PFI Liability</b>				
Financial liabilities carried at amortised cost	(51,790)	(49,458)	(2,081)	(2,287)
<b>Total PFI Liability</b>	<b>(51,790)</b>	<b>(49,458)</b>	<b>(2,081)</b>	<b>(2,287)</b>

Note: The above table includes cash equivalents, bank overdraft, PFI liabilities and finance lease liabilities. Further details on these financial instruments can be found in notes 16 and 15 respectively.

### Income, Expense, Gains and Losses

The gains and losses in respect of financial instruments that are recognised in the CIES are detailed in the following tables:



<b>Gains and Losses in Respect of Financial Instruments</b>				
	<b>Financial Liabilities</b>	<b>Financial Assets</b>		<b>Total</b>
	<b>Measured at Amortised Cost</b>	<b>Loans and Receivables</b>	<b>Available for Sale Assets</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
<b>2016/17</b>				<b>£'000</b>
Interest expense	11,052	0	0	<b>11,052</b>
Fee expense	32	5	41	<b>78</b>
<b>Total Expense in the Surplus / Deficit on the Provision of Services</b>	<b>11,084</b>	<b>5</b>	<b>41</b>	<b>11,130</b>
Interest income	0	(663)	(200)	<b>(863)</b>
Fee income	0	(5)	0	<b>(5)</b>
<b>Total Income in the Surplus / Deficit on the Provision of Services</b>	<b>0</b>	<b>(668)</b>	<b>(200)</b>	<b>(868)</b>
Gain on revaluation	0	0	(101)	<b>(101)</b>
Loss on revaluation	0	0	0	<b>0</b>
<b>Surplus / Deficit arising on the Revaluation of Financial Assets in Other Comprehensive Income and Expenditure</b>	<b>0</b>	<b>0</b>	<b>(101)</b>	<b>(101)</b>
<b>Net (Gain) / Loss</b>	<b>11,084</b>	<b>(663)</b>	<b>(260)</b>	<b>10,161</b>

<b>Gains and Losses in Respect of Financial Instruments</b>				
	<b>Financial Liabilities</b>	<b>Financial Assets</b>		<b>Total</b>
	<b>Measured at Amortised Cost</b>	<b>Loans and Receivables</b>	<b>Available for Sale Assets</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
<b>2015/16 Comparative Figures</b>				<b>£'000</b>
Interest expense	10,184	0	0	<b>10,184</b>
Fee expense	38	7	42	<b>87</b>
<b>Total Expense in the Surplus / Deficit on the Provision of Services</b>	<b>10,222</b>	<b>7</b>	<b>42</b>	<b>10,271</b>
Interest income	0	(2,387)	(261)	<b>(2,648)</b>
Fee income	0	(5)	0	<b>(5)</b>
<b>Total Income in the Surplus / Deficit on the Provision of Services</b>	<b>0</b>	<b>(2,392)</b>	<b>(261)</b>	<b>(2,653)</b>
Gain on revaluation	0	0	(3)	<b>(3)</b>
Loss on revaluation	0	0	5	<b>5</b>
<b>Surplus / Deficit Arising on the Revaluation of Financial Assets in Other Comprehensive Income and Expenditure</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>2</b>
<b>Net (Gain) / Loss</b>	<b>10,222</b>	<b>(2,385)</b>	<b>(217)</b>	<b>7,620</b>

The council has appointed external cash managers to administer part of its investment portfolio; they invest in specialist markets such as gilts, certificates of deposit and other

negotiable financial instruments. A gain of £0.099m represents a depreciation in the valuation of these investments not realised at 31 March 2017.

The council has a portfolio (£2.000m) of Certificates of Deposit at 31 March 2017. A net gain of £0.001m represents an appreciation of the valuation of the Certificate of Deposits at 31 March 2017.

## Fair Value of Financial Assets and Liabilities

Some of the council's financial assets are measured in the Balance Sheet at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Financial Assets Measured at Fair Value				
Recurring Fair Value Measurements	Input Level in the fair value Hierarchy	Valuation Technique used to measure Fair Value	31 March 2016	31 March 2017
			£'000	£'000
<b>Available for Sale</b>				
Certificates of Deposit	Level 1	Unadjusted quoted prices in an active market for identical investments	5,017	2,013
Cash Manager holding	Level 1	Valuation of the council's holding was undertaken by the Cash Manager at Balance Sheet date using unadjusted quoted prices and active market data for identical instruments as those held in the fund at that date	25,703	25,987
<b>Total</b>			<b>30,720</b>	<b>28,000</b>

## Unquoted Equity Instruments Measured at Cost

The council has a shareholding in the UK Municipal Bonds Agency plc which seeks to raise capital funding for local authorities at preferential rates. The shares are carried at cost of £0.050m and have not been revalued as a fair value cannot be reliably measured. The company was formed on 3 June 2014 and has no established trading history. There are also no other established companies with similar aims whose shares are traded which might provide comparable market data. The council has no current intention to dispose of the shareholding.

## Transfers between Levels of the Fair Value Hierarchy

There were no transfers between input levels during the financial year.

## Changes in the Valuation Technique

There has been no change in the valuation technique used during the year for the financial instruments.

With the exception of financial assets carried at fair value (described in the above table), all other financial liabilities and financial assets (represented by loans and receivables) are carried on the Balance Sheet at amortised cost. Debtors and creditors are carried at contracted amounts. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the financial instruments (Level 2) using the following assumptions:

- for loans from the Public Works Loan Board (PWLB), premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures. As the Debt Management Office provides a transparent approach allowing the

exit cost to be calculated without undertaking a repayment or transfer it is appropriate to disclose the exit price. As an alternative, the council has assessed the cost of taking a new loan at PWLB new loan rates applicable to existing loans as at 31 March 2017 (which could be viewed as a proxy for transfer of value). The mark to model valuation technique as described below has been used to derive these valuations;

- for non-PWLB loans payable, PWLB premature repayment rates have been applied to provide the fair value under PWLB debt redemption procedures. The mark to model valuation technique as described below has been used to derive these valuations;
- no early repayment or impairment is recognised;
- where a financial instrument has a maturity of less than 12 months the fair value is taken to be the principal outstanding;
- the fair value of debtors and creditors is taken to be the invoiced or billed amount.

### Mark to Model Valuation for Financial Instruments

As at 31st March 2017, the council held £260.524m (£245.106m 31 March 2016) of financial liabilities for which Level 2 valuations applies. These financial liabilities are held with PWLB and market lenders and were not quoted on an active market and therefore a Level 1 valuation is not available. To provide a fair value which provides a comparison to the carrying amount, the council has used a financial model valuation provided by its treasury advisors. This valuation applied the Net Present Valuation technique approach (as described above), which provides an estimate of the value of payments in the future in today's terms as at the Balance Sheet date. This is a widely accepted valuation technique commonly used in the private sector. The council's accounting policy uses early repayment rates to discount future cash flows.

### Fair Valuation of PFI Liabilities

As at 31 March 2017, the carrying value of the PFI liability for the council's three PFI contracts was £51.745m (£53.871m 31 March 2016), for which a Level 3 valuation applies. The fair value of the PFI liability on the council's Balance Sheet has been undertaken by the council's treasury advisors using the same mark to model valuation technique used to provide the fair value of the council's PWLB borrowing. The PWLB annuity discount rate has been used as a market proxy of fair value.

The fair values calculated are as follows:

### Financial Liabilities

Financial Liabilities				
	31 March 2016		31 March 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB borrowing	(169,652)	(234,679)	(185,210)	(271,347)
Market borrowing	(75,915)	(126,880)	(75,902)	(146,132)
Bank overdraft	(839)	(839)	(2,397)	(2,397)
Other	(664)	(664)	(1,472)	(1,472)
<b>Total Borrowing</b>	<b>(247,070)</b>	<b>(363,062)</b>	<b>(264,981)</b>	<b>(421,348)</b>
Creditors	(48,982)	(48,982)	(44,025)	(44,025)
PFI liability	(53,871)	(79,230)	(51,745)	(76,850)
<b>Total Financial Liabilities</b>	<b>(349,923)</b>	<b>(491,274)</b>	<b>(360,751)</b>	<b>(542,223)</b>

The fair value of financial liabilities is greater than the carrying amount because the council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2017) arising from a commitment to pay interest to lenders above current market rates.

The fair value of the PWLB loans of £271.347m measures the economic effect of the terms agreed with the PWLB compared with the estimates of the terms that would be offered for market transactions undertaken at 31 March 2017. The difference between the carrying amount and the fair value measures the additional interest the council will pay over the remaining terms of the loan under the agreements with the PWLB against what would be paid if the loans were undertaken at prevailing market rates.

However, the council has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the council will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the principal amount of £185.524m would be valued at £233.398m. But if the council were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will now not be paid. The exit price for the PWLB including the penalty charge would be £85.160m.

## Financial Assets

Financial Assets				
	31 March 2016		31 March 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Loans and receivables	49,067	49,067	61,390	61,390
Available for sale	30,720	30,720	27,999	27,999
Unquoted equity investments	50	50	50	50
<b>Total Investments</b>	<b>79,837</b>	<b>79,837</b>	<b>89,439</b>	<b>89,439</b>
Debtors	69,871	69,871	78,950	78,950
<b>Total Financial Assets</b>	<b>149,708</b>	<b>149,708</b>	<b>168,389</b>	<b>168,389</b>

Note: the above table includes cash equivalents.

With the exception of the unquoted equity investment, all financial assets in respect of investments are short term at 31 March 2017. The fair value of the loans and receivables investments are therefore deemed to be equal to the carrying amount.

The fair value of the unquoted equity instrument is deemed to be equal to its carrying amount as a fair value cannot be reliably measured.

## Nature and extent of risks arising from financial instruments and how the council manages those risks

The council's activities expose it to a variety of financial risks. The key risks are:

- 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 commitments to make payments;
- refinancing and maturity risk – the possibility that the council might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- market risk – the possibility that financial loss might arise as a result of changes in such measures as interest rate movements.

## Overall procedures for managing risk

The council's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the resources available to fund services.

Risk Management is carried out by the council's treasury management team, under policies approved by Full Council in the annual Treasury Management Strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

## Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the council's customers. The risk is minimised by the council through its Annual Investment Strategy (AIS) which requires that deposits are not made with banks and financial institutions unless they meet the minimum requirements, in accordance with Fitch, Moody's and Standard & Poors Credit Rating Services. The AIS also considers maximum amounts and time limits with a financial institution in each category. Additional selection criteria are also applied by the council before an investment is made. The AIS was approved at Full Council in March 2016 and a copy of the strategy can be found on the council's website, [www.brighton-hove.gov.uk](http://www.brighton-hove.gov.uk).

The minimum criteria set out in the 2016/17 AIS for investment counterparties were:

- banks and building societies to have a minimum short term rating of good credit quality;
- building societies to have an asset base in excess of £5 billion;
- money market funds to have a rating equal to "AAA / Aaa" (triple A).

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with parameters set by the council.

The council's maximum exposure to credit risk in relation to its investments in financial institutions of £89.389m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the council's deposits, but there is no evidence at the 31 March 2017 that this was likely to crystallise.

The council does not expect any losses from non-performance of any of its counterparties in relation to deposits and bonds. During 2016/17, the council did not hold collateral as security for any investment.

The council does not generally allow credit for its customers; however, £10.296m (26%) of the outstanding debtors at the Balance Sheet date are past their due date for payment. The following table shows the level of debtors past their due date for payment analysed by age:

<b>Debtors past their due date for Payment</b>		
	<b>31 March 2016</b>	<b>31 March 2017</b>
	<b>£'000</b>	<b>£'000</b>
Less than 3 months	1,643	1,859
Between 3 and 6 months	1,621	1,254
Between 6 and 12 months	2,507	2,109
More than 12 months	3,364	5,074
<b>Total</b>	<b>9,135</b>	<b>10,296</b>

## Liquidity Risk

The council manages its liquidity position through the risk management procedures mentioned above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through comprehensive cash flow management procedures 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 need, and whilst the PWLB provides access to longer term funds, it also acts as a lender of last resort to local authorities (although it will not provide funding to a local authority whose action is unlawful). The council is also required to provide a balanced budget, under the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. Therefore there is no significant risk that the council will be unable to raise finance to meet its commitments under financial instruments.

## Refinancing and Maturity Risk

The council maintains a significant debt and investment portfolio. Whilst the cash flow management procedures mentioned above are applied for short term liquidity risk, the refinancing and maturity risk relates to the management of the council's exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicators for (a) the maturity structure of debt and (b) investments made for a period greater than one year are the two key parameters used to address this risk. The council's approved treasury and investment strategies address the main risks and the treasury management team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt;
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the council's day to day cash flow needs, and that the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The following two tables show the maturity analysis of financial liabilities and financial assets:

<b>Maturity Analysis of Financial Liabilities</b>		
	<b>31 March 2016</b>	<b>31 March 2017</b>
	<b>£'000</b>	<b>£'000</b>
Less than 1 year	(4,458)	(3,434)
Between 1 and 2 years	(1,840)	(2,675)
Between 2 and 5 years	(7,026)	(6,827)
Between 5 and 10 years	(47,600)	(53,984)
Between 10 and 15 years	(20,493)	(14,987)
More than 15 years	(164,351)	(180,083)
<b>Total</b>	<b>(245,768)</b>	<b>(261,990)</b>

<b>Maturity Analysis of Financial Assets</b>		
	<b>31 March 2016</b>	<b>31 March 2017</b>
	<b>£'000</b>	<b>£'000</b>
Less than 1 year	79,787	89,389
More than 1 year	50	50
<b>Total</b>	<b>79,837</b>	<b>89,439</b>

*Note: The figures in the above two tables are based on the original principal borrowed or lent and not the amortised or carrying amount. Debtors, creditors, PFI liabilities and finance lease liabilities are not included in the above table.*

## Market Risk

### Interest rate risk

The council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the council, depending on how

variable and fixed interest rates move across differing financial instrument periods. For instance a rise in interest rates would have the following effects:

- borrowings at variable rates - the interest expense charged to the CIES will rise;
- borrowings at fixed rates - for long term borrowings the fair value of the liabilities will fall (no impact on revenue balances);
- investments at variable rates - the interest income credited to the CIES will rise;
- investments at fixed rates - for long term investments the fair value of the assets will fall (no impact on revenue balances).

All financial liabilities and financial assets held as loans and receivables at 31 March 2017 are carried at amortised cost, and thus movement in fair value due to changes in interest rates are not recognised in the CIES.

Financial assets held as available for sale at 31 March 2017 are held at fair value. Any change in fair value as a result of interest rate changes will be reflected in the CIES.

The council has a number of strategies for managing interest rate risk. The annual TMS draws together the council’s prudential indicators and its expected treasury operations, including an expectation of interest rate movements. From this strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The council’s treasury management team monitors market and forecast interest rates within the year to adjust exposures appropriately.

At 31 March 2017 the council held £1.467m borrowings and £51.635m investments subject to variable interest rates. A 1% rise in interest rates would have the following impact on the CIES during 2016/17:

<b>Impact of a 1% rise in interest rates</b>	
	<b>£'000</b>
Increase in interest payable on variable rate borrowings	31
Increase in interest receivable on variable rate investments	(591)
Impact on Surplus or Deficit on the Provision of Services	(560)

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

A 1% rise in interest rates would have the impact of decreasing the fair value of the financial liabilities by £72.8m (no impact of the CIES). A 1% rise in interest rates would have no material impact on the fair value of investments, as investments are all held for less than one year.

The above assumptions for a rise or fall in interest rates are based on the same methodology as used in the section headed “Fair value of financial assets and liabilities” earlier in this disclosure.

### **Price risk**

The council does not generally invest in equity shares or marketable bonds.

## 11 Debtors

The following table shows an analysis of the council's short term debtors:

Short Term Debtors		
	31 March 2016	31 March 2017
	£'000	£'000
Central government bodies	8,917	5,650
Other local authorities	7,329	5,585
NHS and clinical commissioning bodies	844	3,625
Other entities and individuals	24,785	25,204
<b>Total Short Term Debtors</b>	<b>41,875</b>	<b>40,064</b>

£33.390m (£30.353m 31 March 2016) of short term debtors are classed as financial instruments and are included in note 10; those debtors not classified as financial instruments are statutory debtors, grant debtors and payments in advance.

The following table shows an analysis of the council's long term debtors:

Long Term Debtors		
	31 March 2016	31 March 2017
	£'000	£'000
Finance lease	6,223	6,218
i360 development	31,247	36,806
Other long term debtors	2,048	2,536
<b>Total Long Term Debtors</b>	<b>39,518</b>	<b>45,560</b>

All long term debtors are classed as financial instruments and are included in note 10.

The council provided financial support to the East Sussex Credit Union in April 2016 with a membership deposit of £28,000 and a subordinated loan of £250,000 for the purpose of providing safe, affordable, accessible financial products to some of the city's most financially excluded and at-risk residents. The loan is interest free and repayable in 5 years' time.

## 12 Creditors

The following table shows an analysis of the council's short term creditors:

Short Term Creditors		
	31 March 2016	31 March 2017
	£'000	£'000
Central government bodies	(7,742)	(8,579)
Other local authorities	(5,015)	(6,173)
NHS and clinical commissioning bodies	(1,598)	(1,773)
Other entities and individuals	(54,692)	(50,658)
<b>Total Short Term Creditors</b>	<b>(69,047)</b>	<b>(67,183)</b>

£44.025m (£48.982m 31 March 2016) of short term creditors are classed as financial instruments and are included in note 10; those creditors not classified as financial instruments are statutory creditors, grant creditors and receipts in advance.



## 13 Provisions

The council sets aside amounts as provisions for liabilities of uncertain timing or amount. The following table shows the level of the council's provisions as at 31 March, split between short term and long term, together with the movement during the financial year:

Provisions					
	Balance at 1 April 2016	2016/17			Balance at 31 March 2017
		Additional Provisions Made	Amounts Used	Unused Amounts Reversed	
	£'000	£'000	£'000	£'000	£'000
<b>Short Term Provisions</b>					
Accumulated absences	(3,022)	(3,878)	3,022	0	(3,878)
Other provisions	(571)	0	0	321	(250)
<b>Total</b>	<b>(3,593)</b>	<b>(3,878)</b>	<b>3,022</b>	<b>321</b>	<b>(4,128)</b>
<b>Long Term Provisions</b>					
Voluntary severance scheme provision	(1,321)	(3,203)	2,845	0	(1,679)
Business rates appeals provision	(2,127)	(1,408)	1,017	0	(2,518)
Other provisions	(567)	(51)	54	127	(437)
<b>Total</b>	<b>(4,015)</b>	<b>(4,662)</b>	<b>3,916</b>	<b>127</b>	<b>(4,634)</b>

### Accumulated Absences

This provision relates to employees' accumulated paid absences (eg annual leave and flexi leave) that are carried forward for use in future financial years if the current year's entitlements are not used in full.

### Voluntary Severance Provision

Voluntary severance is just one of the mechanisms that can help the council to meet its financial targets whilst minimising the risk of compulsory redundancies. The council has therefore put in place a mechanism to incentivise voluntary severance in services required to deliver approved budget savings in 2017/18. The mechanism enables employees to consider leaving their employment in return for an enhanced severance package. Each case is separately reviewed and only approved where pre-set business case parameters are met. This provision will meet the costs of approved severance packages which had not been finalised at the Balance Sheet date.

In 2016/17, the £1.679m provision is funded by capital receipts using a capitalisation direction issued by the Government under the Local Government Act 2003.

### Business Rates Appeals Provision

As at 31 March 2017, the council had a number of appeals outstanding against the 2005 and 2010 rating lists. If successful, these appeals will result in a reduction in rateable value and the need to refund ratepayers for reduced rates liability in 2016/17 and previous financial years. This provision covers the council's share of the amount that the council anticipates having to repay to ratepayers in the future following successful appeals against the rating lists. The provision only covers appeals lodged by 31 March 2017 in line with the Government's Autumn Statement.

### Other Short Term Provisions

Included within other short term provisions is an amount of £0.250m (£0.250m at 31 March 2016) set aside by the council to meet its obligations to purchase and surrender Carbon Reduction Commitment (CRC) allowances in relation to carbon dioxide emissions under the

CRC Energy Efficiency scheme. The council purchases the allowances from the Government and surrenders the allowances to the scheme in proportion to its reported emissions for the preceding scheme year and in accordance with the scheme requirements. The council also has a short term intangible asset of £0.478m (£0.478m at 31 March 2016) in respect of unused purchased allowances.

## 14 Grants and Contributions

The council receives a number of grants (both from central government and non-government bodies) and contributions, both for revenue and capital purposes.

### Government Revenue Grants

Grants received from central government can be either ring fenced for a specific purpose or non-ring fenced.

