

Shoreham
A i r p o r t

STATEMENT of ACCOUNTS
2004/05

SHOREHAM AIRPORT CONTENTS

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SHOREHAM AIRPORT CERTIFICATION BY CHAIR

I confirm that these accounts were approved by the Policy & Resources Committee at a meeting held on 19th October 2005.

Signed on behalf of Brighton & Hove City Council

A handwritten signature in black ink, appearing to read 'Ken Bodfish', with a horizontal line underneath the name.

Ken Bodfish Chair

Date 19 October 2005

SHOREHAM AIRPORT STATEMENT ON INTERNAL CONTROL

1. SCOPE OF RESPONSIBILITY

Shoreham Airport is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

A Joint Committee manages the Airport, membership from Brighton & Hove City Council (B&HCC) and Worthing Borough Council as joint owners. The Joint Airport Committee is responsible for ensuring there is a sound system of internal control, which facilitates the effective exercise of the Airport's functions and which includes arrangements for the management of risk.

The Joint Airport Committee believes in the principles of corporate governance, which are openness and inclusivity, integrity and accountability. The Airport generally operates under B&HCC's corporate governance arrangements, including its codes and policies. These have been reviewed and are incorporated in the BHCC Statement on Internal Control.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. A key part of the system of internal control is an ongoing process designed to identify and prioritise the risks to the achievement of the Airport's policies, aims and objectives. Through this process, the Airport evaluates the likelihood of those risks being realised and the impact should they be realised, and manages them efficiently, effectively and economically.

The system of internal control has continued to be in place for the year ended 31st March 2005 and up to the date of approval, of the Airport's Annual Statement of Accounts.

3. THE INTERNAL CONTROL ENVIRONMENT

The Airport has its own Standing Orders and Financial Regulations, which facilitates policy and decision making by setting a framework of operations for members and officers, including procedures, laws and regulations.

Internal and External Audit review the use of resources through their annual programmes of work. This includes benchmarking and the use of comparative techniques with other service providers and through independent review.

The Director of Finance and Property for B&HCC is Treasurer to the Airport and as such, Section 151 Officer. The Treasurer is responsible for ensuring that appropriate advice is given on all financial matters, for keeping proper accounting records and accounts and for maintaining an effective system of internal financial control.

4. REVIEW OF EFFECTIVENESS

The review of the system of internal control for the Airport for 2004/05 was carried out using evidence obtained from external inspections, documented internal arrangements and annual internal audit of controls operating.

In addition to planned audit work, internal and external audit undertake specific audit work as and when requested by the controlling authorities. At the time of signing this statement only one piece of audit work commenced in 2004/05, remains outstanding.

The Civil Aviation Authority regulates the Airport. This includes a comprehensive annual audit that reviews areas such as Risk Management, Business Continuity Planning, Health & Safety and Air Traffic Control. During 2004/05 there were no significant action points but if these should arise they are reported to the Joint Committee.

An annual internal audit is carried out of the Airport by B&HCC Internal Audit Services. B&HCC Internal Audit Services and the actions proposed have advised us on the results of the review of the effectiveness of the system of internal control to ensure continuous improvement of the system in place. Internal audit is undertaken in accordance with the Code of Practice for Internal Audit in Local Authorities.

The Joint Airport Committee and Airport Manager have responsibility for the development and maintenance of the internal control framework.

B&HCC provides financial, legal, property, human resource management, ICT and economic development services to the Airport. Assurance can be placed on the adequacy of governance and control arrangements operating.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

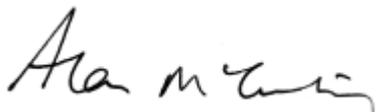
Areas of Non Compliance:

Whilst there were **no** significant areas of non-compliance in 2004/05, a number of actions are in progress by the Airport to further improve its system of internal control. These are:

Actions in progress:

- Review of governance arrangements, in particular decision making;
- An audit review of the operation of recent landfill operations; and
- Updating of contracting arrangements and financial regulations.

Due to the likely procurement of the Airport, no new actions are proposed.



Alan McCarthy
Chief Executive
Brighton & Hove City Council



Don Turner
Chair, Shoreham Airport
Joint Committee

AUDITOR'S REPORT TO SHOREHAM AIRPORT JOINT COMMITTEE

Audit of Accounts 2004/05

We have audited the Statement of Accounts on pages 3 to 25 which have been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 6 to 8.

Respective Responsibilities of Airport Treasurer and Auditors

As described on page 5 the Treasurer is responsible for the preparation of the statement of accounts in accordance with the Statement of Recommended Practice on Local Authority in the United Kingdom 2004. Our responsibilities as independent auditors are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the statement of accounts presents fairly the financial position and results of operations of the Airport.

We review whether the statement on internal control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Airport's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the other information published with the statement of accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

Basis of Opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issues by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also included an assessment of the significant estimates and judgements made by the Airport in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Airport's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion on the Airport's accounts

In our opinion the Statement of Accounts presents fairly the financial position of Shoreham Airport as at 31st March 2005 and its income and expenditure for the year then ended.

Certificate

I have carried out the audit of accounts in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission. The audit cannot be formally concluded and an audit certificate issued until investigations into a matter brought to our attention in the course of the audit have been completed. I am satisfied that this will not have a material effect on the statement of accounts.

Signed

A handwritten signature in black ink, appearing to read 'D Wells'.

Darren Wells
District Auditor

Audit Commission
16 South Park
Sevenoaks
Kent
TN13 1AN

SHOREHAM AIRPORT EXPLANATORY FOREWORD

The financial performance for the year 2004/05 for the activities undertaken by the Airport is set out on pages 3 to 25. It consists of:

Statement of Responsibilities – which identifies the officer who is responsible for the proper administration of the Airport's financial affairs.

Statement of Accounting Policies – which details the legislation and principles on which the Statement of Accounts has been prepared.

Revenue Account - the Airport's revenue account covering income and expenditure on all services.

Balance Sheet - which sets out the financial position of the Airport as at 31 March 2005.

Statement of Total Movement in Reserves – which analyses the changes that have taken place in the Airport's Capital and Revenue reserves.

Cash Flow Statement – which summarises the total movement of the Airport's funds.

Revenue Summary			
DESCRIPTION	BUDGET FOR YEAR	SPEND FOR YEAR	VARIANCE OUTTURN
	£'000	£'000	£'000
EXPENDITURE			
Employees	787	773	(14)
Premises	381	363	(18)
Transport	24	54	30
Supplies & Services	642	780	138
Support Services	84	84	0
Revenue Contributions to Capital	0	15	15
Capital Financing Costs	385	350	(35)
Total Expenditure	2,303	2,419	116
INCOME			
Customer & Client Receipts	(2,328)	(2,493)	(165)
Interest Receivable	0	(15)	(15)
Total Income	(2,328)	(2,508)	(180)
(Surplus)/Deficit	(25)	(89)	(64)

The Airport made a surplus of £89,391 for 2004/05 compared with a budgeted surplus of £25,000.

Pensions Liability

In accordance with proper accounting practice, the Council's financial statements include the total