The following table shows the government revenue grants received by the council and credited to the CIES:

Government Revenue Grants		
	2015/16	2016/17
	£'000	£'000
<b>Non ring fenced government grants credited to taxation and non specific grant income</b>		
Department for Education	(3,198)	(2,947)
Department for Communities and Local Government	(59,938)	(46,607)
Department for Work and Pensions	(1,565)	(1,397)
Department of Health	(297)	(168)
<b>Total</b>	<b>(64,998)</b>	<b>(51,119)</b>
<b>Ring fenced government grants credited to cost of services</b>		
Department for Education	(175,728)	(176,765)
Department for Communities and Local Government	(2,956)	(1,184)
Department for Work and Pensions	(162,720)	(157,575)
Department for Transport	(1,457)	(712)
Department of Health	(19,618)	(21,140)
Other government departments	(2,575)	(3,396)
<b>Total</b>	<b>(365,054)</b>	<b>(360,772)</b>
<b>Total Government Revenue Grants</b>	<b>(430,052)</b>	<b>(411,891)</b>

### Non Ring Fenced Grants

The significant non ring fenced grants received by the council from the Department for Communities and Local Government are:

- Revenue Support Grant of £33.126m which can be used by the council to finance revenue expenditure on any service;
- New Homes Bonus Scheme Grant of £5.014m which is a funding incentive largely to facilitate the council in the building of new homes in the city and bring empty homes back into use;
- PFI Grant of £3.003m which is in respect of the council's PFI projects which have become operational.

### Ring Fenced Grants

The significant ring fenced grants received by the council from the Department for Education are:

- Dedicated Schools Grant of £157.313m; further details are provided below;

- Pupil Premium Grant of £9.128m which targets additional money at pupils from the most deprived background to help them achieve their full potential;
- Funding for sixth forms of £4.007m which provides funds for the council's locally maintained sixth form colleges.

The significant ring fenced grants received by the council from the Department for Work and Pensions (DWP) are in respect of Housing Benefit to reimburse the council for rent allowances and rent rebates (£156.378m).

The significant ring fenced grant received by the council from the Department of Health is in respect of the Public Health Grant (£21.140m) which provides funding for the council to discharge its public health responsibilities.

## Non-Government Revenue Grants and Contributions

The following table below shows the non-government grants and revenue contributions received by the council and credited to the appropriate cost of service in the CIES:

Non-Government Revenue Grants and Contributions		
	2015/16	2016/17
	£'000	£'000
<b>Non-government grants and revenue contributions credited to cost of services</b>		
Non-government grants	(1,720)	(1,183)
Contributions from health	(17,669)	(17,850)
Contributions from other agencies and external bodies	(2,297)	(1,888)
Contributions from other local authorities	(1,617)	(1,756)
Other contributions, donations and sponsorship	(1,974)	(2,156)
Contributions from developers and stakeholders	(422)	(492)
<b>Total Non-Government Revenue Grants and Contributions</b>	<b>(25,699)</b>	<b>(25,325)</b>

## Revenue Grants and Contributions with Conditions Attached

The council has received a number of revenue grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies and / or property to be returned to the giver if the conditions are not met. These are held within short term creditors on the Balance Sheet until the condition is met.

## Capital Grants and Contributions

The council has received a number of capital grants and external contributions which are used to fund capital investment. The following table shows capital grants and external contributions received by the council and credited to the taxation and non-specific grant income in the CIES:

<b>Capital Grants and Contributions</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
<b>Capital grants and contributions credited to taxation and non-specific grant income</b>		
Department for Education	(9,737)	(6,987)
Department for Communities and Local Government	(2,647)	(175)
Department for Transport	(8,310)	(9,689)
Department of Health	(353)	(268)
Other government departments	(463)	(318)
Heritage Lottery Fund	(412)	(499)
Contributions from developers and stakeholders	(1,780)	(1,324)
Contributions from other local authorities	(6,434)	(4,372)
Other contributions	(300)	(240)
<b>Total</b>	<b>(30,436)</b>	<b>(23,872)</b>
<b>Capital grants and contributions credited to cost of services</b>		
Department for Education	(51)	(1,070)
Department for Communities and Local Government	(1,425)	(2,636)
Department of Health	(331)	(103)
Department for Transport	(31)	(541)
Department for Culture, Media and Sport	(714)	(250)
Other government departments	(147)	(326)
Other contributions	(236)	(1,246)
<b>Total</b>	<b>(2,935)</b>	<b>(6,172)</b>
<b>Total Capital Grants and Contributions</b>	<b>(33,371)</b>	<b>(30,044)</b>

### **Capital Grants and Contributions with Conditions Attached**

The council has received a number of capital grants and contributions that are yet to be recognised as income as they have conditions attached to them that will require the monies and / or property to be returned to the giver if the conditions are not met. The following table shows the balances at the 31 March of those grants held as Capital Grants Receipts in Advance on the Balance Sheet:

<b>Capital Grants and Contributions with Conditions attached</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
<b>Grants and contributions held under capital grants receipts in advance</b>		
Department for Education	(14,118)	(27,164)
Department for Communities and Local Government	(1,431)	(22)
Other government departments	(486)	(88)
Contributions from developers and stakeholders	(6,088)	(5,870)
Other contributions	0	(719)
<b>Total Grants and Contributions with Conditions</b>	<b>(22,123)</b>	<b>(33,863)</b>

### **Dedicated Schools Grant**

The council's expenditure on schools is funded primarily by grant provided by the Department for Education, in the form of the Dedicated Schools Grant (DSG). DSG is a ring fenced specific grant and can only be applied to meet expenditure included in the Schools Budget, as defined in the Schools Finance (England) Regulations 2008. The Schools Budget includes elements for a range of educational services provided on a council wide basis and the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school. The following table shows details of the deployment of the DSG received:

Dedicated Schools Grant			
	Central Expenditure	Individual Schools Budget (ISB)	Total
	£'000	£'000	£'000
<b>2016/17</b>			
Final DSG for 2016/17 before academy recoupment	(24,369)	(143,840)	(168,209)
Less academy figure recouped for 2016/17	0	10,939	10,939
Other budget adjustments	0	7	7
<b>Total DSG after academy recoupment for 2016/17</b>	<b>(24,369)</b>	<b>(132,894)</b>	<b>(157,263)</b>
Brought forward from 2015/16	(432)	0	(432)
<b>Agreed initial budgeted distribution in 2016/17</b>	<b>(24,801)</b>	<b>(132,894)</b>	<b>(157,695)</b>
In year budget adjustments	4	(4)	0
<b>Final budget distribution for 2016/17</b>	<b>(24,797)</b>	<b>(132,898)</b>	<b>(157,695)</b>
Less actual central expenditure	24,824	0	24,824
Less actual ISB deployed to schools	0	132,898	132,898
Private, voluntary and independent providers to be funded by DSG in 2017/18	(612)	0	(612)
<b>Carry forward to 2017/18</b>	<b>(585)</b>	<b>0</b>	<b>(585)</b>

Dedicated Schools Grant			
	Central Expenditure	Individual Schools Budget (ISB)	Total
	£'000	£'000	£'000
<b>2015/16 Comparative Figures</b>			
Final DSG for 2015/16 before academy recoupment	(25,931)	(142,409)	(168,340)
Less academy figure recouped for 2015/16	0	10,164	10,164
Other budget adjustments	1,907	0	1,907
<b>Total DSG after academy recoupment for 2015/16</b>	<b>(24,024)</b>	<b>(132,245)</b>	<b>(156,269)</b>
Brought forward from 2014/15	(1,453)	0	(1,453)
<b>Agreed initial budgeted distribution in 2015/16</b>	<b>(25,477)</b>	<b>(132,245)</b>	<b>(157,722)</b>
In year budget adjustments	(15)	15	0
<b>Final budget distribution for 2015/16</b>	<b>(25,492)</b>	<b>(132,230)</b>	<b>(157,722)</b>
Less actual central expenditure	24,791	0	24,791
Less actual ISB deployed to schools	0	132,230	132,230
Private, voluntary and independent providers to be funded by DSG in 2016/17	269	0	269
<b>Carry forward to 2016/17</b>	<b>(432)</b>	<b>0</b>	<b>(432)</b>

## 15 Leases and Lease Type Arrangements

The council classifies leases as either finance leases or operating leases.

### Council as Lessee – Finance Leases

The council has acquired a number of properties under finance leases which are used by the council for office accommodation and providing education, social care and library services. The terms of these leases range from 125 years to 150 years. The assets acquired under these leases are valued at £7.160m (£6.369m 2015/16) and are carried as PPE on the Balance Sheet categorised as other land and buildings. The increase in valuation relates to the DRC valuations that were carried out in year.

In the majority of cases, the council has paid a premium payment at the inception of the lease and pays a peppercorn rent over the lease term.

## Council as Lessee – Operating Leases

The council has acquired a number of properties by entering into operating leases; these properties are being used for a number of purposes such as office accommodation and providing educational and social care services. The terms of the leases typically range from one to 25 years.

The council leases in a number of vehicles under operating leases, they are typically short term leases ranging from three to five years in length.

The council uses a number of properties for temporary accommodation for its clients; these properties are leased to the council under short term operating leases typically ranging from three to ten years.

The council leases in a number of equipment assets, under operating leases, which are used in educational establishments. The terms of the leases typically range from three to five years.

The following table shows the future minimum lease payments owed by the council under non-cancellable operating leases in future financial years:

<b>Future Minimum Lease Payments under Operating Leases (Lessee)</b>		
	<b>31 March 2016</b>	<b>31 March 2017</b>
	<b>£'000</b>	<b>£'000</b>
Not later than one year	13,091	14,008
Later than one year and not later than five years	26,624	25,109
Later than five years	1,611	2,199
<b>Total Future Minimum Lease Payments</b>	<b>41,326</b>	<b>41,316</b>

In addition to the amount in the above table for payments due within 12 months, the council is also liable to pay £5.374m, within 12 months, in respect of four care service contracts which include lease type arrangements. In each case, the delivery of the contracts requires the use of specific properties. The nature of the service delivery makes it impracticable to separate the lease payments from other payments and therefore the disclosed amount includes payments for non-lease elements.

The expenditure incurred by the council in 2016/17 and charged to the relevant cost of service in the CIES in relation to operating leases was £15.710m (£13.182m 2015/16).

## Council as Lessor - Finance Leases

The council has leased out a number of properties and land which are used by the lessees for a range of purposes; for example, commercial, residential, industrial and recreational purposes. The terms of these leases mainly range from 40 years to 125 years.

There have been no new long term finance leases entered into during 2016/17.

The council has a gross investment value in these leases being the minimum lease payments expected to be received over the remaining terms. The minimum lease payments comprise settlement of the long term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the council in future years whilst the debtor remains outstanding. The gross investment in these leases as at the Balance Sheet date is made up of the following amounts:

Gross Investment in Finance Leases (Lessor)		
	31 March 2016	31 March 2017
	£'000	£'000
Finance lease debtor (net present value of minimum lease payments):		
• Current	5	6
• Non current	6,218	6,212
Unearned finance income	39,599	39,130
<b>Total Gross Investment in the Leases</b>	<b>45,822</b>	<b>45,348</b>

Note: As the current debtor for finance leases is not material, the council has accounted for the whole finance lease debtor as a non-current asset in the financial year.

The following table shows the gross investment in finance leases and the minimum lease payments to be received in future financial years:

Gross Investment in Finance Leases and Minimum Lease Payments under Finance Leases (Lessor)				
	Gross Investment in the Lease		Present Value of Minimum Lease Payments	
	31 March 2016	31 March 2017	31 March 2016	31 March 2017
	£'000	£'000	£'000	£'000
Not later than one year	461	461	5	6
Later than one year and not later than five years	2,305	2,305	33	36
Later than five years	43,056	42,582	6,185	6,176
<b>Total</b>	<b>45,822</b>	<b>45,348</b>	<b>6,223</b>	<b>6,218</b>

Note: the minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews as these are considered immaterial.

## Council as Lessor – Operating Leases

The council has leased out a number of its properties and land under operating leases, these properties and land are used by the lessees for a variety of purposes, such as: offices, residential, commercial, agricultural, industrial and recreational. The term of these leases is typically one to 30 years.

The following table shows the future minimum lease payments owed to the council under non-cancellable operating leases in future financial years are:

Future Minimum Lease Payments under Operating Leases (Lessor)		
	31 March 2016	31 March 2017
	£'000	£'000
Not later than one year	7,291	7,681
Later than one year and not later than five years	20,139	21,619
Later than five years	104,063	105,453
<b>Total Future Minimum Lease Payments</b>	<b>131,493</b>	<b>134,753</b>

Note: The minimum lease payments owed to the council do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments in future rental payments. In 2016/17, £11.561m contingent rents were received by the council (£0.292m 2015/16); the majority of this increase is due to a new lease on land at Gladstone Court, Hartington Road.

## 16 Private Finance Initiative (PFI) and Similar Contracts

The council has three PFI arrangements:

- The council entered into a 25 year contract with Brighton & Hove City Schools Services Limited for the expansion and refurbishment of four secondary schools. The contract commenced in April 2003. In 2005, the contract was varied to reduce the number of schools to three. In March 2010, the council negotiated the removal of "soft services" (ie caretaking, cleaning, catering, grounds maintenance) and utilities from the schools PFI contract;
- In conjunction with East Sussex County Council, the council jointly entered into a 25 year agreement for the provision of an integrated waste management service with South Downs Waste Services Ltd (now trading as Veolia ES South Downs Limited). The agreement commenced in April 2003 and has subsequently been extended by a further five years to 2033;
- The council entered into a 25 year contract with NU Library for Brighton Limited for the provision of a new library and library service which commenced in November 2004.

The extent and level of service provided under the schools PFI and library PFI arrangements are consistent year on year, with any major changes subject to contract variation procedures and periodic benchmarking. Payments under these contracts are therefore unlikely to change significantly year on year. The service provided under the waste PFI arrangement is based on volumes and changes to volumes may well affect the amount payable by the council.

In all cases the council has the right to use the assets provided by the PFI contractor and is entitled to receive the services specified within each contract. Each of the PFI contracts contain a payment mechanism whereby the council only pays for the services it receives. If the PFI contractor fails to provide the service or meet the standards required, the council is entitled to make deductions from the payments due.

On expiry of the contracts the assets created under the PFI arrangements automatically revert to the council at nil consideration. Termination of the contracts prior to the expiry is permitted by either party but only in exceptional circumstances and only after a period of negotiation. There have been no material changes to any of the PFI contracts in 2016/17.

### **Assets Held under PFI Arrangements**

The assets held under the PFI arrangements are recognised on the council's Balance Sheet. The following table shows the value of assets held and an analysis of the movements in those asset values over the financial year:



<b>Assets held under PFI Arrangements</b>				
	<b>Schools PFI Contract</b>	<b>Waste PFI Contract</b>	<b>Library PFI Contract</b>	<b>Total</b>
<b>2016/17</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Balance as at 1 April 2016</b>				
Gross carrying amount	43,442	30,018	12,958	<b>86,418</b>
Accumulated depreciation	(3,878)	(1,400)	0	<b>(5,278)</b>
<b>Net Carrying Amount at 1 April 2016</b>	<b>39,564</b>	<b>28,618</b>	<b>12,958</b>	<b>81,140</b>
<b>Capital additions</b>				
Additions	92	0	0	<b>92</b>
<b>Asset disposals</b>				
Derecognition - disposals	(3,818)	0	0	<b>(3,818)</b>
Derecognition - disposals (depreciation)	3,814	0	0	<b>3,814</b>
<b>Transactions in respect of the surplus on revaluation of non-current assets within the CIES recognised in the revaluation reserve</b>				
Revaluation increases	7,638	1,031	268	<b>8,937</b>
Revaluation losses	(336)	(316)	0	<b>(652)</b>
<b>Transactions charged to the surplus / deficit on the provision of services in the CIES</b>				
Depreciation charge	(1,170)	(1,077)	(259)	<b>(2,506)</b>
Revaluation losses	(858)	(2,291)	0	<b>(3,149)</b>
Reversal of previous revaluation losses	1,042	941	0	<b>1,983</b>
<b>Other transactions</b>				
<b>Net Carrying Amount at 31 March 2017</b>	<b>45,968</b>	<b>26,906</b>	<b>12,967</b>	<b>85,841</b>
Gross carrying amount	45,977	28,519	12,967	<b>87,463</b>
Accumulated depreciation	(9)	(1,613)	0	<b>(1,622)</b>
<b>Net Carrying Amount at 31 March 2017</b>	<b>45,968</b>	<b>26,906</b>	<b>12,967</b>	<b>85,841</b>

The assets held under PFI arrangements are carried as PPE on the Balance Sheet with £85.313m (£69.140m 31 March 2016) classified as other land and buildings and £0.528m (£0.750m 31 March 2016) classified as vehicles, plant and equipment.

<b>Assets held under PFI Arrangements</b>				
	<b>Schools PFI Contract</b>	<b>Waste PFI Contract</b>	<b>Library PFI Contract</b>	<b>Total</b>
<b>2015/16 Comparative Figures</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Balance as at 1 April 2015</b>				
Gross carrying amount	84,728	53,070	12,560	<b>150,358</b>
Accumulated depreciation	(6,327)	(6,260)	(1,022)	<b>(13,609)</b>
<b>Net Carrying Amount at 1 April 2015</b>	<b>78,401</b>	<b>46,810</b>	<b>11,538</b>	<b>136,749</b>
<b>Capital additions</b>				
Additions	260	0	0	<b>260</b>
<b>Transactions in respect of the surplus on revaluation of non-current assets within the CIES recognised in the revaluation reserve</b>				
Revaluation increases	8,783	1,482	2,976	<b>13,241</b>
Revaluation losses	(32,542)	(552)	(163)	<b>(33,257)</b>
<b>Transactions charged to the surplus / deficit on the provision of services in the CIES</b>				
Revaluation increases	0	596	181	<b>777</b>
Depreciation charge	(1,148)	(1,910)	(411)	<b>(3,469)</b>
Revaluation losses	(14,327)	(17,808)	(1,518)	<b>(33,653)</b>
Reversal of previous impairment losses	137	0	355	<b>492</b>
<b>Net Carrying Amount at 31 March 2016</b>	<b>39,564</b>	<b>28,618</b>	<b>12,958</b>	<b>81,140</b>
Gross carrying amount	43,442	30,018	12,958	<b>86,418</b>
Accumulated depreciation	(3,878)	(1,400)	0	<b>(5,278)</b>
<b>Net Carrying Amount at 31 March 2016</b>	<b>39,564</b>	<b>28,618</b>	<b>12,958</b>	<b>81,140</b>

## **Liabilities Resulting from PFI Arrangements**

Although the payments made to the PFI contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital investment and interest payable on the debt used to fund the capital investments. The following table shows the value of liabilities outstanding to pay the contractor for capital investment resulting from the PFI arrangements and an analysis of the movement in those liability values over the financial year:

<b>Liabilities Resulting from PFI Arrangements</b>				
	<b>Schools PFI Contract</b>	<b>Waste PFI Contract</b>	<b>Library PFI Contract</b>	<b>Total</b>
<b>2016/17</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>At 1 April 2016</b>	<b>11,521</b>	<b>36,370</b>	<b>5,980</b>	<b>53,871</b>
Lease repayment	(517)	(1,368)	(241)	<b>(2,126)</b>
<b>At 31 March 2017</b>	<b>11,004</b>	<b>35,002</b>	<b>5,739</b>	<b>51,745</b>

<b>Liabilities Resulting from PFI Arrangements</b>				
	<b>Schools PFI Contract</b>	<b>Waste PFI Contract</b>	<b>Library PFI Contract</b>	<b>Total</b>
<b>2015/16 Comparative Figures</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>At 1 April 2015</b>	<b>11,982</b>	<b>37,661</b>	<b>6,198</b>	<b>55,841</b>
Lease repayment	(461)	(1,291)	(218)	<b>(1,970)</b>
<b>At 31 March 2016</b>	<b>11,521</b>	<b>36,370</b>	<b>5,980</b>	<b>53,871</b>

The above table includes long term liabilities of £49.458m (£51.790m 2015/16) and short term liabilities of £2.287m (£2.081m 2015/16) at 31 March 2017; the long term liability is included in other long term liabilities on the Balance Sheet and the short term liability included in short term creditors.

## Payments Due under PFI Arrangements

The council makes an agreed payment each year in respect of PFI arrangements; the contractual payments for the schools and waste PFI arrangements are based on a projected annual inflation rate of 2.5%. The contractual payments for the library PFI arrangement are based upon a mix of projected inflation rates: retail prices at 2.5%, building maintenance at 4.0% and average earnings at 4.5%.

Schools are responsible for the procurement and payment of “soft services” (ie caretaking, cleaning, catering, grounds maintenance) and these costs are therefore not part of the schools PFI arrangement.

The following table details the payments due to be made by the council under the PFI arrangements at 31 March:

Payments Due under PFI Arrangements				
	Repayment of Liability	Interest Costs	Payment for Services	Total
2016/17	£'000	£'000	£'000	£'000
<b>Schools PFI Contract</b>				
Within 1 year	575	1,143	1,163	2,881
Within 2 to 5 years	2,926	3,931	5,074	11,931
Within 6 to 10 years	5,882	2,833	7,202	15,917
Within 11 to 15 years	1,621	171	615	2,407
<b>Total Payments Due - Schools PFI</b>	<b>11,004</b>	<b>8,078</b>	<b>14,054</b>	<b>33,136</b>
<b>Waste PFI Contract</b>				
Within 1 year	1,451	1,950	8,925	12,326
Within 2 to 5 years	4,584	7,055	40,604	52,243
Within 6 to 10 years	10,827	6,827	54,828	72,482
Within 11 to 15 years	14,651	3,479	62,936	81,066
Within 16 to 20 years	3,489	193	13,729	17,411
<b>Total Payments Due - Waste PFI</b>	<b>35,002</b>	<b>19,504</b>	<b>181,022</b>	<b>235,528</b>
<b>Library PFI Contract</b>				
Within 1 year	261	483	1,775	2,519
Within 2 to 5 years	1,287	2,175	7,120	10,582
Within 6 to 10 years	2,331	1,403	10,746	14,480
Within 11 to 15 years	1,860	319	7,257	9,436
<b>Total Payments Due - Library PFI</b>	<b>5,739</b>	<b>4,380</b>	<b>26,898</b>	<b>37,017</b>
<b>Total PFI Contracts</b>				
Within 1 year	2,287	3,576	11,863	17,726
Within 2 to 5 years	8,797	13,161	52,798	74,756
Within 6 to 10 years	19,040	11,063	72,776	102,879
Within 11 to 15 years	18,132	3,969	70,808	92,909
Within 16 to 20 years	3,489	193	13,729	17,411
<b>Total Payments Due</b>	<b>51,745</b>	<b>31,962</b>	<b>221,974</b>	<b>305,681</b>

<b>Payments Due under PFI Arrangements</b>				
	<b>Repayment of Liability</b>	<b>Interest Costs</b>	<b>Payment for Services</b>	<b>Total</b>
<b>2015/16 Comparative Figures</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Schools PFI Contract</b>				
Within 1 year	517	1,195	1,377	<b>3,089</b>
Within 2 to 5 years	2,647	4,200	4,918	<b>11,765</b>
Within 6 to 10 years	5,293	3,383	7,008	<b>15,684</b>
Within 11 to 15 years	3,064	495	3,050	<b>6,609</b>
<b>Total Payments Due - Schools PFI</b>	<b>11,521</b>	<b>9,273</b>	<b>16,353</b>	<b>37,147</b>
<b>Waste PFI Contract</b>				
Within 1 year	1,368	2,021	8,442	<b>11,831</b>
Within 2 to 5 years	4,245	7,322	37,781	<b>49,348</b>
Within 6 to 10 years	10,179	7,378	50,232	<b>67,789</b>
Within 11 to 15 years	13,800	4,235	57,406	<b>75,441</b>
Within 16 to 20 years	6,778	567	25,211	<b>32,556</b>
<b>Total Payments Due - Waste PFI</b>	<b>36,370</b>	<b>21,523</b>	<b>179,072</b>	<b>236,965</b>
<b>Library PFI Contract</b>				
Within 1 year	241	503	1,728	<b>2,472</b>
Within 2 to 5 years	1,186	1,792	7,399	<b>10,377</b>
Within 6 to 10 years	2,148	1,583	10,456	<b>14,187</b>
Within 11 to 15 years	2,405	521	9,525	<b>12,451</b>
<b>Total Payments Due - Library PFI</b>	<b>5,980</b>	<b>4,399</b>	<b>29,108</b>	<b>39,487</b>
<b>Total PFI Contracts</b>				
Within 1 year	2,126	3,719	11,547	<b>17,392</b>
Within 2 to 5 years	8,078	13,314	50,098	<b>71,490</b>
Within 6 to 10 years	17,620	12,344	67,696	<b>97,660</b>
Within 11 to 15 years	19,269	5,251	69,981	<b>94,501</b>
Within 16 to 20 years	6,778	567	25,211	<b>32,556</b>
<b>Total Payments Due</b>	<b>53,871</b>	<b>35,195</b>	<b>224,533</b>	<b>313,599</b>

The payment for services includes lifecycle payments towards the enhancement and maintenance of PFI assets and inflation. Performance deduction is only included in the above table when it has occurred.

## **17 Contingent Liabilities and Contingent Assets**

The council has a contingent liability in respect of insurance. The council is unable to identify with any accuracy which insurance claims will become payable in the future. Each individual claim is allocated a reserve at the time the claim is first brought against the council in accordance with common practice within the insurance industry. Actual payments can differ from initial estimates due to a number of factors including, but not limited to, the ability to successfully defend claims, the proportion of outstanding claims that become litigated, the level of legal fees and the judge presiding over trials.

An application has been received by the council (and many other local authorities) with regard to claiming mandatory 80% charity relief on hereditaments occupied by NHS foundation trusts backdated to 1 April 2010. It is not clear when any decision will be made on this or whether or not central government would compensate local authorities for some or all of the loss if the application is successful.

The council has a number of immaterial general legal claims which had not been resolved at the Balance Sheet date.

## 18 Related Parties

The council has the following material related party transactions:

### Central Government

Central government has significant influence over the general operations of the council and provides the statutory framework within which the council operates, provides funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (eg council tax, housing benefits, business rates). Details of the general grants and specific grants received from government departments in 2016/17 can be found in note 14. Details of the amounts owed to / from central government are included in notes 11 and 12 respectively.

### Levying Authorities

Other public bodies may levy the council by making a demand on the council tax requirement. For 2016/17, the council paid levies of £214,865 (£210,791 2015/16) to the Environment Agency, the Sussex Inshore Fisheries & Conservation Authority and various enclosure committees. These costs are included in other operating expenditure within the CIES and also include a precept of £43,815 (£43,330 2015/16) for Rottingdean Parish Council.

### Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2016/17 is shown in note 20. During 2016/17, works and services to the value of £11.671m (£22.253m 2015/16) were commissioned from companies in which members have declared an interest. Contracts were entered into in full compliance with the council's standing orders. Details of the entities with whom members are involved are recorded in the Register of Members' Interests which can be found on the council's website under each member.

### Officers

During 2016/17, the council provided Chief Finance Officer (S151), financial and other services to the South Downs National Park Authority (SDNPA) mainly on a contractual basis. During 2016/17, the council received £0.484m (£0.448m 2015/16) in respect of these services. The officers involved in providing S151 and other financial services to SDNPA were not in a position to influence these financial transactions as they were paid in accordance with the agreed contract terms.

### Other Public Bodies (subject to common control by central government)

The council has entered into various Section 75 arrangements with NHS partners for the provision of personal social services and community health care for adults. Transactions in respect of these Section 75 arrangements are detailed in note 27.

### Entities Controlled or Significantly Influenced by the Council

The Sussex Innovation Centre acts as a business incubator and innovation support unit for Sussex and the South East. The council was a minority shareholder in this company but had no control or influence over the centre. The council surrendered to the company its shareholding in 2008/09. The share surrender was conditional upon Sussex University and the company undertaking that the premises and land would not be sold or transferred to a third party, nor a change be made for its usage regarding the purpose for which it was built without consent of the council and also that there would be no change, amendment or alteration made to the company's objects. Under the surrender agreement the university is obliged, until 2034, to indemnify the council, as the accountable body to the South East

England Development Agency (SEEDA), for any repayment of grant in the event of a breach of the obligations as set out in the grant determination and terms of the surrender agreement.

The Brighton Dome & Museum Development Company Ltd is a special purpose vehicle set up for the redevelopment of the Brighton Dome and Museum. The council is a minority (19%) shareholder in this company; Brighton Dome & Festival Ltd is the majority shareholder. The council was one of the funding partners for the Brighton Dome & Museum Development Company Ltd, however the redevelopment is now complete and this company has fulfilled its original purpose. The company will remain in existence for future years but is dormant.

The council nominates two members to sit on the board of trustees of Brighton Dome & Festival Ltd. The trustees are also company members and their liability is limited to £1.

The council nominates two members to serve as directors on the board of Brighton Racecourse Company Ltd. The council is a minority shareholder (19%) in this company.

Brighton & Hove Seaside Community Homes Ltd is a not for profit charitable company set up and funded by a third party independent to the council as a local delivery vehicle to raise investment for improvements to council dwellings. The company was incorporated in March 2009 and has leased 499 empty properties from the council taking them on over a five year period covering November 2011 to 31 March 2017. The primary objectives of the company are not confined solely to the dwellings leased from the council and the company is able, within its charitable objectives and with the approval of its primary funder, to undertake new ventures. The properties are let to homeless households and people with particular needs nominated by the council. The Board membership comprises twelve directors of which the council may nominate up to four members to serve as directors.

The Brighton Open Market Company was formed in March 2011 for the redevelopment of the Open Market site. The council has a limited representation of no more than 19% of the member voting rights or Board Directors to avoid controlled company issues and the members have a limited liability of £1 each. The company is a not for profit company and was converted into a Community Interest Company (CIC) in June 2011. On 4 November 2015, a special Policy & Resources Committee meeting agreed a request from the CIC for a loan of £61,000 to address cash flow difficulties until the CIC moves into profit.

The council has supported the creation of a Local Government Bond Agency which will seek to raise capital funding for local authorities at preferential rates. On 29 September 2014, the council invested £0.025m to buy a shareholding in the company, UK Municipal Bonds Agency plc, and a further £0.025m was invested in the shareholding on 13 October 2015. This investment is shown at the purchase price. The value of the shares will be reviewed as more information becomes available as the Agency develops.

The council provided financial support to the East Sussex Credit Union in April 2016 with a membership deposit of £28,000 and a subordinated loan of £250,000 for the purpose of providing safe, affordable, accessible financial products to some of the city's most financially excluded and at-risk residents. The loan is interest free and repayable in 5 years time.

## 19 Officers' Remuneration

The remuneration paid to the council's senior employees is detailed in the following table:

Senior Employee Remuneration									
	2015/16					2016/17			
	Note	Salary (including Fees & Allowances)	Compensation for loss of office	Pension Contributions	Total Remuneration including Pension Contributions	Salary (including Fees & Allowances)	Compensation for Loss of Office	Pension Contributions	Total Remuneration including Pension Contributions
		£		£	£	£	£	£	£
Chief Executive - G Raw	2	106,452	0	20,022	126,474	162,114	0	30,267	192,381
Chief Executive - P Thompson		68,488	269,226	12,081	349,795	0	0	0	0
Assistant Chief Executive	3	82,200	0	15,504	97,704	0	0	0	0
Executive Director Finance & Resources (section 151 officer)	1f	30,535	0	5,802	36,337	116,665	0	22,389	139,054
Executive Director Adult Services	4	105,600	0	19,950	125,550	78,896	0	8,934	87,830
Executive Director Families, Children & Learning	1a	115,000	0	21,850	136,850	116,480	0	22,417	138,897
Director of Public Health	5	121,615	0	17,305	138,920	72,569	0	10,327	82,896
Executive Director Environment Development & Housing	6	156,287	0	29,471	185,758	53,900	0	10,433	64,333
Head of Legal and Democratic Services	7	88,400	0	16,473	104,873	20,513	0	3,380	23,893
Executive Lead for Strategy Governance & Law	1e	0	0	0	0	76,645	0	14,316	90,961
Executive Director Economy Environment & Culture	1c	0	0	0	0	53,025	0	10,234	63,259
Executive Director Health & Adult Social Care	1b	0	0	0	0	29,038	0	5,604	34,642
Executive Director Neighbourhoods Communities & Housing	1d	0	0	0	0	25,250	0	4,873	30,123
<b>Total</b>		<b>874,577</b>	<b>269,226</b>	<b>158,458</b>	<b>1,302,261</b>	<b>805,095</b>	<b>0</b>	<b>143,174</b>	<b>948,269</b>

Note: no expense allowances were paid in 2016/17 or 2015/16.

## Notes to the "Senior Employee Remuneration" table:

1. During 2016/17, the council reshaped its executive leadership team (ELT) under six new service directorates to ensure it could continue to deliver its priorities with reducing budget resources:

- Families, Children & Learning
- Health & Adult Social Care
- Economy Environment & Culture
- Neighbourhoods Communities & Housing
- Strategy Governance & Law
- Finance & Resources

The reshaping and grouping of functions is designed to align support for strategic priorities and improve the way the council connects with its partners and communications. The changes also aim to streamline decision making and give service directorates clear accountabilities supported by effective corporate governance.

- a) The Executive Director of Children's Services job title changed to Executive Director Families Children & Learning as part of the ELT restructure. The remuneration included a payment of £330 for electoral services. This payment was fully funded from central government.
  - b) The Executive Director Health & Adult Social Care was appointed on 1 January 2017. Prior to this date the post was held on an interim consultancy basis and these costs have not been included in this disclosure.
  - c) The Executive Director Economy Environment & Culture was appointed on 1 October 2016.
  - d) The Executive Director Neighbourhoods Communities & Housing was appointed on 1 January 2017.
  - e) The Executive Lead for Strategy Governance & Law was appointed on 13 June 2016. The remuneration included payments totalling £2,470 for returning officer duties. These payments were fully funded from central government.
  - f) The Executive Director Finance & Resources was appointed on the 4 April 2016. Prior to this it was covered on an acting up basis by the Head of Financial Services and the amount received is included in this note. The remuneration also included payments totalling £660 for electoral services these payments were fully funded from central government.
2. The Chief Executive's (G Raw) total remuneration included payments totalling £11,642 for returning officer duties and these payments were fully funded by central government.
  3. The Assistant Chief Executive post was partly covered by the Head of Legal and Democratic services and was deleted as part of the ELT structure.
  4. The Director of Adult Services retired on 31 August 2016 and this post was covered on an acting up basis from 14 August until 30 November 2016. The remuneration included payments totalling £660 for electoral services. These payments were fully funded from central government. This post was deleted as part of the ELT restructure.
  5. The Director of Public Health was appointed on 1 April 2016 till 31 December 2016 on an acting up basis. The remuneration included a payment of £350 for electoral services. This payment was fully funded from central government. This post was deleted as part of the ELT restructure.
  6. Two employees held the position of Executive Director Environment Development & Housing on an acting up job share basis until 30 September 2016. The remuneration



included payments totalling £660 for electoral services. These payments were fully funded from central government. This post was deleted as part of the ELT restructure.

7. The Head of Legal and Democratic services post was deleted on 12 June 2016 as part of the ELT restructure. The remuneration included a payment of £3,000 for returning officer duties. This payment was fully funded from central government.

## Other Employee Remuneration

The following table provides an analysis of the remuneration paid to other employees receiving more than £50,000 remuneration (excluding employer's pension contributions):

Other Officer Remuneration		
Remuneration Band	2015/16	2016/17
	Number of Employees	Number of Employees
£50,000 - £54,999	95	93
£55,000 - £59,999	57	60
£60,000 - £64,999	31	32
£65,000 - £69,999	13	18
£70,000 - £74,999	11	10
£75,000 - £79,999	10	10
£80,000 - £84,999	3	4
£85,000 - £89,999	4	10
£90,000 - £94,999	3	0
£95,000 - £99,999	1	2
£100,000 - £104,999	1	1
£105,000 - £109,999	0	0
£110,000 - £114,999	0	0
£115,000 - £119,999	0	0
£120,000 - £124,999	0	0
£125,000 - £129,999	1	1
£130,000 - £134,999	0	0
£135,000 - £139,999	0	0
£140,000 - £144,999	1	0

## 20 Members' Allowances and Expenses

During 2016/17, the council paid £0.846m (£0.828m 2015/16) of allowances to members; no expenses for travel / subsistence on approved duties outside the Brighton and Hove City area were claimed by members during 2016/17 (£0.003m 2015/16). Expenses for duties within the city are covered by the allowance paid to members. Details of allowances and expenses paid in 2016/17 are published in a local newspaper and posted on the notice boards outside the town halls in Brighton and Hove and on the council's website, [www.brighton-hove.gov.uk](http://www.brighton-hove.gov.uk).

## 21 Termination Benefits including Exit Packages

The council terminated the contracts of a number of employees during 2016/17, incurring liabilities of £3.537m (£3.320m 2015/16). The figures in the table below include £3.464m in respect of termination benefits and £0.073m in respect of other exit packages and associated costs.

The council made an additional provision of £3.203m in 2016/17 for termination benefits yet to be paid. As a result, the council had a total provision of £1.679m as at 31 March 2017 in respect of committed payments to 84 employees for agreed voluntary redundancy packages. Further details of the voluntary severance provision are included in note 13.

The following table shows the level and costs of exit packages for compulsory and other redundancies agreed in the financial year:

Exit Packages								
Cost Band	Number of Compulsory Redundancies		Number of Other Departures		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
							£'000	£'000
£0 - £20,000	0	0	162	137	162	137	1,403	1160
£20,001 - £40,000	0	0	27	50	27	50	721	1373
£40,001 - £60,000	0	0	7	8	7	8	312	406
£60,001 - £80,000	0	0	6	5	6	5	429	351
£80,001 - £100,000	0	0	2	1	2	1	186	95
£140,001 - £160,000	0	0	0	1	0		0	152
£250,001 - £300,000	0	0	1	0	1	0	269	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>205</b>	<b>202</b>	<b>205</b>	<b>201</b>	<b>3,320</b>	<b>3,537</b>

Note: the costs included in the above table include voluntary redundancy costs, early retirement pension costs and pay in lieu of notice.

## 22 Pension Schemes accounted for as Defined Contribution Schemes

Teachers employed by the council are members of the Teachers' Pensions Scheme, administered by the Teachers' Pensions service on behalf of the Department for Education, and Public Health employees employed by the council are members of the NHS Pension Scheme, administered by the NHS Business Service Authority on behalf of the NHS. The schemes provide employees with specified benefits upon their retirement and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

These schemes are technically defined benefit schemes. However, the schemes are unfunded and the administering authorities use a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The council is not able to identify its share of the underlying financial position and performance of the schemes with sufficient reliability for accounting purposes. For the purpose of the financial statements, the schemes are therefore accounted for on the same basis as defined contribution schemes.

In 2016/17, the authority paid £10.594m (£9.924m 2015/16) to the Teachers' Pensions Scheme in respect of teachers' retirement benefits, representing 16.48% (14.1% from 1 April to 31 August 2015 and 16.48% from 1 September 2015 to 31 March 2016) of pensionable pay. There were no contributions remaining payable at the end of the reporting period. The contributions payable in the next reporting period are estimated at £10.546m.

In 2016/17, the authority paid £0.144m (0.173m 2015/16) to the NHS Business Service Authority in respect of public health employee's retirement benefits, representing 14.3%

(14.3% 2015/16) of pensionable pay. There were no contributions remaining payable at the end of the reporting period. The contributions payable in the next reporting period are estimated at £0.132m

The council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the schemes. These costs are accounted for on a defined benefit basis.

## **23 Defined Benefit Pension Schemes**

Employees of the council are entitled to become members of one of three separate pension schemes according to the terms of their employment:

- the Local Government Pensions Scheme, administered by East Sussex County Council;
- the Teachers' Pension Scheme, administered by Teachers' Pensions on behalf of the Department for Education;
- the National Health Service (NHS) Pension Scheme, administered by the NHS Business Service Authority on behalf of the NHS.

Employees contribute to these schemes and the council also makes contributions towards the cost of post-employment benefits as part of the terms and conditions of employment of its employees. Although these benefits will not actually be payable until employees retire, the council has to disclose the commitment in respect of the future payment of these benefits at the time that the employees earn their future entitlement.

The council participates in the Local Government Pension Scheme (LGPS). East Sussex County Council acts as the scheme administrator of the East Sussex Pension Fund and is responsible for the management and administration of the Fund in line with the scheme regulations. Within the responsibilities of the Scheme Administrator is the requirement to liaise and communicate with employing authorities that participate in the Fund, ensure adequate record keeping in respect of each member of the Fund, to calculate and pay appropriate benefits to members and to produce the required information to comply with disclosure requirements.

The scheme is a funded defined benefit scheme, meaning that the employees and council pay contributions into a Fund, calculated at a level intended to balance the pension liabilities with investment assets.

In addition, the council has arrangements for the award of discretionary post-retirement benefits upon early retirement. This arrangement is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and the council has to generate cash, for example through associated savings on staffing costs, to meet actual pension payments as they eventually fall due.

Hymans Robertson LLP, an independent firm of actuaries, assesses the position of the East Sussex Pension Fund. The calculations and advice given by Hymans Robertson LLP in their actuarial report has been carried out in accordance with the Pensions Technical Actuarial Standard adopted by the Financial Reporting Council, which came into effect on 1 January 2013.

### **Basis for Estimating Assets and Liabilities**

The scheme has been estimated by the actuary based on the latest full valuation of the scheme as at 31 March 2016. Liabilities for the scheme have been assessed on an actuarial basis using the projected unit credit method (ie an estimate of the pensions that will be payable in future financial years dependent on assumptions about mortality rates, salary levels etc).

Actuarial assumptions are used by the actuary to calculate the valuation of the scheme. Risks and uncertainties are inherently associated with the assumptions that are adopted. The assumptions are in effect projections of future investment returns and demographic experience many years into the future and there is inevitably a great deal of uncertainty inherent in what constitutes the “best estimate” with such projections as required by IAS 19 “*Employee Benefits*”. The actuary has interpreted “best estimate” to mean that the proposed assumptions are “neutral” and has advised that there is an equal chance of actual experience being better or worse than the assumptions used.

The following table shows the principal assumptions used by the actuary as at 31 March:

<b>Basis for Estimating Assets and Liabilities</b>		
	<b>31 March 2016</b>	<b>31 March 2017</b>
<b>Long term expected rate of return on assets in the scheme</b>		
Equity investments	3.50%	2.60%
Bonds	3.50%	2.60%
Property	3.50%	2.60%
Cash	3.50%	2.60%
<b>Mortality assumptions</b>		
Longevity at 65 for current pensioners:		
• men	22.2 years	22.1 years
• women	24.4 years	24.4 years
Longevity at 65 for future pensioners:		
• men	24.2 years	23.8 years
• women	26.7 years	26.3 years
<b>Financial assumptions</b>		
Rate of inflation	2.20%	2.40%
Rate of increase in salaries	4.20%	2.80%
Rate of increase in pensions	2.20%	2.40%
Rate for discounting scheme liabilities	3.50%	2.60%
Expected total return on assets	3.50%	2.60%
Take up of option to convert annual pension in retirement grant	*	*

\* Pre April 2008 50% and post April 2008 75%

IAS 19 requires the discount rate to be set with reference to the yields on high quality corporate bonds irrespective of the actual investment strategy of the Fund. As such, the figures prepared by the actuary in their actuarial report are unlikely to reflect either the actual eventual cost of providing the benefits or the likely level of contributions to fund the council’s obligations to the Fund. Also, the net liability position may change significantly due to relative changes in the equity and bond markets at the reporting date.

### **Sensitivity to Assumptions**

The estimation of the defined benefit obligation is also sensitive to the actuarial assumptions used by the actuary:

- the costs of a pension arrangement requires estimates regarding future experience. The financial assumptions used by the actuary are largely prescribed at any point and reflect market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate (essentially the difference between the discount rate and the assumed rates of increase of salaries, deferred pension revaluation or pensions in payment) can have a significant effect on the value of the liabilities reported. In order to quantify the impact of a change in the financial assumptions used, the actuary has calculated and compared the value of the scheme liabilities as at 31 March 2017 on varying bases;

- a reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of similar magnitude;
- there is also uncertainty around life expectancy of the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment. To quantify the uncertainty around life expectancy, the actuary has calculated the difference in cost to the council of a one year increase in life expectancy. For sensitivity purposes, this is assumed to be an increase in the cost of benefits of broadly 3 to 5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (ie if improvements to survival rates predominately apply at younger or older ages).

The following table shows the sensitivities regarding the principle assumptions that show the increase in percentage terms and monetary values that the changes have on the scheme liabilities.

<b>Change in assumptions at 31 March 2017</b>	<b>Approximate % increase to Employer Liability</b>	<b>Approximate monetary amount £'000</b>
0.5% decrease in real discount rate	10.00%	124,157
0.5% increase in salary increase rate	1.00%	17,358
0.5% Increase in pension increase rate	8.00%	105,150

The figures in the above table have been derived based on the membership profile of the council as at the date of the most recent actuarial valuation. The approach taken by the actuary in preparing the sensitivity analysis in the table above is consistent with that adopted in the previous financial year.

### **Transactions relating to Post-Employment Benefits**

The council recognises post-employment benefits in the surplus / deficit on the provision of services within the CIES when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the council is required to make to its General Fund and HRA is based on the cash payable in the financial year rather than the earned post-employment benefits which are therefore reversed out of the General Fund and HRA balances to the pensions reserve and reported in the MiRS.

The following table shows the transactions that have been made in the CIES and MiRS during the financial year in relation to the LGPS:

<b>Transactions relating to Post Employment Benefits in respect of the Local Government Pension Scheme</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
<b>Comprehensive Income and Expenditure Statement (CIES)</b>		
<b>Cost of Services</b>		
<b>Service Cost Comprising:</b>		
Current service cost	34,768	29,481
Past service cost	1,298	754
<b>Financing and Investment Income and Expenditure</b>		
Net interest expense	11,769	9,517
<b>Total Post Employment Benefits charged to the Surplus / Deficit on the Provision of Services</b>	<b>47,835</b>	<b>39,752</b>
<b>Other Post Employment Benefits charged to the CIES</b>		
<b>Remeasurement of the Net Defined Benefit Liability comprising:</b>		
Return on scheme assets (excluding the amount included in the net interest expense)	13,015	(155,522)
Changes in demographic assumptions	0	(16,278)
Changes in financial assumptions	(113,596)	184,332
Other experience adjustments	(14,058)	(41,159)
Adjustment re remeasurements of the pension scheme	62	(293)
<b>Total Post Employment Benefits charged to the CIES</b>	<b>(114,577)</b>	<b>(28,920)</b>
<b>Actual amount charged against the General Fund and HRA balance for pensions</b>		
Employer's contributions payable to the scheme	(25,501)	(26,214)
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the surplus / deficit for the provision of services for post employment benefits	47,835	(39,752)
<b>Net Adjustment to the Pension Reserve</b>	<b>(92,243)</b>	<b>(94,886)</b>

*Note: The remeasurements of the scheme in 2016/17 were £(28.627)m; this is different to the remeasurements recorded in the financial statements of £(28.920)m due to timing differences upon production of the actuarial report.*

## **Assets and Liabilities in relation to Post-Employment Benefits**

The amount included on the Balance Sheet arising from the council's obligation in respect of its defined benefit scheme is shown in the following table:

<b>Pension Assets and Liabilities recognised in the Balance Sheet</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
Present value of the scheme liabilities	(1,087,131)	(1,257,346)
Fair value of scheme assets	816,852	1,002,449
<b>Net Liability arising from Defined Benefit Obligation</b>	<b>(270,279)</b>	<b>(254,897)</b>

### **Pension Scheme Liabilities**

The present value of liabilities shows the underlying commitments that the council has in the long run to pay post-employment benefits. The total liability of £1,257.346m can be split between funded and unfunded equating to £1,220.419m and £36.927m respectively. The council is only required to fund the defined benefits when the pensions are actually paid. The actuary will assess the need to increase contributions over the remaining working life of employees (ie before payments fall due) to make good the deficit on the Fund.

The following table shows a reconciliation of the movements in the present value of the scheme liabilities:

<b>Reconciliation of Present Value of the Pension Scheme Liabilities (Defined Benefit Obligation)</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
<b>Opening Balance at 1 April</b>	<b>(1,162,644)</b>	<b>(1,087,131)</b>
Current service cost	(34,768)	(29,481)
Interest cost	(37,438)	(38,113)
Contributions from scheme participants	(7,816)	(7,617)
<b>Remeasurements:</b>		
Actuarial gain / (loss) arising on changes in demographic assumptions	0	16,278
Changes in financial assumptions	113,596	(184,332)
Other experience adjustments	14,058	41,159
Benefits paid	29,179	32,645
Past service cost	(1,298)	(754)
<b>Balance at 31 March</b>	<b>(1,087,131)</b>	<b>(1,257,346)</b>

The increase in the scheme liabilities is mainly as a result of the change in financial assumptions made by the actuary at 31 March 2017 being less favourable than those made at 31 March 2016. The application of assumptions has resulted in a loss of £184.332m relating to financial assumptions, a gain of £16.278m relating to demographic assumptions and a gain of £41.159m in relation to other experience adjustments.

The following table shows the scheme liabilities in respect of active members, deferred members and pensioner members:

<b>Scheme Liabilities in respect of Active, Deferred and Pensioner Members</b>			
	<b>Liability Split</b>	<b>Liability Split</b>	<b>Weighted Average Duration</b>
<b>2016/17</b>	<b>£'000</b>	<b>%</b>	<b>Years</b>
Active members	521,050	42.7%	23.0
Deferred members	282,088	23.1%	22.9
Pensioner members	417,281	34.2%	11.6
<b>Total</b>	<b>1,220,419</b>	<b>100.0%</b>	<b>18.1</b>

<b>Scheme Liabilities in respect of Active, Deferred and Pensioner Members</b>			
	<b>Liability Split</b>	<b>Liability Split</b>	<b>Weighted Average Duration</b>
<b>2015/16 Comparative Figures</b>	<b>£'000</b>	<b>%</b>	<b>Years</b>
Active members	554,652	52.7%	24.1
Deferred members	188,031	17.8%	23.1
Pensioner members	310,497	29.5%	11.9
<b>Total</b>	<b>1,053,180</b>	<b>100.0%</b>	<b>19.0</b>

*Note: the figures in the above two tables are for the funded obligations only and do not include any unfunded pensioner liabilities. The weighted average durations are as at the previous formal valuation as at 31 March 2016.*

## Pension Scheme Assets

During 2016/17, there has been an increase in the return on the scheme assets of £185.579m. The following table shows a reconciliation of the movements in the fair value of the scheme assets:

<b>Reconciliation of the Movements in the Fair Value of the Pension Scheme Assets</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
<b>Opening Balance at 1 April</b>	<b>800,122</b>	<b>816,852</b>
Interest income	25,669	28,596
<b>Remeasurements:</b>		
Return on scheme assets (excluding the amount included in the net interest expense)	(13,015)	155,522
Contributions from employer	25,439	26,507
Contributions from employees into the scheme	7,816	7,617
Benefits paid	(29,179)	(32,645)
<b>Balance at 31 March</b>	<b>816,852</b>	<b>1,002,449</b>

The scheme assets are broken down into categories that accurately reflect the risks that are faced by the scheme, splitting the assets into two types, those that have a quoted market price in an active market and those that do not. The pension scheme assets comprised:



Proportion of the Fair Value of the Scheme Assets by Category								
	2015/16				2016/17			
	Quoted Prices in Active Markets	Quoted Prices not in Active Markets	Total	% of Total Assets	Quoted Prices in Active Markets	Quoted Prices not in Active Markets	Total	% of Total Assets
	£'000	£'000	£'000	%	£'000	£'000	£'000	%
<b>Equity Securities</b>								
Consumer	14,989.6	4.1	14,993.7	2%	18,677.9	0.0	18,677.9	2%
Manufacturing	9,756.3	8.0	9,764.3	1%	9,883.6	0.0	9,883.6	1%
Energy and utilities	2,107.5	26.1	2,133.6	0%	1,684.5	0.0	1,684.5	0%
Financial institutions	24,136.2	1.7	24,137.9	3%	30,319.4	0.0	30,319.4	3%
Health and care	10,340.4	8.7	10,349.1	1%	17,166.9	0.0	17,166.9	2%
Information technology	12,427.6	1.2	12,428.8	1%	14,285.4	0.0	14,285.4	1%
Other	0.0	4,114.7	4,114.7	1%	1,999.2	3,397.2	5,396.4	1%
<b>Total</b>	<b>73,757.6</b>	<b>4,164.5</b>	<b>77,922.1</b>	<b>9%</b>	<b>94,016.9</b>	<b>3,397.2</b>	<b>97,414.1</b>	<b>10%</b>
<b>Debt Securities</b>								
UK government	0.0	14,860.6	14,860.6	2%	0.0	27,777.2	27,777.2	3%
Other	0.0	15,203.6	15,203.6	2%	1,787.8	0.0	1,787.8	0%
<b>Total</b>	<b>0.0</b>	<b>30,064.2</b>	<b>30,064.2</b>	<b>4%</b>	<b>1,787.8</b>	<b>27,777.2</b>	<b>29,565.0</b>	<b>3%</b>
<b>Real Estate</b>								
UK property	5,177.9	91,574.3	96,752.2	12%	0.0	96,124.0	96,124.0	10%
<b>Total</b>	<b>5,177.9</b>	<b>91,574.3</b>	<b>96,752.2</b>	<b>12%</b>	<b>0.0</b>	<b>96,124.0</b>	<b>96,124.0</b>	<b>10%</b>
<b>Investment Funds and Unit Trusts</b>								
Hedge funds	0.0	885.3	885.3	0%	0.0	1,006.8	1,006.8	0%
Infrastructure	0.0	13,793.7	13,793.7	2%	0.0	11,080.6	11,080.6	1%
Commodities	401.0	0.0	401.0	0%	1,484.3	0.0	1,484.3	0%
Equities	526.2	422,905.0	423,431.2	52%	545,758.3	6,344.0	552,102.3	55%
Bonds	32,519.2	62,325.3	94,844.5	12%	93,817.0	21,827.8	115,644.8	12%
Other	0.0	2,795.1	2,795.1	0%	0.0	1,092.0	1,092.0	0%
<b>Total</b>	<b>33,446.4</b>	<b>502,704.4</b>	<b>536,150.8</b>	<b>66%</b>	<b>641,059.6</b>	<b>41,351.2</b>	<b>682,410.8</b>	<b>68%</b>
<b>Derivatives</b>								
Foreign exchange	0.0	0.0	0.0	0%	0.0	211.1	211.1	0%
<b>Total</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0%</b>	<b>0.0</b>	<b>211.1</b>	<b>211.1</b>	<b>0%</b>
Private Equity	0.0	48,776.0	48,776.0	6%	0.0	57,365.0	57,365.0	6%
Cash and cash equivalents	27,186.7	0.0	27,186.7	3%	25,286.9	14,072.1	39,359.0	4%
<b>Total Assets</b>	<b>139,568.6</b>	<b>677,283.4</b>	<b>816,852.0</b>	<b>100%</b>	<b>762,151.2</b>	<b>240,297.8</b>	<b>1,002,449.0</b>	<b>100%</b>

## Asset and Liability Matching (ALM) Strategy

East Sussex County Council, as the Scheme Administrator of the East Sussex Pension Fund has reported that a well-diversified investment strategy has been agreed, as a way of controlling risk. This applies in two ways:

### Asset Allocation

The strategic investment benchmark is heavily weighted towards equities as the asset class expected to provide the highest return over the medium to long term. There is also a significant exposure to property and infrastructure (ie "real" assets with a different performance cycle to equities) and a small exposure to bonds (which more closely "match" the Fund's liabilities). The allocation to absolute return mandates provides further diversification. Uniquely, within those mandates, the managers of the Fund have the flexibility to alter asset allocation between asset classes.

Within equities, diversification is achieved by investing in different markets across the world, which provides exposure to many different stocks and sectors. The Fund also holds private equity which is expected to lead to higher returns over the longer term, without adding significantly to overall risk (consistent with the objectives of the Fund).

## Manager Structure

The Fund employs a number of managers with differing styles and management approaches. This is a deliberate policy to avoid over dependence on the fortunes of a single manager and to concentrate on managers' particular areas of expertise. All managers are expected to maintain well diversified portfolios.

The investment strategy is monitored annually or more frequently if necessary.

## Impact on the Council's Cash Flows

The objectives of the scheme are set out in East Sussex Pension Fund's Funding Strategy Statement (FSS), dated February 2017. In summary, these are:

- to ensure the long term solvency of the Fund;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long term cash contributions which employers need to pay to the Fund;
- to reflect the different characteristics of different employers in determining contribution rates;
- to use reasonable measures to reduce the risk from an employer defaulting on its pension obligations.

The Fund has agreed a strategy with its actuary to achieve a funding level of 100% over the next 20 years. The funding level for the Fund is monitored on a regular basis. The next triennial valuation is due to be completed on 31 March 2019.

The contributions paid by the council are set by the Fund actuary at each triennial actuarial valuation or at any other time as instructed to do so by the Fund. The contributions payable over the period to 31 March 2017 are set out in the Rates and Adjustments certificate. For further details on the approach adopted to set contribution rates for the council, please refer to the 2016 actuarial valuation report dated 30 March 2017, which can be found on East Sussex County Council's website, [www.eastsussex.gov.uk](http://www.eastsussex.gov.uk).

The total contributions expected to be made to the Local Government Pension Scheme by the council in the financial year to 31 March 2018 will be in the region of £23.910m.

An analysis of the projected amount to be charged to the CIES for the financial year to 31 March 2018 is shown below:

<b>Projected Defined Benefit Cost for the Period Ended 31 March 2018</b>			
	<b>Assets</b>	<b>Liabilities</b>	<b>Net Liability</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Projected current service cost	0	(45,356)	<b>(45,356)</b>
<b>Total Service Cost</b>	<b>0</b>	<b>(45,356)</b>	<b>(45,356)</b>
Interest income on scheme assets	26,104	0	<b>26,104</b>
Interest cost on scheme liabilities	0	(32,977)	<b>(32,977)</b>
<b>Total Net Interest Cost</b>	<b>26,104</b>	<b>(32,977)</b>	<b>(6,873)</b>
<b>Total Charge to CIES</b>	<b>26,104</b>	<b>(78,333)</b>	<b>(52,229)</b>

The weighted average duration (ie the weighted average time until payment of all expected future discounted cash flows, determined based on membership and the financial and demographic assumptions as at the date of the 2016 actuarial valuation) of the defined benefit obligation for scheme members is 18.1 years for 2016/17 (19 years 2015/16).

## 24 External Audit Costs

In 2016/17, the council incurred the following costs in relation to the audit of the financial statements and the certification of grant claims and returns:

External Audit Costs		
	2015/16	2016/17
	£'000	£'000
Fees payable to the external auditor with regard to external audit services carried out by the appointed auditor	163	165
Fees payable to the external auditor for the certification of grant claims and returns	18	14
<b>Total</b>	<b>181</b>	<b>179</b>

## 25 Publicity

Under Section 5 of the Local Government Act 1986, a local authority is required to keep a separate account of its expenditure on publicity. Publicity is defined in the Act as "any communication, in whatever form, addressed to the public at large or to a section of the public".

The following table shows the expenditure on publicity:

Publicity		
	2015/16	2016/17
	£	£
Recruitment advertising	328,957	253,243
Housing services	11,006	10,057
Public transport	48,600	69,937
Projects and venues	102,093	196,817
Tourism	96,381	77,844
Children's social care	10,707	17,102
Waste collection	44,397	17,375
Road safety	26,114	0
Other publicity and marketing	127,528	154,737
<b>Total</b>	<b>795,783</b>	<b>797,112</b>

## 26 Agency Services

Under various statutory powers, the council may have arrangements with other local authorities and government departments to do work on their behalf. The council has the following significant agency arrangements:

### Council Tax

The council, as a billing authority for council tax, acts as an agent on behalf of the Sussex Police & Crime Commissioner and the East Sussex Fire Authority. The council has included a creditor of £0.232m (£0.378m 2015/16) for council tax income collected as an agent but which has not yet been paid to the two preceptors as at 31 March 2017.

### Non Domestic Rates (NDR)

The council, as a billing authority for non-domestic rates, acts as an agent on behalf of central government and the East Sussex Fire Authority. The cash collected by the council from non-domestic rates taxpayers belongs proportionately to the council, central government (by means of its central share) and the precepting authority. The council has recognised a creditor of £1.700m (£1.126m 2015/16) for cash collected from non-domestic rates taxpayers as an

agent for central government and the precepting authority, but which has not yet been paid to central government and the precepting authority as at 31 March 2017.

The Collection Fund Statement and note 30 provide more detail in respect of income and expenditure in relation to these agency services.

## 27 Section 75 (S75) Arrangements

Under Section 75 (S75) of the National Health Service Act 2006, National Health Service (NHS) bodies and local authorities can form partnership arrangements for lead commissioning, integrated provision of services or pooled budgets. During 2016/17, the council was party to the following S75 arrangements:

### Adult Social Care

With effect from 1 April 2002, some adult social care services have been provided within the geographical area covered by the council under a partnership arrangement between the council, Brighton and Hove Clinical Commissioning Group (CCG) (from 1 April 2013), the Sussex Community Trust (SCT) and the Sussex Partnership Foundation Trust (SPFT). The CCG act as lead commissioner for short term services, mental health and dementia services, the council was the lead for the community equipment store up to 30 September 2015 when this service transferred under the Better Care Fund. SCT were the lead provider for the community equipment store until 30th September 2015 when the contract was outsourced, whilst SPFT are the lead provider for mental health and dementia services.

The council made a commissioning contribution of £11.676m (£12.130m 2015/16) to this S75 arrangement in 2016/17. This contribution is reflected in the health & adult social care cost of service within the CIES.

The gross income to the partnerships in 2016/17 is £16.105m (£31.664m 2015/16) including CCG commissioning contributions. This has been expended by lead providers as follows:

Section 75 - Adult Social Care		
	2015/16	2016/17
	£'000	£'000
Sussex Community Trust	5,077	0
Sussex Partnership Foundation Trust	22,455	428
Brighton & Hove City Council	1,909	12,277
Brighton & Hove Clinical Commissioning Group	0	3,400
Other providers	2,223	0
<b>Total</b>	<b>31,664</b>	<b>16,105</b>

*Note: The contribution of £11.676m reflects the gross funding provided by the council to the S75 arrangement whereas the expenditure figures included in the above table reflect the expenditure for the service areas provided by each party.*

### Better Care Fund (Adult Social Care)

The Better Care Fund has been established by the Government to provide funds to local areas to support the integration of health and social care and to seek to achieve national conditions and local objectives. It is a requirement of the Better Care Fund that the council and the Brighton and Hove Clinical Commissioning Group (CCG) establish a pool fund for this purpose. The CCG is the host partner for the pool fund arrangement.

With effect from 1 April 2015, some adult social care services, covering the geographical area of the council, have been provided under the Brighton & Hove Better Care Fund partnership arrangement. The CCG acts as the lead commissioner for proactive care services, integrated primary care teams, homeless projects and dementia services. The council is the lead

commissioner for the community equipment store (from 1 October 2015), protecting social care function, carers and keeping people well services. Although there are lead commissioners for services, all decisions are made jointly by both organisations and signed off by the Better Care Board, therefore the council accounts for the transactions on a net accounting basis.

The gross income to the partnership in 2016/17 was £20.543m (£20.085m 2015/16) as shown in the following table:

<b>Better Care Fund</b>		
	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
Brighton & Hove City Council	(1,833)	(2,070)
Brighton and Hove Clinical Commissioning Group	(18,252)	(18,473)
<b>Total</b>	<b>(20,085)</b>	<b>(20,543)</b>

The council's contribution is reflected in the health & adult social care cost of service within the CIES.

The following table shows the memorandum account which records the transactions with the pool fund:

<b>Better Care Fund - Memorandum Account</b>			
<b>2016/17</b>	<b>CCG</b>	<b>Council</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Income and Expenditure</b>			
Contribution to the pooled budget	(18,473)	(2,070)	<b>(20,543)</b>
Net expenditure from the pooled budget	11,161	9,382	<b>20,543</b>
<b>Surplus / (deficit) to be shared across parties to the pooled budget</b>			<b>0</b>
<b>Balance Sheet</b>			
Contribution to the pooled budget	(18,473)	(2,070)	<b>(20,543)</b>
<b>Total spend</b>	<b>(18,473)</b>	<b>(2,070)</b>	<b>(20,543)</b>
Cash	19,786	1,425	<b>21,211</b>
Debtors	0	932	<b>932</b>
Creditors	(1,313)	(287)	<b>(1,600)</b>
<b>Cumulative surplus / (deficit)</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>Better Care Fund - Memorandum Account</b>			
<b>2015/16 Comparative Figures</b>	<b>CCG</b>	<b>Council</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Income and Expenditure</b>			
Contribution to the pooled budget	(18,252)	(1,833)	<b>(20,085)</b>
Net expenditure from the pooled budget	12,282	7,803	<b>20,085</b>
<b>Surplus / (deficit) to be shared across parties to the pooled budget</b>			<b>0</b>
<b>Balance Sheet</b>			
Contribution to the pooled budget	(18,252)	(1,833)	<b>(20,085)</b>
<b>Total spend</b>	<b>(18,252)</b>	<b>(1,833)</b>	<b>(20,085)</b>
Cash	18,831	1,772	<b>20,603</b>
Debtors	0	61	<b>61</b>
Creditors	(579)	0	<b>(579)</b>
<b>Cumulative surplus / (deficit)</b>	<b>0</b>	<b>0</b>	<b>0</b>

## 28 HRA Rent Arrears

At 31 March 2017, arrears of dwellings rent (excluding housing benefit overpayments) amounted to £1.129m (£1.312m 31 March 2016). This represents a decrease in arrears as a proportion of gross rental income from 2.54% to 2.21%.

The following table shows the aggregate provision made by the council in respect of uncollectable debts:

Rent Arrears and other Bad Debts written off		
	2015/16	2016/17
	£'000	£'000
<b>Impairment at 1 April</b>	<b>1,098</b>	<b>1,002</b>
Change in impairment charged to the HRA	147	429
Rent arrears and other bad debts written off	(243)	(262)
<b>Impairment for Bad Debts at 31 March</b>	<b>1,002</b>	<b>1,169</b>

## 29 Collection Fund - Council Tax

Council tax income derives from charges raised according to the value of residential properties, which have been divided into eight valuation bands using 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Sussex Police & Crime Commissioner, the East Sussex Fire Authority and the council for the forthcoming financial year and dividing this by the council tax base. The council's tax base was calculated as follows:

Council Tax Base				
Band	Estimated number of Chargeable Dwellings	Estimated number of Chargeable Dwellings after Discounts	Band Ratio	Band D Equivalent Dwellings
Band A*	30	24.75	5/9	13.80
Band A	25,913	16,532.50	6/9	11,021.70
Band B	27,613	20,071.25	7/9	15,611.00
Band C	31,309	25,340.25	8/9	22,524.70
Band D	18,514	16,226.75	9/9	16,226.75
Band E	10,660	9,729.25	11/9	11,891.30
Band F	4,468	4,158.25	13/9	6,006.40
Band G	2,604	2,455.25	15/9	4,092.10
Band H	153	143.75	18/9	287.50
				<b>87,675.25</b>
Less provision for losses in collection				(1,502.30)
<b>Tax Base for 2016/17</b>				<b>86,172.95</b>
<b>Tax Base for 2015/16</b>				<b>83,633.50</b>

\* Entitled to disabled relief reduction.

The estimated gross council tax yield (before the provision for losses in collection) for 2016/17 of £142.777m was based on Band D equivalent dwellings of 87,675.25 multiplied by the average Band D council tax charge of £1,628.48. The actual gross council tax yield for 2016/17 of £143.178m is equivalent to an increase of 246 Band D dwellings. The estimated and actual tax base amounts will vary due to a number of factors; these include the effects of banding appeals, new properties and entitlements to exemptions and discounts. The main reasons for the increase in the tax base in 2016/17 being greater than forecast reduction in

council tax reduction awards as a result of reducing caseload and increased income from new properties and banding changes.

### 30 Collection Fund – Non-Domestic Rates

The council is responsible for collecting non-domestic rates in Brighton and Hove. Under the Business Rates Retention Scheme, the council is allowed to retain 49% of the non-domestic rates income it collects. Of the remainder 50% is paid over to central government and 1% to the East Sussex Fire Authority.

Non-domestic rates are charged on the basis of the rateable value for business premises multiplied by a non-domestic multiplier. The total non-domestic rateable value at 31 March 2017 was £265.580m (£266.437m at 31 March 2016). The non-domestic multiplier for 2016/17 was 49.7p (49.3p 2015/16) and the small business non domestic multiplier was 48.4p (48.0p 2015/16).

### 31 Trust Funds

The council acts as trustee for various trust funds. The balances on these funds are excluded from the council’s Balance Sheet. The following table shows the balances held by each trust fund:

Trust Fund Accounts					
Capital Market Value		Revenue Balance 01 April 2016	2016/17 Expenditure	2016/17 Income	Revenue Balance 31 March 2017
£'000		£'000	£'000	£'000	£'000
1,450	Brighton Fund	(91)	31	(50)	(110)
3,154	Gorham’s Gift	56	343	(600)	(201)
791	Hedgcock Bequest	(133)	25	(55)	(163)
382	Oliver and Johannah Brown Fund	(44)	12	(14)	(46)
92	Royal Pavilion and Museums Foundation	(1,212)	394	(231)	(1,049)
	<b>Other Trusts</b>				
463	Education	(49)	9	(16)	(56)
151	Music Trust	(47)	30	(20)	(37)
269	Various Libraries and Museums Bequests	(183)	0	(14)	(197)
<b>6,752</b>	<b>Total</b>	<b>(1,703)</b>	<b>844</b>	<b>(1,000)</b>	<b>(1,859)</b>

The capital market value shows the valuation of Charities Official Investment Fund (COIF) shares and other investments at the mid-market prices at 31 March 2017. The council acts as the sole trustee in respect of all funds listed with the exceptions of Gorham’s Gift and the Royal Pavilion and Museums Foundation.

#### Brighton Fund

The objectives of the Brighton Fund are to help the relief of persons in the Brighton and Hove area who are in need, hardship or distress. 70% of grants given are to those over 60 years of age.

#### Gorham’s Gift

The Gorham’s Gift Trust was set up by a wealthy landowner to help maintain the village of Telscombe and the neighbouring area. The investment property for Gorham’s Gift is included in the capital market value and was valued at £2.713m as at August 2014. During 2016/17, a

major project took place to convert the Bank cottage which had been previously used as a youth hostel back into 3 cottages, investments were sold to pay for these costs.

### **Hedgcock Bequest**

The Hedgcock Bequest awards small grants to formally constituted not for profit organisations, the majority of which are small community groups.

### **Oliver and Johannah Brown Fund**

The Oliver and Johannah Brown Fund awards grants to residents of Brighton and Hove under the age of 25 who require financial assistance to pursue a recognised course of study where no other form of grant is available. The fund can also assist with materials, clothes and equipment and other costs for those about to enter into an apprenticeship.

### **Royal Pavilion and Museums Foundation**

The purpose of the Royal Pavilion and Museums Foundation is to advance appreciation in the arts and sciences by acquiring suitable objects and works of art for display in the museums and art galleries of Brighton. The capital market value of £92,000 relates to community assets.

### **Education Trust**

The Education Trust consists of several small charities that award small grants for educational purposes.

### **Music Trust**

The purpose of the Music Trust is to advance education by promoting the study and practice of music among students of all ages within the Brighton and Hove area.

### **Various Libraries and Museums Bequests**

These relate to various small bequests made to Brighton and Hove libraries and museums which have conditions attached to their use.



# Appendix 1 - Information on Operating Segments

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The council is operationally managed by six directorates; their main responsibilities are:

**Family, Children & Learning** commissions, procures and provides a wide range of social care and educational services for children, young people and adults with learning disabilities, often in partnership with other agencies. The directorate is split into four main divisions: Health, SEN & Disability Services; Education and Skills; Children's Safeguarding & Care and Quality Assurance & Performance. The directorate includes education and schools services and works on a multi-agency basis with many partners including health services. Significant service areas include Sure Start and early years services, fostering and adoption; social work, safeguarding and child protection, looking after children in care, youth services, leadership of the education function and school advisory services and nursing, residential, home care and other support for adults with learning disabilities.

**Health & Adult Social Care** commissions, procures and provides a wide range of social care services for adults, including supported living services, residential care, day services and day options, telecare and respite services. Services are provided to frail older people, those with physical disabilities, and those with mental health issues as well as other vulnerable groups such as those with drug or alcohol problems. Significant service areas include assessment services, hospital and community social work and help for people to remain in their own homes including intensive home care, respite care, occupational therapy and home adaptations. In addition, the directorate promotes greater health equality across the city and commissions services to improve health and wellbeing covering the following areas: drugs and alcohol, obesity and nutrition, smoking cessation, sexual health, mental well being, child health including parenting and healthy communities and work places.

The **Economy, Environment & Culture** directorate commissions, procures and provides a range of infrastructure services including planning, transport, and economic development and regeneration. The directorate also provides refuse collection and recycling services and manages the city's parks, Brighton Centre, seafront, Royal Pavilion and museums, and sports & leisure facilities. Other significant service areas include building and development control, highways, transport management and planning and the management of waste disposal. The directorate includes the property and design service which includes the council's commercial and rural property portfolio.

The **Neighbourhoods, Communities and Housing** (NCH) directorate focuses on developing closer and better relationships with communities, driving improvement in customer satisfaction and developing the council's working with public service partners. This includes delivering a step change in partnership working with the third sector and enhancements in volunteering opportunities. The directorate includes housing services, libraries, regulatory services (environmental health, licensing, emergency planning and trading standards), community safety and the Community, Equalities and Third Sector team.

**Finance & Resources** includes a wide range of business support functions to ensure that the council operates within effective and robust internal control and risk management frameworks. Business and statutory processes and requirements are supported including financial services, human resources and ICT. The Finance & Resources directorate also includes customer service centres and receptions and revenues and benefits services for collecting council tax and business rates and the administration of housing benefits and the Council Tax Reduction Scheme.

**Strategy, Governance and Law** supports the council's leadership in understanding the needs of the city, and ensuring a high performing, modern and resilient council. Legal services advises officers and members on legal matters covering all areas of the council's responsibilities and democratic services ensures the smooth and efficient management of the decision-making processes of the council. Corporate policy services ensure appropriate responses to national legislative changes and initiatives as well as helping the council to undertake consultation and engagement, and meet its equalities duties. The communications service promotes open and transparent internal and external communications and information and develops campaigns for the promotion or reputational management of the council and / or its services. The directorate also contains the Performance, Improvement and Programmes team which supports organisational change and life events services such as registrars and the Woodvale crematorium.

For management and reporting purposes there are three other areas for which discrete financial information is held including:

**Corporate Services:** these centrally managed areas include the financing costs of the council's debt, the concessionary fares scheme, and the costs of corporate council management. It also includes income from non- ring fenced government grants.

The **Housing Revenue Account (HRA):** the HRA covers the housing management service which is responsible for the management and maintenance of council housing and the procurement and provision of services to tenants and leaseholders. The three main sections include: Property and Investment which cover asset management, partnership management, contract monitoring and compliance; Tenancy Services, which covers sheltered services, estates services, rehousing and tenancy management; and, Income, Involvement and Improvement, which covers customer service, performance and improvement, resident involvement, income management, leasehold management, inclusion, car parks and garages.

The **Dedicated Schools Grant (DSG)** is a ring fenced grant and is split into three blocks – Schools Block funding schools, academies and free schools; High Needs Block funding special schools and supporting 0-19 pupils with SEN and the Early Years Block , funding two, three and four year olds in early years settings. The grant is allocated each year by the Department for Education's Education Funding Agency.

# Appendix 2 - Information on Heritage Assets

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## **The Royal Pavilion**

The Royal Pavilion was built for the Prince Regent, later King George IV in stages between 1787 and 1823.

A quinquennial inspection is undertaken of the Royal Pavilion by specialist external architectural advisors to provide a condition report on the state of the fabric of this grade 1 listed building and identify works that need to be undertaken. A major five year programme of repairs to the stonework and associated redecorations was undertaken following identification of corrosion in the stonework in one of the ensuing quinquennial reports. The work was completed in 2010. The most recent quinquennial inspection took account of this work and identified further areas for action which is used to inform the Royal Pavilion's annual planned maintenance programme. In addition to the quinquennial inspection, the council's conservation and historic buildings teams undertake regular inspections and carry out day to day repairs, conservation and remedial works to ensure the long term preservation of this historic asset. Alongside this there is a programme of restoration and conservation of the historic interiors undertaken by specialist conservators attending to decorative surfaces and the fixtures as well as close monitoring and programmes of improvement to control the environmental conditions within the building. The Royal Pavilion is closed for five days annually to allow programmes of conservation and maintenance work to be undertaken which cannot be carried out whilst open to the public.

The Royal Pavilion can be accessed by the public between 9.30am and 5.45pm during April to September and between 10am and 5.15pm during October to March. It is closed on 24 December from 2.30pm and on 25 and 26 December all day.

## **The Volks Railway**

The Volks Railway is the world's oldest electric railway. It was designed and built by Magnus Volk who was a 19<sup>th</sup> century inventor and engineer. On 4 August 1883, the electric railway was formally opened on Brighton seafront. In 1884, the line was extended.

In 1947, following a forced closure as a result of WWII, the Brighton Corporation, which became the council, took over the railway and restored it with the line re-opening in 1948. The railway has remained under the council's control since this time.

The railway is looked after by a small team of permanent staff which is supplemented in the summer with seasonal train drivers and cashiers. The railway runs daily during each summer season and access is also permitted by appointment.

There is no policy document in place that covers the 'acquisition, preservation, management and disposal' of the Volks Railway.

The Council has successfully secured £1.650m funding from the Heritage Lottery Fund to restore the railway. Work will include restoring three original carriages, creating a conservation workshop including a public viewing gallery and replacing the existing west end station with a new station, visitors centre and café. Work is scheduled for completion early summer 2017.

## **West Blatchington Windmill**

West Blatchington Windmill was built circa 1820. The design is of the style known as a 'Smock' Mill due to the resemblance in silhouette, to the garment worn by the millers and shepherds of

that period. Normally eight sided, the Mill is only six sided and, along with many other features, is unique in the milling world.

The Mill stands isolated on a central island and in 1979 the building was opened to the public after extensive renovation and restoration by both the council and a group of volunteers.

During 1997, the north barn was, in part, reconstructed affording more space with seating, tables and video viewing facilities plus a small kitchen for visitor refreshments. The fabric of this Grade 2 listed windmill is maintained by the council with the internal restoration, purchase and display of exhibits and opening to visitors carried out by the Friends of West Blatchington Windmill.

In 1999, a major restoration of the exterior was undertaken thereby ensuring the preservation of the Mill.

Although regular opening to the public is restricted to Sunday and Bank Holiday afternoons from May to September, school parties and other groups are shown round at other times by appointment.

## **Rottingdean Windmill**

It is believed that this 'Smock' Mill was erected on Beacon Hill in 1802. In 1923, the Marquess of Abergavenny, Lord of the Manor, granted a 99 year lease of the Mill and a small piece of land around it, to the trustees for the village. The trustees undertook "not to alter or detract from the picturesque appearance of the Mill and to preserve the same as an object of interest to the inhabitants and visitors to Rottingdean and district".

When Rottingdean was absorbed into Brighton Borough in 1928, the Corporation acquired all the down land to the west side of the village from the Abergavenny estate, including the lease of the windmill.

When the Rottingdean Preservation Society was formed as a charitable trust in 1960, the trusteeship for the Mill was vested in members of the Society. Since that time the Society has carried the risks of the outstanding full repairing lease.

At the beginning of the millennium, it was evident that the strong south westerly winds had taken their toll on the sweeps and stocks and they were in need of replacement. The Rottingdean Preservation Society made a successful bid to the Heritage Lottery Fund and received a grant towards the work on this Grade 2 listed landmark.

In acknowledgement of the Heritage Lottery Fund support, the windmill is open to the public on special days.

The lease and trusteeship expire in 2021 at which time responsibility for the Mill will revert to the council.

## **Collections and Rare Books**

The Collections heritage assets consist of the following:

- Decorative Art - Designated collection comprising 17th - 21st Century British, European and American applied art and industrial design. The collection also includes furniture and furnishing textiles, clocks and watches, metalwork and jewellery, glass and ceramics, also some Oriental and Islamic wares made for the European market and contemporary craft, including the Arts Council (South East) Craft Collection, which comprises work in all media by makers living or working in the South East region;
- Natural Sciences - Designated collection covering local, British and international zoological, botanical and geological material, manuscripts and records including the Booth collection of British birds, insect collections (especially Lepidoptera) osteology, birds' eggs, herbaria, molluscs and local marine and chalk fossils;

- World Art - Designated collection including mid 19th - 21st Century objects, textiles, photographs, reference material, books, archives and testimony relating to Africa, Asia, Oceania and America. The collection also includes some archaeological and European folk material;
- Musical Instruments - European and World Art instruments from the 18th - 20th Century;
- Fine Art - European Old masters in particular from the Italian, Netherlandish, German and French schools, 18th - 20th Century, British watercolours, 17th - 20th Century European prints, 16th - 20th Century British oil paintings, the Heyer Bequest of 20th Century American paintings and topographical material relating to the history of Brighton, Hove and the immediate locality, including renowned personalities and events;
- Costume and Textiles - British, West European and North American men's, women's and children's costume and accessories from the mid 18th Century to the present day, costumes from Les Ballets 1933 and some European national costumes and needlework, samplers and quilts from the mid 18th Century to the present day;
- Toys - British and European 18th - 21st Century toys, dolls and dolls' houses including examples that represent particular cultural or ethnic groups;
- Film and Media - Lantern slides, material and equipment relating to the film industry in England 1896-1930 and material and equipment relating to the cinema in SE England 1896 to the present day;
- Edged Weapons and Firearms - 14th - 20th Century British and European material;
- Local and Social History - 18th - 21st Century artefacts, ephemera, oral history, photographs and negatives, British 18th - 20th Century domestic and agricultural tools and equipment, and fire engine. The collection also includes the Sussex Collection of reference material, books, journals, newspapers, ephemera and documentary archives in the Brighton History Centre;
- Archaeology - Palaeolithic to Medieval material predominantly from Brighton and Hove and international material including significant Egyptian items;
- Numismatics - Classical Greek and Roman, Celtic, Anglo-Saxon, Medieval material through to the present, including medals and trade tokens;
- Oral History - Oral histories illustrative of an individual's experience of Brighton and Hove and histories related to the following collections: local and social history, world art, costume, craft, toys, film and media;
- Education - Material used for handling and demonstration;
- Preston Manor - Furniture, silver, ceramics, glass and pictures bequeathed with the house in 1932, the Macquoid collection comprising furniture, silver, ceramics, pictures, and 400 books with rare editions by Sussex authors and social history items in the servants' quarters;
- Royal Pavilion - Decorative arts of the Regency period and original furniture and fittings from the Royal Pavilion, portraits, artefacts and documents related to George IV and his circle, particularly in relation to Brighton and archival material relevant to the development of the Royal Pavilion Estate;
- Rare Books – a collection of 45,000 items in the Jubilee Library which range from medieval manuscripts and incunabula to autograph letters.

The policy for the acquisition, preservation, management and disposal of collection heritage assets was originally drafted in 2005 and remains under review.

Between 3.5% and 5% of the collections are on display at any one time. The remaining items are held in secure storage but access is permitted by prior arrangement.

## Appendix 3 - 2016/17 Corporate KPIs mapped to Corporate Plan 2015/19

Ref	Indicator	Frequency	Mapped to Corporate Plan 2015/19
<b>Families Children and Learning</b>			
1	Schools are judged to be good or outstanding by OFSTED	Quarterly	<p>Children &amp; Young People 1: Providing high quality education that creates skills for work.</p> <p>Also</p> <p>Economy, Jobs and Housing 2: Improving local educational attainment and local access to skills training so that everyone can benefit from economic prosperity.</p>
2	Overall absence in maintained and academy primary and secondary schools	Quarterly (Termly)	
3	Young people 16 – 18 not in education, employment or training	Annual	
4	Children in care at the end of KS4 achieving 5+ A-C including English and Maths	Annual	
5	Percentage of former relevant young people (care leavers) aged 19,20 and 21 who were in education, employment or training	Annual	
6	Special Educational Needs pupils: 5+ A* to C grades in GCSEs including English and Maths	Annual	
7	Stronger Families Stronger Communities [SFSC] families 'turned around'	Quarterly	
8	Re-referrals to the Multi Agency Safeguarding Hub and Assessment Centre	Monthly	
9	Free School Meals Pupils: Key Stage 2 achieving the 'expected standard' in Reading, Writing and Maths (with value added progress in position statement)	Annual	
10	Free School Meals Pupils: Attainment 8 (with Progress 8 and % A*-C in English and Maths in position statement)	Annual	
11	Children in care at the end of KS4: Attainment 8 (with Progress 8 and % A*-C in English and Maths in position statement)	Annual	
12	All Pupils: Key Stage 2 percentage achieving the 'expected standard' in Reading, Writing and Maths	Annual	
13	All Pupils: Attainment 8 (with Progress * and % A*-C in English and Maths in position statement)	Annual	

Ref	Indicator	Frequency	Mapped to Corporate Plan 2015/19
<b>Families Children and Learning</b>			
14	Number of apprentices employed by the council	Quarterly	
15	Reduce the number of first time entrants to the youth justice system	Quarterly	Community Safety and Resilience 2: Reducing risk and harm for those who are subjected to crime and disorder and working to address the risk factors and behaviours of perpetrators.
16	Children in care (Looked After Children)	Quarterly	
17	Children who were the subject of a child protection plan per 10,000	Quarterly	Children and Young People 4: Creating the best opportunities for children and young people in care, fulfilling the role as a council of good corporate parent.
18	Percentage of children placed in foster care that are placed in house	Monthly	
19	Children who receive 2-2.5 year health visiting review	Quarterly	Children and Young People 5: Ensuring that, where children and families require support, the council provides early help services that make a difference.
20	Special Educational Needs Pupils: Key Stage 2 percentage achieving the 'expected standard' in Reading, Writing and Maths (with value added progress in position statement)	Annual	Children and Young People 6: Working in strong partnerships across the city, for example in relation to integrated services for children with special educational needs or with a disability.

Ref	Indicator	Frequency	Mapped to Corporate Plan 2015/19
<b>Neighbourhoods Communities and Housing</b>			
1	The percentage of people feeling safe in the daytime in their local area (City Tracker)	Annual	Community Safety and Resilience 4: Maintaining physically safe and inclusive neighbourhoods that encourage community activity and social action, making the most of the city's open spaces and ensuring road safety.
2	The percentage of people feeling safe after dark in their local area (City Tracker)	Annual	
3	Violent crimes with injury (proxy for alcohol related crime)	Quarterly	Community Safety and Resilience 1: Working with and empowering communities to prevent crime and disorder, including discrimination, hate crime, anti social behaviour and domestic and sexual violence.
4	Nitrogen dioxide levels in Brighton and Hove ( $\mu\text{g}/\text{m}^3$ - micrograms per cubic meter) Lewes Road	Quarterly	Environmental Sustainability 4: Improving the sustainability of the council's transport infrastructure and reducing the need to travel through improved digital infrastructure.
5	Nitrogen dioxide levels in Brighton and Hove ( $\mu\text{g}/\text{m}^3$ - micrograms per	Quarterly	

Ref	Indicator	Frequency	Mapped to Corporate Plan 2015/19
<b>Neighbourhoods Communities and Housing</b>			
	cubic meter) North Street		
6	Smoking prevalence among over 18's	Annual	Health and Well Being 1: Promoting healthy choices and lifestyles to prevent long term health conditions.
7	Residents that very strongly or fairly strongly feel they belong to their immediate neighbourhood (City Tracker)	Annual	Community Safety and Resilience 3: Protecting communities and victims, promoting good relations between communities and diverse groups.
8	Residents that definitely or tend to agree that your local area is a place where people from different backgrounds get on well together (City Tracker)	Annual	
9	Number of affordable homes delivered per year - new build and conversions	Annual	Economy, Jobs and Housing 3: Bringing about quality development to enable sustainable growth, addressing the need for better business space, affordable homes and student accommodation across the city region.
10	Private sector vacant dwellings returned into occupation or demolished	Quarterly	Health and Well Being 6: Ensuring the city's housing stock is well managed and good quality, to support independence, health and wellbeing, and avoid homelessness. Also Economy, Jobs and Housing 4: Investing in existing and new housing stock which supports residents and families to live independently, in decent accommodation.
11	Percentage of new affordable housing that meets the wheelchair standard	Annual	
12	Decent homes - % council homes that meet the Decent Homes standard	Quarterly	
13	Percentage of households that experience fuel poverty based on the "low income, high cost" methodology	Annual	
14	The number of households where homelessness was prevented due to casework by the council	Quarterly	Health and Well Being 6: Ensuring the city's housing stock is well managed and good quality, to support independence, health and wellbeing, and avoid homelessness.
15	Housing tenants: rent collected as proportion of rent due	Monthly	Environmental Sustainability 1: Promoting and delivering a broader understanding of sustainability for the city and public services that aims to protect the future of the environment and communities together.



Ref	Indicator	Frequency	Mapped to Corporate Plan 2015/19
<b>Health &amp; Adult Social Care</b>			
1	Percentage of social care clients receiving self directed support	Quarterly	Health and Well Being 4: Providing better care services for older and vulnerable people, focused on personal choice and staying independent.
2	Permanent admissions of older adults (65+) to residential and nursing care homes per 100,000 population	Quarterly	
3	Permanent admissions of younger adults to residential and nursing care homes per 100,000 population	Quarterly	
4	Delayed transfers of care attributable to social care	Quarterly	
5	Safeguarding audits that demonstrate they have met agreed practice standards	Quarterly	
6	Percentage of adults with learning disabilities known to the council in paid employment	Quarterly	
7	Telecare: Proportion of care packages that include Telecare as an element	Quarterly	
8	Reduction in numbers of people held in police cells under Mental Health Act Section 136	Quarterly	
9	Alcohol related hospital admissions per 100,000 population	Monthly	Health and Well Being 1: Promoting healthy choices and lifestyles to prevent long term health conditions.
10	Number of drug related deaths	Annual	
11	Under 18 conception rate per 1000 women as measured by reduction from baseline	Quarterly	

Ref	Indicator	Frequency	Mapped to Corporate Plan 2015/19
<b>Economy Environment and Culture</b>			
1	The percentage of household waste sent for reuse, recycling and composting	Monthly	Environmental Sustainability 1: Promoting and delivering a broader understanding of sustainability for the city and public services that aims to protect the future of the environment and communities together.
2	Missed refuse collections per 100,000 population	Monthly	
3	Missed recycling collections per 100,000 population	Monthly	
4	Percentage of people who agree that they will have enough money, after housing costs, to meet basic living costs (City tracker)	Annual	
5	Carbon dioxide emissions per capita	Annual	

Ref	Indicator	Frequency	Mapped to Corporate Plan 2015/19
<b>Economy Environment and Culture</b>			
6	Street and environmental cleanliness: litter	Quarterly	
7	Overall user satisfaction score with highways & transport (against local importance)	Annual	Environmental Sustainability 4: Improving the sustainability of the council's transport infrastructure and reducing the need to travel through improved digital infrastructure.
8	Annual average daily traffic counts on key routes into the city – inner routes	Annual	
9	Percentage of bus services running on time	Annual	
10	The percentage of people satisfied or very satisfied with the city's parks and open spaces (City Tracker)	Annual	Health and wellbeing 2 : Encouraging leisure activity, outdoor recreation and active travel as part of good physical and mental health and making the most of the city's unique cultural and natural offer.
11	Employment rate	Annual	Economy, Jobs and Housing 1: Working with the council's Greater Brighton city region partners to build sustainable growth and investment, increasing economic resilience and generating more, higher-paid jobs.
12	Percentage of the working age population claiming out of work benefits	Annual	
13	Growth in the number of businesses	Annual	
14	Number of businesses signed up to the Brighton & Hove Living Wage Campaign	Annual	
15	Growth in the number of jobs	Annual	
16	Growth in private sector	Annual	
17	Government minimum standard for planning authorities not meeting national targets	Quarterly	Economy, Jobs and Housing 3: Bringing about quality development to enable sustainable growth, addressing the need for better business space, affordable homes and student accommodation across the city region.
18	Major planning applications determined within 13 weeks or within agreed time limit	Quarterly	
19	Minor planning applications determined within 8 weeks or within agreed time limit	Quarterly	
20	Other planning applications determined within 8 weeks or within agreed time limit	Quarterly	
21	The supply of ready to develop housing sites	Annual	

Ref	Indicator	Frequency	Mapped to Corporate Plan 2015/19
<b>Economy Environment and Culture</b>			
22	Residents that have attended any creative, artistic, theatrical or musical events in the past 12 months (City Tracker)		Health and wellbeing 2 : Encouraging leisure activity, outdoor recreation and active travel as part of good physical and mental health and making the most of the city's unique cultural and natural offer.
23	Number of visitors to Brighton & Hove	Annual	Health and Well Being 6: Promoting leisure and active travel as part of good physical and mental health, making the most of the city's unique cultural and natural attractions. Also Economy, Jobs and Housing 5: Using the council's international <a href="#">UN Biosphere Reserve</a> status and the council's cultural offer to promote the city region as a unique, international destination.

Ref	Indicator	Frequency	Mapped to Corporate Plan 2015/19
<b>Finance &amp; Resources</b>			
1	Percentage of high and medium priority recommendations (that have passed their agreed implementation deadline) that have been implemented	Quarterly	Public Accountability 4: Strengthening the council's partnership delivery arrangements and building collaborative, trustful and empowering relationships between the council and citizens.
2	Percentage of invoices for commercial goods and services that were paid within 30 days	Monthly	
3	Purchase to pay	Quarterly	
4	Average number of working days and shifts lost per full time equivalent (FTE) due to sickness absence (not including schools)	Monthly	Public Accountability 1: Upholding the democratic principles of the council's constitution, ensuring the council represents and reflects communities and citizens who elect councillors and pay council tax and Increasing equality 2: Ensuring people are not discriminated against because of their identity, such as their age, gender identity, ethnicity, sexual orientation, disability or religion or belief.
5	Percentage of staff who declare that they have a disability as a percentage of the total workforce who declare whether they have a disability (not including schools)	Annual	
6	Percentage of staff who declare themselves as black and minority ethnic (BME) (excludes white Irish and white other)	Annual	
7	Percentage of staff who declare themselves as white other	Annual	
8	Percentage of staff who declare themselves as white Irish	Annual	
9	Percentage of employees whose sexual orientation is not known	Annual	

Ref	Indicator	Frequency	Mapped to Corporate Plan 2015/19
<b>Finance &amp; Resources</b>			
10	Percentage of staff who declare themselves to be lesbian, gay, bisexual and transgender (LGBT) as a percentage of the total workforce who declare their sexuality	Annual	
11	Percentage of employees responding that they have experienced discrimination or harassment or bullying in the last 12 months	Annual	
12	Number of disciplinary cases – non schools	Annual	
13	Number of grievance cases	Annual	

Ref	Indicator	Frequency	Mapped to Corporate Plan 2015/19
<b>Strategy Governance and Law</b>			
1	Whistle blowing allegations received	Quarterly	Public Accountability 2: Demonstrate that the council learns from its actions, reviewing and evaluating performance to address things that work well and those that do not.
2	Residents very or fairly satisfied with Brighton & Hove City Council (City Tracker)	Annual	Increasing Equality 3: Understanding the city's growing and diverse population, changing the council's approaches to engagement and public services accordingly.
3	Residents that think, overall, that Brighton & Hove City Council keeps residents well informed about the services and benefits it provides (City Tracker)	Annual	
4	Number of stage 1 complaints received	Quarterly	Citizen Focussed 1: Knowing what drives demand for public services by engaging with the city's diverse communities and understanding how effective services are in meeting their needs.
5	% of Stage 1 organisational complaints upheld or partially upheld	Quarterly	
6	% of Stage 2 organisational complaints upheld or partially upheld	Quarterly	
7	Number of compliments received	Annual	



**Brighton & Hove City Council**  
**Statement of Accounting Policies**  
**2016/17**

# Statement of Accounting Policies

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# Statement of Accounting Policies

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## 1. General Principles

The Statement of Accounts summarises the council's transactions for the reported financial year and its position at the year end. The council is required to prepare an annual Statement of Accounts (ie financial statements) by the Accounts and Audit Regulations 2015, which require the financial statements to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) supported by International Financial Reporting Standards (IFRS).

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

## 2. 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. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Changes in accounting estimates are accounted for prospectively (ie in the current and future financial years affected by the change) and do not give rise to a prior period adjustment.

Changes in 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. Where 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 been applied.

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

## 3. Accounting Concepts

The Code specifies many of the accounting policies and estimation techniques to be adopted for material items within the financial statements. In preparing information for the financial statements, the council has regard to the following underlying assumptions and qualitative characteristics:

- **Relevance** – the financial statements are prepared with the objective of providing information about the council's financial performance and position that is useful for assessing the stewardship of public funds and for making financial decisions;
- **Materiality** – the concept of materiality has been utilised in preparing the financial statements (ie if omitting or misstating information would affect the interpretation of the financial statements and influence decisions that users make);
- **Faithful Representation** – the financial information included in the financial statements is complete within the boundaries of materiality, free from material error and free from deliberate or systematic bias;

- **Comparability** – the financial statements are prepared in accordance with the requirements of the Code which establishes proper practice in relation to consistent financial reporting and aids comparability with other local authorities;
- **Verifiability** – the financial information included in the financial statements faithfully represents the financial position, performance and cash flows of the council. The council includes explanations and disclosures of the judgements, assumptions, methodology and other factors and circumstances in preparing its financial statements;
- **Timeliness** – the information included in the financial statements is available to decision makers in time to be capable of influencing their decisions;
- **Understandability** – the financial statements are based on accounting concepts and terminology which require reasonable knowledge of accounting and local government. Every effort has been made to ensure that the financial information included in the financial statements is presented clearly and concisely and notes and commentaries are provided that explain and interpret the key elements of the financial statements for the user;
- **Going Concern** – the financial statements are prepared on the assumption that the functions of the council will continue in operational existence for the foreseeable future.

## 4. Fair Value Measurement

The council measures some of its non-financial assets and financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in either:

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

The council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the financial statements 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.



## **5. School Transactions**

The council accounts for transactions relating to schools in accordance with the Code which confirms that the balance of control for local authority maintained schools (ie those categories of school identified in the School Standards and Framework Act 1998, as amended) lies with the local authority. The Code also stipulates that those schools' assets, liabilities, reserves and cash flows are recognised in the local authority's financial statements (and not group accounts). Therefore schools' transactions, cash flows and balances are recognised in each of the financial statements of the council as if they were the transactions, cash flows and balances of the council.

## **6. Grants and Contributions**

Whether paid on account, by instalments or in arrears, grants and contributions 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 or contributions will be received.

Amounts recognised as due to the council are not credited to the CIES until conditions attached to the grant or condition 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 condition are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Revenue grants or contributions received 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 (in respect of attributable revenue grants and contributions) or taxation and non-specific grant income and expenditure (in respect of non-ring fenced revenue grants) within the CIES.

Revenue grants or contributions with no conditions attached are recognised as income within the CIES at the point of receipt.

Capital grants or contributions received for which conditions have not been satisfied are carried on the Balance Sheet as capital grants receipts in advance. When the conditions are satisfied, the grant or contribution is credited to taxation and non-specific grant within the CIES.

Where capital grants or contributions are credited to the CIES, they are reversed out of the General Fund / HRA balance in the MiRS. Where the grant or contribution 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 CAA. Amounts in the capital grants unapplied reserve are transferred to the CAA once they have been applied to fund capital expenditure.

## **7. Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable.

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

- revenue from the sale of goods is recognised when the amount of revenue can be measured reliably, the significant risks and rewards of ownership are transferred to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will flow to the council;
- revenue from the provision of services is recognised when the council can measure the amount of revenue reliably, it is probable that the economic benefits or service potential associated with the transaction will flow to the council and the stage of completion of the service can be measured;

- supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- expenses in relation to services received 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 retrospectively 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.

## **8. Charges to Revenue for Non-Current Assets**

Services and support services are debited with the following amounts to record the cost of holding non-current assets during the financial 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 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 amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund / HRA balance (MRP), by way of an adjusting transaction with the CAA in the MiRS for the difference between the two.

## **9. Tax Income (Council Tax and Non-Domestic Rates)**

### **Council Tax**

As a billing authority, the council collects council tax under what is in substance an agency arrangement, the cash collected by the council from council tax belongs proportionately to the council and the major preceptors. There will therefore be a debtor or creditor position between the council and each major preceptor to be recognised since the net cash paid to each major preceptor in the financial year will not be its share of cash collected from council taxpayers. If the net cash paid to a major preceptor is more than its proportionate share of net cash collected from council tax debtors / creditors, the council recognises a debit adjustment for the amount overpaid to the major preceptor. Similarly, if the cash paid to a major preceptor is less than its proportionate share of net cash collected in the financial year from council tax debtors or creditors, the council recognises a credit adjustment for the amount underpaid to the major preceptor.

The Cash Flow Statement includes within operating activities only the council's own share of council tax net cash collected from council tax debtors; and the amount included for precepts paid excludes amounts paid to major preceptors. The difference between the major preceptors' share of the net cash collected from council tax debtors and net cash paid to major preceptors as precepts and settlement of the previous financial year's surplus or deficit on the Collection Fund is included as financing activities within the Cash Flow Statement.

Council tax income is included within the CIES and represents the council's share of accrued income for the financial year. However, regulations determine the amount of council tax that must be included in the council's General Fund. Therefore, the difference between the income included within the CIES and the amount required by regulation to be credited to the General Fund is taken to the collection fund adjustment account and reported in the MiRS.

The Balance Sheet includes the council's share of the end of year balances in respect of council tax relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

## **Non-Domestic Rates**

The council collects non-domestic rates income under what is in substance an agency arrangement; the cash collected by the council from non-domestic rates taxpayers belongs proportionately to the council, central government (by means of its central share) and its major preceptor. There will therefore be a debtor or creditor position between the council, central government and the major preceptor to be recognised since the net cash paid to central government and the major preceptor will not be its share of cash collected from non-domestic rates taxpayers. If the net cash paid to central government or the major preceptor is more than its proportionate share of net cash collected from non-domestic rates taxpayers, the council recognises a debit adjustment for the amount overpaid to central government or the major preceptor in the financial year. If the cash paid to central government or the major preceptor is less than its proportionate share of net cash collected from non-domestic rates taxpayers, the council recognises a credit adjustment for the amount underpaid to central government or the major preceptor in the financial year.

Non-domestic rates income is included within the CIES and represents the accrued income for the financial year. The allowance for the cost of collection is included within the CIES. However, regulations determine the amount of non-domestic rates that must be included in the council's General Fund. Therefore, the difference between the non-domestic rates income included within the CIES and the amount required by regulation to be credited to the General Fund is taken to the collection fund adjustment account and reported in the MiRS.

The Cash Flow Statement includes within operating activities only the council's share of non-domestic rates income, net cash collected from non-domestic rates debtors and the amount paid excludes amounts paid to central government and the major preceptor. The difference between central government's and the major preceptor's share of the net cash collected from non-domestic rates debtors and net cash paid to central government and the major preceptor as precepts and settlement of the previous financial year's surplus or deficit on the Collection Fund for non-domestic rates income is included as financing activities within the Cash Flow Statement.

Top up grant receivable is recognised within the CIES on an accruals basis under taxation and non-specific grant income.

The Balance Sheet includes the council's share of the end of year balances in respect of non-domestic rates relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

## **10. Value Added Tax (VAT)**

The CIES excludes amounts relating to VAT and VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income within the CIES.

The net amount due to or from HMRC in respect of VAT is included as a creditor or debtor on the Balance Sheet.

## **11. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on demand. The council defines cash equivalents as highly liquid investments which are no longer than three months and represent the investment of cash surpluses lent to cover

cash shortages. They are readily convertible to known amounts of cash with insignificant risk of change in value.

In terms of cash flow and treasury management, the council collectively manages its bank accounts under one umbrella, therefore the net cash position is shown either as cash, as part of cash and cash equivalents or bank overdraft on the Balance Sheet.

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

The council uses the indirect method to present its revenue activities cash flows, whereby the net surplus or deficit on the provision of services is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows.

## **12. 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 and non-monetary benefits for current employees. They are recognised as an expense for services in the financial year in which employees render service to the council. An accrual is made for the cost of holiday entitlements (or any form of leave, eg time off in lieu) earned by the employees but not taken before the year end which employees can carry forward in the next financial year, being the year in which the employee takes the benefit. The accrual is charged to services within the CIES, but then reversed out through the MiRS to the accumulated absences account so that holiday entitlements are charged to revenue in the year in which the leave absence occurs.

### **Termination Benefits**

When the council is demonstrably committed to the termination of the employment of an employee or making an offer to encourage voluntary redundancy, the costs of termination benefits are charged on an accruals basis to the respective service within the CIES. This is at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund / HRA balance to be charged with the amount payable by the council to the pension fund or pensioner in the financial year, not the amount calculated according to the relevant accounting standards. In the MiRS, transfers are required to and from the pensions 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 pensioners and any such amounts payable but unpaid at the year end.

### **Post-Employment Benefits**

Pension schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees who worked for the council. However, arrangements for the Teachers' and NHS pension schemes mean that liabilities for these benefits cannot ordinarily be identified specifically for the council and are therefore accounted for as if they were defined contributions schemes and no liability for future payments of benefits is recognised on the Balance Sheet. Within the CIES the relevant services are charged respectively with the employer's contributions payable to Teachers' Pension and NHS Pensions in the financial year.

The council does not recognise any liability for future payment of benefits on its Balance Sheet; it recognises a creditor on the Balance Sheet for deductions made in March which are not paid over to the scheme until the new financial year.

## **The Local Government Pension Scheme**

The Local Government Pension Scheme is accounted for as a defined benefits scheme.

The liabilities of the pension scheme attributable to the council are included on the Balance Sheet on an actuarial basis. The basis of calculation is the projected unit method (ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of earnings for current employees).

Liabilities are discounted to their present value, using a discount rate (determined in reference to market yields at the Balance Sheet date of high quality bonds).

The assets of the pension scheme attributable to the council are included on the Balance Sheet at their fair value:

- quoted securities – current bid price;
- unquoted securities – professional estimate;
- unitised securities – current bid price;
- property – market value.

The change in the net pension liability of the council is analysed into the following components:

- service cost comprising:
  - current service cost – the increase in liabilities as a result of years of service earned in the current financial year – this cost is allocated within the CIES to the services for which the employees worked;
  - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier financial years – this cost is debited to non-distributed costs within the CIES;
  - net interest on the net defined benefit liability (ie net interest expense for the council) – the change during the financial year in the net defined benefit liability that arises from the passage of time calculated by multiplying the net defined benefit liability by the discount rate, both as determined at the start of the financial year taking into account any changes in the net defined benefit liability during the year as a result of contribution and benefit payments – this is charged to financing and investment income and expenditure within the CIES;
- re-measurements comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability – these are charged to other comprehensive income and expenditure within the CIES and to the pensions reserve;
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – these are charged to other comprehensive income and expenditure within the CIES and to the pensions reserve;
- contributions paid to the pension scheme – cash paid as employer's contributions to the scheme in settlement of liabilities – these are charged to services within the CIES.

In relation to retirement benefits, statutory provisions require the General Fund / HRA balance to be charged with the amount payable by the council to the pension scheme or directly to pensioners in the financial year, not the amount calculated according to the relevant accounting standards. Transfers are made through the MiRS 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 scheme and pensioners and any such amounts payable but unpaid at year end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the General Fund / HRA balance of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

### **Discretionary Benefits**

The council 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 employee (including teachers) are accrued in the financial year of the decision to make the award and accounted for using the same accounting policies as are applied to the Local Government Pension Scheme.

## **13. Provisions**

Provisions are made where an event has taken place whereby the council has a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential to settle the obligation and a reliable estimate can be made of the amount of the obligation. For example, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service within the CIES 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 year end. 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 within the CIES.

## **14. Reserves**

The council sets aside specific amounts as reserves for future policy purposes or to cover general contingencies and cash flow management.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service within the CIES. The reserve is then transferred back to the General Fund / HRA balance in the MiRS so that there is no net charge against council tax for the expenditure.

The category of unusable reserves includes those reserves which are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the council; these reserves are covered in the relevant accounting policies and explained in the relevant notes.

The council carries out an annual review of the reserves to ensure they are still required and are set at the appropriate level.

## **15. Contingent Liabilities and Contingent Assets**

### **Contingent Liabilities**

The council recognises a contingent liability where an event has taken place that gives the council a possible obligation which has arisen from past events whose existence has been confirmed by the occurrence of one or otherwise of uncertain future events not wholly within the council's control. 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 are disclosed as a note to the financial statements.

### **Contingent Assets**

The council recognises a contingent asset when an event has taken place that gives the council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the council's control.

Contingent assets are not recognised on the Balance Sheet but are disclosed as a note to the financial statements.

## **16. Overheads and Support Services**

The costs of central and departmental overheads (ie management and administration costs) and support services are charged to those services that benefit from the supply or service in accordance with the council's arrangements for accountability and financial performance.

## **17. Property, Plant and Equipment (PPE)**

Assets that have physical substance and are held for use in the production or supply of goods or 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 PPE.

### **Recognition**

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis provided that it is probable that the future economic benefits or service potential associated with the item will flow to the council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense to the relevant service within the CIES as it is incurred.

The council has a de minimis level of £20,000 for land and buildings and vehicles, plant and equipment. Items of expenditure below this de minimis level are charged to the relevant service within the CIES in the year they are incurred. In certain cases, the council capitalises particular items of expenditure that is below its de minimis level (eg expenditure funded by grant where the conditions state that the grant should only be applied to capital items of expenditure). The council has no de minimis level for enhancement expenditure and therefore all enhancement expenditure is capitalised.

### **Measurement**

PPE assets are initially measurement at cost comprising 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 the council, and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

The costs of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (ie it will not lead to a variation in the cash flows of the council).

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

- infrastructure, community assets and assets under construction – depreciated historical cost;
- council dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH);
- assets where there is no market based evidence of fair value because of their specialist nature and the asset is rarely sold (eg schools) – depreciated replacement cost is used as an estimate of current value;
- surplus assets – current value measurement base is fair value estimated at highest and best use from a market participant’s perspective;
- non property assets that have short useful lives or low values (or both) (ie vehicles, plant and equipment) – depreciated historical cost is used as a proxy for current value;
- all other assets (ie other land and buildings) – current value determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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 end of the financial year, but as a minimum every five years.

Where, following revaluation of an individual land and / or building asset, the value drops below the deminimis level, the deminimis value of the asset is revalued downwards to nil.

Increases in valuation are matched by credits to the revaluation reserve to recognise unrealised gains, unless the increase is reversing a previous revaluation decrease or impairment loss charged to services within the CIES in respect of the asset in which case the revaluation increase may be credited to the CIES.

Decreases in valuations 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 within the CIES.

Revaluation gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance therefore they are reversed out of the General Fund balance in the MiRS and posted to the CAA. HRA revaluation gains and losses are actual charges to the HRA balance.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, being the date of its formal implementation. Gains arising before that date have been consolidated into the CAA.

## **Impairment**

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

The council recognises impairment on assets carried at a revalued amount and historical cost.

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 accumulated gains);



- where there is no balance for the asset in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service within the CIES.

Where an impairment loss is subsequently reversed, the reversal is credited to the relevant service within the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Impairment losses and reversals are not permitted by statutory arrangements to have an impact on the General Fund balance therefore they are reversed out of the General Fund balance in the MiRS and posted to the CAA. HRA impairment losses and reversals are actual charges to the HRA balance.

## **Depreciation**

Depreciation is applied to all PPE assets, except for assets without a determinable finite useful life (ie freehold land and community assets) and assets that are not yet available for use (ie assets under construction).

The depreciation charge is based on the depreciable amount allocated over the useful life of the asset, using a straight line allocation method and is charged to the relevant services within the CIES.

General Fund depreciation charges are not permitted by statutory arrangements to have an impact on the General Fund balance therefore they are reversed out of the General Fund balance in the MiRS and posted to the CAA.

HRA depreciation is a proper charge to the HRA however the impact on balances is mirrored by an equal increase in the major repairs reserve (effectively a transfer from revenue to capital).

The council does not charge depreciation in the year of acquisition but does charge a full year's depreciation in the year of disposal.

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 from the revaluation reserve to the CAA.

## **Disposals and Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, the council reclassifies the asset as an asset held for sale. The asset is revalued immediately before 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 posted to other operating income and expenditure within the CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised within the CIES. Depreciation is not charged on assets held for sale.

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

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset on the Balance Sheet (whether PPE or assets held for sale) is written off to other operating income and expenditure within the CIES as part of the gain or loss on disposal. Receipts from

disposals (if any) are credited to the same line within the CIES also as part of the gain or loss on disposal (ie 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 CAA.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the Government. The receipts are 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 (the capital financing requirement). Receipts are credited to the CIES and subsequently transferred to the capital receipts reserve from the General Fund / HRA balance in the MiRS. Amounts received for a disposal below £10,000 are credited to the CIES.

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 therefore appropriated to the CAA from the General Fund / HRA balance in the MiRS.

## **Asset Componentisation**

The council only considers assets for componentisation in the financial year the assets are valued and / or in the year following capital investment being incurred on the asset. As the council does not depreciate assets in the year of acquisition, capital additions are not considered for componentisation until the following financial year.

The council has a de minimis threshold of £10m for componentising General Fund assets; individual assets with a gross book value of less than £10m are disregarded for componentisation. The de minimis level is reviewed on an annual basis. The componentisation of the council's housing stock is considered separately on an annual basis.

Componentisation is only applied to building elements of assets categorised as PPE and that are subject to depreciation. Vehicles, plant and equipment assets are not componentised as they do not have separately identifiable components of significant value or a significant difference in asset life. Community assets are unlikely to be componentised as they are held at either cost or nil value. Assets under construction are not considered for componentisation until they become operational. The council does not currently consider infrastructure assets for componentisation.

In respect of components, the carrying amount of a replaced part of the asset is derecognised, with the carrying amount of the new component being recognised subject to the recognition principles being met. Where it is not practicable to determine the carrying amount of the replaced part, the council uses the cost of the new part as an indication of what the cost of the replaced part was at the time it was acquired or constructed (adjusted for depreciation and impairment, if required).

Where an item of PPE asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Where there is more than one significant part of the same asset which has the same useful life and depreciation method, the council groups these parts in determining the depreciation charge.

## **18. Heritage Assets**

The majority of the council's heritage assets are reported on the Balance Sheet at current insurance valuations. These insurance valuations are updated on an annual basis. Acquisitions are recognised at cost. As heritage assets are deemed to have indeterminable lives and high residual value, the council does not charge depreciation for these assets.

Revaluations, disposals and impairments are accounted for in accordance with the respective policies for PPE.

The council has a deminimis level of £20,000 for heritage assets. Items of expenditure below this deminimis level are charged to the relevant service within the CIES in the financial year it is incurred.

## **19. Leases and Lease Type Arrangements**

The council classifies leases as either finance leases or operating leases based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. A lease is classified as a finance lease where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the asset 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. When the land has an indefinite economic life, the land element is normally classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term.

When accounting for a lease of land and buildings, the minimum lease payments are allocated between the land and the buildings elements in proportion to their relative fair values. Where the amount that would initially be recognised for the land element is immaterial, the land and buildings are treated as a single unit for lease classification.

The council may enter into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments. Such arrangements are accounted for under this policy where fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset (ie the right to control the use of the underlying asset).

### **The Council as Lessee - Finance Leases**

PPE held under a finance lease 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. The discount rate used is the rate implicit in the lease or, if it is not practicable to determine, the council uses its incremental borrowing rate. Any initial direct costs are added to the value of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability.

Lease payments are apportioned between the finance charge (interest) and the reduction of the outstanding liability (ie a charge for the acquisition of the interest in the asset). The finance charge is calculated so as to produce a constant periodic rate of interest on the remaining balance of the liability; the council uses approximation to allocate the finance lease payments between interest and capital. The finance charge is debited to financing and investment income and expenditure within the CIES.

Contingent rents are charged as expenses in the years in which they are incurred.

PPE recognised under a finance lease 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 use council tax to cover depreciation or revaluation or impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue towards the deemed capital investment in accordance with statutory arrangements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund / HRA balance (MRP), by way of an adjusting transaction with the CAA in the MiRS for the difference between the two.

## **The Council as Lessee - Operating Leases**

Rentals paid under operating leases are charged to the CIES as an expense of the services benefiting from use of the leased asset.

## **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 (whether PPE or assets held for sale) is written off to other operating income and expenditure within the CIES 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 within the CIES also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long term debtor) asset on the Balance Sheet.

As lessor, the council recognises assets held under a finance lease as a receivable at an amount equal to the net investment in the lease. 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 financing and investment income and expenditure within the CIES). The finance income is calculated so as to produce a constant periodic rate of return on the net investment; the council uses approximation to allocate lease payments between the repayment of principal and finance income.

The gain credited to the CIES on disposal is not permitted by statute to increase the General Fund / HRA 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 / HRA balance to the capital receipts reserve in the MiRS. 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 / HRA balance to the deferred capital receipts reserve. 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 non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the CAA from the General Fund / HRA balance.

## **The Council as Lessor - 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. As lessor, the assets are accounted for in accordance with the council's PPE policy.

Costs, including depreciation, incurred in earning the lease income are recognised as an expense.

Rental income from operating leases is recognised over the lease term and credited to other operating income and expenditure within the CIES.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

## 20. Private Finance Initiative (PFI)

PFI contracts are contractual arrangements between the council and an operator where responsibility for providing public services, using assets provided either by the operator or the council, passes to the operator for a specified period of time. As the council is deemed to control or regulate the services that are provided under its PFI schemes, and as ownership of the assets will pass to the council at the end of the contracts for no additional charge, the council carries the assets used under the contracts on its Balance Sheet as part of PPE.

### Recognition

The PPE asset and related liability are recognised at the same time being the point that it is probable that future economic or service benefits associated with the asset will flow to the council; and at the point that the cost of the asset can be measured reliably. This is when the asset is made available for use unless the council bears an element of the construction risk. Where this is the case, the council recognises an asset under construction prior to the asset being made available for use where it is probable that the expected future benefits attributable to the asset will flow to the council. Separate assets are recognised in respect of land and buildings where appropriate.

PPE assets in relation to PFI arrangements recognised on the Balance Sheet are accounted for using the policies applied generally to other PPE owned by the council.

### Measurement

For assets owned by the council prior to the PFI contract and then transferred to the operator as part of the contract, the asset is recognised at the fair value at the time the asset was transferred. For assets acquired or constructed by the operator under the contract, the asset is recognised at the cost of purchase or construction. This value is also used as the basis for calculating the liability for amounts due to the operator to pay for the assets.

Where a PFI arrangement can be separated into a service element and a construction element, the service element is expensed as incurred and the construction element is accounted for as if it were a finance lease and allocated into an element relating to the repayment of the liability and an interest element in accordance with the arrangements for a finance lease. The interest element is charged as incurred to financing and investment income and expenditure within the CIES, with the balance of the payment used to reduce the outstanding liability on the Balance Sheet. Subsequent to initial recognition, the asset is measured following the council's principles for assets acquired under a finance lease. The liability is measured in a similar manner to the liability resulting from a finance lease. The liability is reported as a financial liability but is measured under the *leases* accounting policy.

Where a PFI arrangement cannot be separated into a service element and a construction element, the asset and related liability are measured initially at the fair value of the asset. In this case, subsequent to initial recognition, the asset is measured following the council's principles for assets purchased or constructed by the council. Where the PFI arrangement cannot be separated into construction and service elements, the amounts payable to the operator each year (ie the total unitary payment) are analysed into three elements:

- the service charge element – the fair value of the services received during the financial year – charged to the relevant service within the CIES;
- repayment of the liability – applied to write down the Balance Sheet liability to the PFI operator;
- interest element – an interest charge (using the interest rate implicit in the contract) on the outstanding Balance Sheet liability, charged to financing and investment income within the CIES. Where it is not possible to determine the rate implicit in the contract, the council uses its cost of capital rate (including inflation).

The liability is measured as a financial instrument based on the repayment of the liability element and the imputed finance charge element of the scheduled payments above, using the same actuarial method used for finance leases.

## **Prepayments and Capital Contributions**

Where PFI contracts are structured to require payments to be made (either as part of a unitary payment or as a lump sum contribution) before the related asset is recognised as an asset on the Balance Sheet, these payments are recognised as prepayments. The prepayments are applied to reduce the outstanding liability.

Any prepayments and contributions are taken into account when estimating the fair value of the asset and liability and the separation of payments into the liability, interest and service charge elements.

## **Income Received**

The council recognises any income received as a result of a revenue sharing clause with a PFI arrangement as it is earned. The council also recognises any income due from the operator under a PFI arrangement as it is earned over the life of the agreement.

## **21. Investment Property**

The council only accounts for property that is used solely to earn rentals and / or for capital appreciation as investment property.

Property that is used in any way to facilitate the delivery of services or production of goods or is held for sale is not classified as investment property.

Investment property is measured initially at cost and subsequently at fair value, being 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 property is measured at the 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 are posted to financing and investment income and expenditure within the CIES. The same treatment is applied to gains and losses on disposal. However, General Fund revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund balance therefore they are reversed out of the General Fund balance in the MiRS and posted to the CAA and (for any sale proceeds greater than £10,000) the capital receipts reserve. HRA revaluation and disposal gains and losses are an actual charge to the HRA balance.

The council considers investment property for componentisation purposes under the componentisation policy for PPE.

Rentals received in relation to investment properties are credited to financing and investment income and expenditure within the CIES.

## **22. Intangible Assets**

Expenditure on intangible assets is capitalised when it is probable that the expected future economic benefits or service potential attributable to the asset will flow to from the intangible asset to the council.

Intangible assets are measured initially at cost. Expenditure incurred on an intangible asset after it has been recognised is charged to services within the CIES as it is incurred.

Where the council acquires (either in full or in part) an intangible asset by the way of a government grant, both the asset and the grant or contribution are recognised initially at fair value.

As there is no active market for the council's intangible assets, they are carried at amortised cost.

The council amortises intangible assets with a finite useful life over their expected useful life, using a straight line allocation method. The provision of amortisation is charged to the relevant service within the CIES. The amortisation charge is not permitted to have an impact on the General Fund / HRA balance and therefore is reversed of the General Fund / HRA balance in the MiRS and posted to the CAA.

The council does not charge amortisation in the year of acquisition but does charge a full year's amortisation in the year of disposal.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from the asset. The gain or loss is recognised as other operating income and expenditure within the CIES. The gain or loss is not a proper charge to the General Fund / HRA balance therefore the amount of disposal proceeds (ie capital receipt) is credited to the capital receipts reserve with the write out of the asset being debited to the CAA. The cost of disposal in relation to the General Fund remains as a charge to the CIES against the General Fund balance; however, HRA disposal costs are met from capital receipts.

## **23. Revenue Expenditure Funded from Capital under Statute**

Legislation allows some expenditure (eg grants and expenditure on property not owned by the council) incurred by the council to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset; this is to enable the expenditure to be funded from capital resources rather than be charged to the General Fund / HRA balance and impact on council tax.

Such expenditure is charged to the relevant service within the CIES. The council accounts for this statutory provision that allows capital resources to meet the expenditure by debiting the CAA and crediting the General Fund / HRA balance with the transfer being reported in the MiRS.

## **24. Financial Assets and Liabilities - Financial Instruments**

### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the council becomes 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 for interest payable are charged to financing and investment income and expenditure within the CIES and are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument; for most cases this means that the amount presented on the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the CIES is the amount payable for the loan agreement in the financial year.

The council derecognises a financial liability when it is extinguished (ie when the obligation specified in the contract is discharged, cancelled or expires).

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the financing and investment income and expenditure line within the CIES in the year of repurchase or settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium and discount is respectively deducted from or added to the

amortised cost of the new or modified loan and the write down to the CIES is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged or debited to the CIES, regulations allow the impact on the General Fund / HRA balance to be spread over future years. The council has a policy of spreading the gain and loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The difference between amounts charged to the CIES and the net charge required against the General Fund / HRA balance is managed by a transfer to or from the financial instruments adjustment account with the adjustment reported in the MiRS.

## **Financial Assets**

### **Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the council becomes 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 for interest receivable are credited to financing and investment income and expenditure within the CIES and 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 accrued interest) and interest credited to the CIES is the amount receivable for the loan agreement in the financial year.

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

Any gains and losses that arise on de-recognition of the asset are credited or debited to financing and investment income and expenditure within the CIES.

### **Available for Sale Financial Assets**

Available for sale assets are recognised on the Balance Sheet when the council becomes party to the contractual provisions of a financial instrument and are initially measured at fair value.

Assets are maintained on the Balance Sheet at fair value; values are based on the following techniques:

- instruments with quoted market prices – the market price;
- other instruments with fixed and determinable payments - discounted cash flow analysis.

Where the asset has fixed or determinable payments, annual credits for interest receivable are credited to financing and investment income and expenditure within the CIES and 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 (eg dividends) is credited to the CIES when it becomes receivable by the council.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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



- Level 3 inputs – unobservable inputs for the asset.

Changes in fair value are balanced by an entry in the available for sale financial instruments reserve and the gain or loss is recognised as surplus or deficit on revaluation of available for sale financial assets within the CIES. The exception is where impairment losses have been incurred which are debited to financing and investment income and expenditure within the CIES along with any net gain or loss for the asset accumulated in the available for sale financial instruments reserve.

Where assets are 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 financing and investment income and expenditure within the CIES. 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 or losses that arise on de-recognition of the asset are credited or debited to financing and investment income and expenditure within the CIES, along with any cumulated gains or losses previously recognised in the available for sale financial instruments reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

## **Debt Redemption**

The council sets aside a statutory amount each year from its General Fund for debt redemption, in the form of a minimum revenue provision (MRP), as required by the Local Authority (Capital Finance and Accounting) regulations. Guidance issued by the Secretary of State requires Full Council to approve an annual statement on the amount of debt that will be repaid in a financial year. The guidance identifies four options for calculating the MRP and the council determines which option it will adopt.

For debt where the Government provides revenue support, the council sets aside a sum of 2% of the notional debt relating to capital investment, but excluding capital investment on the HRA housing stock because there is no housing subsidy payable on these repayments.

For debt where no Government support is received, the council sets aside a sum equivalent to repaying debt over the life of the asset in equal annual instalments.

For finance leases and on Balance Sheet PFI contracts, the MRP requirement is regarded as met by a charge equal to the element of the lease payment or unitary charge that is applied to write down the Balance Sheet liability in the financial year.

In addition, the council may pay off or replace loans earlier than originally planned as part of its debt management strategy, dependent upon prevailing market conditions, risk and financial benefits that may accrue to the council.

## **25. Events after the Reporting Period**

Events after the end of the reporting period are those events, both favourable and unfavourable, that occur between the end of the financial year and the date when the financial statements are authorised for issue. Two types of events can be identified:

- adjusting events - those events that provide evidence of conditions that existed at the end of the financial year. In this instance, the financial statements are adjusted to reflect such events;
- non adjusting events - those events that are indicative of conditions that arose after the year end. In this instance, the financial statements are 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 financial statements.

## **26. Joint Operations**

Joint operations are arrangements where the parties that have joint control of the arrangement have rights to use the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the council in conjunction with other joint operators involve the use of the assets and resources of those joint operators rather than the establishment of a separate entity. All parties have joint control with decisions of the activities of the arrangement requiring unanimous consent from all parties. The council recognises on its Balance Sheet only its share of the jointly controlled assets and related liabilities. Within the CIES, the council only recognises those expenses it incurs on its behalf or jointly with others in respect of its interest in the joint operation and income that it earns from the activity of the operation.



**Brighton & Hove City Council  
Independent Auditor's Report  
2016/17**

# Independent Auditor's Report

Opinion on the Council's financial statements

Respective responsibilities of the Executive Director of Finance and Resources and auditor

Scope of the audit of the financial statements

Opinion on financial statements

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Matters on which we report by reference

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

Respective responsibilities of the Council and the auditor

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

Basis for except for conclusion

Conclusion

Certificate

Paul King

for and on behalf of Ernst & Young LLP, Appointed Auditor  
Southampton

xx September 2017

**To be Updated once Accounts Audited**



# Brighton & Hove City Council

## Glossary of Terms 2016/17

# Glossary of Terms

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**Accounting Policies** are the specific principles, bases, conventions, rules and practices applied by the council in preparing and presenting its financial statements.

The **Accruals Basis** is the recognition of items as assets, liabilities, income and expenses when they satisfy the definitions and recognition criteria. The accruals basis of accounting requires the non-cash effects of transactions to be reflected in the financial statements for the year in which those effects are experienced and not necessarily in the period in which any cash is received or paid.

The **Accumulated Absences Account** absorbs the differences that would otherwise arise on the General Fund /HRA balance from accruing for employees' paid absences earned but not taken in the year (eg annual leave entitlement carried forward at 31 March).

**Actuarial Gains and Losses (Pensions)** are changes in the present value of the defined benefit obligation resulting from experience adjustments and the effects of changes in actuarial assumptions.

**Amortisation** is a method of allocating the cost of an intangible asset over its useful life.

The **Amortised Cost of a Financial Asset or Financial Liability** is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method (ie a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period) of any difference between that initial amount and the maturity amount, and minus any reduction or impairment or uncollectability.

An **Asset** is a resource controlled by the council as a result of past events and from which future economic or service potential is expected to flow to the council.

An **Assets Held for Sale** is a non-current asset that meets the following criteria:

- the asset is available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets;
- the sale is highly probable; the appropriate level of management are committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan has been initiated;
- the asset is being actively marketed for a sale at a price that is reasonable in relation to its current fair value;
- the sale is expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan indicates that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

An **Audit of Financial Statements** is an examination by an independent expert of the council's financial affairs to check that the relevant legal obligations and codes of practice have been followed.

An **Available for Sale Financial Asset** is a non-derivative financial asset that is not classified as loans and receivables, held to maturity investments or held for trading.

The **Available for Sale Financial Instruments Reserve** records the unrealised revaluation gains arising from increases in the value of investments that have quoted market prices or otherwise do not have fixed or determinable payments.

The **Balance Sheet** shows the value of the assets and liabilities recognised by the council as at the Balance Sheet date.

**Benefits Payable during Employment** covers:

- short term employee benefits, such as wages and salaries, paid annual leave and paid sick leave and non-monetary benefits for current employees;
- benefits earned by current employees but not expected to be settled wholly before 12 months after the year end in which the employees render the related service, such as long service leave and long term disability benefits.

A **Budget** expresses the council's service delivery plans and capital investment programmes in monetary terms.

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

The **Capital Financing Requirement** is the capital investment funded from borrowing which has yet to be repaid.

The **Capital Grants Unapplied Account (reserve)** holds the 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. The reserve also holds grants and contributions received towards capital projects for which there are no conditions for repayment attached where expenditure has yet to be incurred.

**Capital Investment** is expenditure on the acquisition of an asset that will be used to provide services beyond the financial year or expenditure which adds to and not merely maintains the value of an existing non-current asset.

The **Capital Investment Programme** is a financial summary of the capital projects that the council intends to carry out over a specified period of time.

A **Capital Receipt** is the proceeds from the sale of an asset.

The **Capital Receipts Reserve** holds the proceeds from the disposal of non-current assets, which are restricted by statute from being used other than to fund new capital investment or to be set aside to finance historical capital investment.

**Capital Reserves** represent resources earmarked to fund capital schemes as part of the council's capital investment strategy.

The **Carbon Reduction Commitment (CRC) Energy Efficiency Scheme** obligates the council to purchase and surrender CRC allowances in relation to carbon dioxide emissions.

The **Carrying Amount** is the amount at which an asset is recognised on the Balance Sheet after deducting any accumulated depreciation (or accumulated amortisation) and accumulated impairment losses.

**Cash** comprises cash in hand and demand deposits.

**Cash Equivalents** are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Cash Flows** are the inflows and outflows of cash and cash equivalents.

The **Cash Flow Statement** shows the changes in cash and cash equivalents of the council during the financial year.

The **Collection Fund** is a separate fund recording the expenditure and income relating to council tax and non-domestic rates.

The **Collection Fund Adjustment Account** is used specifically to manage the accounting processes for council tax and non-domestic rates.

The **Commencement of the Lease Term** is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease (ie the recognition of the assets, liabilities, income or expenses resulting from the lease).

**Community Assets** are assets that the council intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal.

The **Comprehensive Income and Expenditure Statement (CIES)** shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation.

A **Contingent Asset** is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the council.

A **Contingent Liability** is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the council, or a present obligation that arises from past events but is not recognised because:

- it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

**Cost** is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of acquisition or construction.

**Council Tax** is the main source of local taxation to local authorities and is levied on households within its area by the billing authority.

**Costs to Sell** are the incremental costs directly attributable to the disposal of an asset, excluding finance costs.

**Creditors** are financial liabilities arising from the contractual obligation to pay cash in the future for goods or services or other benefits that have been received or supplied and have been invoiced or formally agreed with the supplier.

A **Current Asset** is an asset that is intended to be sold within the normal operating cycle; the asset is held primarily for the purpose of trading or the council expects to realise the asset within 12 months after the reporting date.

A **Current Liability** is an amount which will become payable or could be called in within the next financial year; examples are creditors and bank overdraft.

**Current Replacement Cost** is the cost the council would incur to acquire the asset on the reporting date.

**Current Service Cost (Pensions)** is the increase in the present value of a defined benefit obligation resulting from employee service in the current period.



**Current Value** is the amount that reflects the economic environment prevailing for the service or function the asset is supporting.

**Curtailement (Pensions)** occurs when the council significantly reduces the number of employees covered by the plan.

**Customer and Client Receipts** include rental income and income from fees and charges.

**Debtors** are financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents.

The **Deferred Capital Receipts Reserve** holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place.

A **Deferred Liability** is a sum of money that is either not payable until some point after the next financial year or is paid off over a number of years.

The **Deficit (Pensions)** is the present value of the defined benefit obligation less the fair value of scheme assets.

A **Defined Benefit Scheme** is a pension scheme where the benefits to employees are based on their salaries, and where employers' contributions have to be adjusted to match estimates of future liabilities.

A **Defined Contribution Scheme** is a post-employment benefit scheme where the employer's liability is restricted to the amount that they contribute.

**Depreciated Replacement Cost (DRC)** is a method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for all physical deterioration and all relevant forms of obsolescence and optimisation.

**Depreciation** is a method of allocating the cost of a tangible asset over its useful life.

The **Discount Rate (Pensions)** is the rate used to discount post-employment benefit obligations and is determined by reference to market yields at the end of the reporting period on high quality corporate bonds.

The **Effective Interest Rate** is the rate that exactly discounts estimated future cash payments or receipts over the life of the instrument to the amount at which it was originally recognised.

**Employee Benefits** are all forms of consideration given by the council in exchange for service rendered by employees or for the termination of employment.

**Employee Expenses** include total salaries, employers' national insurance contributions, employers' pension contributions and indirect employee expenses including redundancy costs and pension accounting adjustments.

**Estimation Techniques** are the methods adopted to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

**Events after the Reporting Period** are those events, both favourable and unfavourable, that occur between the end of the financial year and the date when the financial statements are authorised for issue.

**Exceptional Items** are material items which derive from events or transactions that fall within the ordinary activities of the council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the financial statements.

**Existing Use Value** is the estimated amount for which an asset or liability should exchange, on the valuation date, between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the asset required by the business, and disregarding potential alternative uses and any other characteristics of the asset that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

**Existing Use Value – Social Housing (EUV-SH)** is the estimated amount for which a property should exchange, on the date of valuation, between a willing buyer and a willing seller, in an arms length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion, subject to the following further assumptions that:

- the property will continue to be let by a body and used for social housing;
- at the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor's ability to dispose of the property to organisations intending to manage their housing stock in accordance with that regulatory body's requirements;
- properties temporarily vacant pending reletting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to relet them, rather than with vacant possession;
- any subsequent sale would be subject to all of the above assumptions.

**Exit Packages** are departure costs paid to former employees who negotiate a package as part of their terms of leaving the council.

The **Expenditure and Funding Analysis** shows how the available funding (ie government grants, rents, council tax and non-domestic rates) has been used in providing services in comparison with those resources consumed or in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the service directorates.

**Expenses** are decreases in economic benefits or service potential during the year in the form of outflows or consumption of assets or increases of liabilities that result in decreases in reserves.

**Experience Adjustments (Pensions)** are the effects of differences between the previous actuarial assumptions and what has actually occurred.

**Fair Value** is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

**Fees, Charges and Other Service Income** includes customer and client receipts including, for example rents and other fees and charges and grants received from non-government bodies and other contributions received by the council.

**Fee Expense (Financial Instruments)** represents the cost of managing the council's debt and investment portfolios, including internal costs and external brokerage.

**Fee Income (Financial Instruments)** represents the contribution received from external bodies in respect of the management of that bodies' cash portfolio.

A **Finance Lease** is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

A **Financial Asset** is any asset that is:

- cash;

- an equity instrument of another entity;
- a contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A **Financial Liability** is any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

A **Financial Instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity and includes trade payables and other payables, borrowings, bank deposits, trade receivables, loans receivable; other receivables and advances and investments.

The **Financial Instruments Adjustment Account** provides a specific accounting mechanism to reconcile the different rates at which gains and losses are recognised under proper accounting practices for borrowing and investments and are required by statute to be met from the General Fund balance.

**Financing Activities** are activities that result in changes in the size and composition of the principal received from or repaid to external providers of finance.

The **General Fund** 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.

The **General Fund Balance** summarises the resources that the council is statutorily empowered to spend on its General Fund services or on capital investment (or the deficit of resources that the council is required to recover) at the year end.

**Going Concern** defines that the functions of the council will continue in operational existence for the foreseeable future.

**Government Grants** are grants made by the Government towards either revenue expenditure or capital investment to support the cost of the provision of the council's services.

**Grants and Contributions** are assistance in the form of transfers of resources to the council in return for past or future compliance with certain conditions relating to the operation of activities.

A **Heritage Asset** is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge or culture.

**Historical Cost** is the carrying amount of an asset as at 1 April 2007 (ie brought forward from 31 March 2007) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment (if applicable).

The **Housing Revenue Account (HRA)** reflects the statutory obligation of the council to maintain a revenue account for council housing provision in accordance with Part VI 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 or (where in deficit) that is required to be recovered from tenants in future financial years.

An **Impairment Loss** is the amount by which the carrying amount of an asset exceeds its recoverable amount.

The **Inception of the Lease** is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.

**Income** is the gross inflow of economic benefits or service potential during the year when those inflows or enhancements of assets or decreases of liabilities result in an increase in reserves.

An **Intangible Asset** is an identifiable non-monetary asset without physical substance (eg computer software).

The **Interest Cost (Pensions)** is the expected increase in the present value of the scheme liabilities because the benefits are one period closer to settlement.

**Interest Income (Pensions)** is a component of the return on plan assets, and is determined by multiplying the fair value of the plan assets by the discount rate.

**International Accounting Standards (IAS)** for the preparation and presentation of financial statements.

**International Financial Reporting Standards (IFRS)** advise the accounting treatment and disclosure requirements of transactions so that the council's accounts present fairly the financial position of the council.

**Inventories** are assets:

- in the form of materials or supplies to be consumed in the production process;
- in the form of materials or supplies to be consumed or distributed in the rendering of services;
- held for sale or distribution in the ordinary course of operations;
- in the process of production for sale or distribution.

**Investing Activities** are activities relating to the acquisition and disposal of non-current assets and other investments not included in cash equivalents.

**Investment Property** is property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes;
- sale in the ordinary course of operations.

**Item 8 Credit and Debit (General) Determination** covers the actual charges for capital in the HRA.

A **Lease** is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

The **Lease Term** is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payments, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

A **Liability** is a present obligation of the council arising from past events, the settlement of which is expected to result in an outflow from the council of resources embodying economic benefits or service potential.

**Lifecycle Payments** are the element of the unitary charge which reflects expenditure incurred by the PFI provider in the financial year to enhance, renew and maintain PFI assets.

**Loans and Receivables** are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the entity intends to sell immediately or in the near term (held for trading); or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration (available for sale).

**Long Term Borrowing** is loans raised to finance capital investment which have to be repaid over a period in excess of 12 months from the year end.

The **Major Repairs Reserve** holds an element of the capital resources required to be used on HRA assets or for capital financing purposes.

**Materiality** - omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

**Minimum Revenue Provision (MRP)** is the minimum amount which must be charged each year in order to provide for the repayment of loans and other amounts borrowed by the council.

The **Movement in Reserves Statement (MiRS)** shows the movement in the year on the different reserves held by the council, analysed into usable reserves and other reserves.

The **Net Defined Benefit Liability (Pensions)** is the deficit, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

The **Net Interest on the Net Defined Benefit Liability (Pensions)** is the change during the period in the net defined benefit liability that arises from the passage of time.

The **Net Realisable Value** is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

A **Non-Current Asset** is an asset that does not meet the definition of a current asset and has a long term benefit to the council.

**Non Domestic Rates (NDR)** is a scheme for collecting contributions from businesses towards the cost of local government services.

**Non Ring Fenced Government Grants** are revenue grants distributed by central government that do not relate to the performance of a specific service.

An **Operating Lease** is a type of lease (eg computer equipment, office equipment, furniture) where the balance of risks and rewards of holding the asset remains with the lessor.

**Operating Activities** are the activities of the council that are not investing or financing activities.

**Other Comprehensive Income and Expenditure** comprises items of expense and income (including reclassification adjustments) that are not recognised in the surplus or deficit on the provision of services as required or permitted by the Code. Examples include changes in revaluation surplus; actuarial gains and losses on defined benefit schemes; and gains and losses on remeasuring available for sale financial assets.

**Other Service Expenses** include:

- Premises expenses including all running costs, expenditure on goods, services and contractors directly related to property and land;

- Transport expenses including all costs connected with the provision, hire or use of transport for employees and clients;
- Supplies and services covering all direct supplies and services expenditure incurred;
- Third party payments including, for example, payments to third party providers of local authority services (eg payments to government departments, voluntary associations, private contractors and other agencies);
- Transfer payments including, for example, education awards paid to school pupils and students in further education, housing benefits;
- Capital financing costs including costs of unsupported borrowing.

**Owner Occupied Property** is property held (by the owner or by the lessee under a finance lease) for use in the delivery of services or production of goods or for administrative purposes.

The **Past Service Cost (Pensions)** is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment ( the introduction of, or withdrawal of, or changes to, a defined benefit scheme) or a curtailment (a significant reduction by the council in the number of employees covered by a scheme).

The **Pension Reserve** is a specific accounting mechanism used to reconcile the payments made for the year to various statutory pension schemes in accordance with those schemes' requirements and the net charge in the council's recognised liability under IAS 19 "*Employee Benefits*", for the same period.

**Pooled Budgets** are formal arrangements under Section 75 of the National Health Service Act 2006, between local authorities and primary care trusts, to share the costs of various services which overlap in terms of the responsibilities of the various authorities. One council hosts the entire activity for the partnership, and the other parties contribute towards the total costs on an agreed basis.

**Post-Employment Benefits** are employee benefits (other than termination benefits and short term employee benefits) that are payable after the completion of employment.

**Post-Employment Benefit Plans (Schemes)** are formal (or informal) arrangements under which the council provides post-employment benefits for one or more employees.

A **Precept** is a levy made by precepting authorities on billing authorities, requiring the latter to collect income from council taxpayers on their behalf, such as the Sussex Police & Crime Commissioner and the East Sussex Fire Authority.

The **Present Value of a Defined Benefit Obligation (Pension)** is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

A **Private Finance Initiative (PFI)** is a long term contractual public private partnership, under which the private sector takes on the risks associated with the delivery of public services in exchange for payments tied to agreed standards of performance.

**Property, Plant and Equipment (PPE)** are tangible assets (ie assets with physical substance) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and which are expected to be used during more than one period.

A **Provision** is a liability of uncertain timing or amount.

The **Public Works Loan Board (PWLB)** is a central government agency which provides loans for one year and above to local authorities at interest rates only slightly higher than those at which the Government itself can borrow.

A **Qualified Valuer** is a person conducting the valuations who holds a recognised and relevant professional qualification and having sufficient current local and national knowledge of the particular market, and the skills and understanding to undertake the valuation competently.

The **Recoverable Amount (in respect of assets)** is the higher of fair value less costs to sell (ie not selling price) and its value in use.

**Related Party** - parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

A **Related Party Transaction** is a transfer of resources or obligations between related parties, regardless of whether a price is charged.

**Reserves** are the residual interest in the assets of the council after deducting all its liabilities.

The **Residual Value** is the estimated amount that the council would currently obtain from the disposal of an asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

The **Revaluation Reserve** contains the unrealised revaluation gains arising from increases in the value of its revalued non-current assets (excluding investment property which is posted to the CAA).

**Revenue** is the gross inflow of economic benefits or service potential during the year when those inflows result in an increase in the council's net assets.

**Revenue Expenditure** is the day to day running costs relating to the financial year irrespective of whether or not the amounts due have been paid. Examples are salaries, wages, materials, supplies and services.

**Revenue Expenditure Funded from Capital under Statute** is revenue expenditure incurred that may be funded from capital resources under statutory provisions but does not result in the creation of non-current assets.

The **Return on Scheme Assets (Pensions)** is dividends and other income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets less any costs of managing plan assets and any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

**Ring Fenced Government Grants** are revenue grants distributed by central government that relate to a specific service.

A **Scheme Amendment (Pensions)** occurs when the council introduces, or withdraws a defined benefit scheme or changes the benefits payable under an existing defined benefit scheme.

**Scheme Assets (Pensions)** comprise assets held by a long term employee benefit scheme.

**Scheme Liabilities (Pensions)** comprise liabilities in relation to a long term employee benefit scheme.

**Settlements (Pensions)** is a transaction that eliminates all further legal or constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

**Short Term Borrowing** is a sum of money borrowed for a period of less than one year.

**Short Term Paid Absences** are periods during which an employee does not provide services to the council, but benefits continue to be paid.

**Short Term Employee Benefits** are employee benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the year end in which the employees render the related service.

**Surplus Assets** are those assets that are surplus to service needs but do not meet the definition of either an investment property or assets held for sale.

The **Surplus / Deficit on the Provision of Services** is the total of income less expenses, excluding the components of other comprehensive income and expenditure.

A **Tangible Asset** is an asset that has a physical form.

**Termination Benefits** are employee benefits provided in exchange for the termination of an employee's employment as a result of either the council's decision to terminate an employee's employment before the normal retirement date, or the council's decision to accept an offer of benefits in exchange for the termination of employment.

The **Third Sector** includes a range of organisations eg voluntary and community organisations.

**Total Comprehensive Income and Expenditure** comprises all components of surplus or deficit on the provision of services and of other comprehensive income and expenditure.

**Trust Funds** are funds administered by the council for such purposes as prizes, charities and specific projects.

The **Unitary Charge** is the amount payable to the PFI contractor, by the council, for the provision of works and services as defined in each PFI contract.

**Unsupported Borrowing** is borrowing for which no financial support is provided by central government.

**Unusable Reserves** are those reserves that the council is not able to use to provide services and includes reserves that hold unrealised gains and losses where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences shown in the MiRS as adjustments between accounting basis and funding basis under regulations.

**Usable Reserves** are those reserves that can be used to provide services and / or reduce local taxation, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use.

The **Useful Life** is the period which a non-current asset is expected to be available for use by the council.

**Value Added Tax (VAT)** is an indirect tax levied on most business transactions and on many goods and some services.







**Brighton & Hove  
City Council**

Printed and published by  
Brighton & Hove City Council

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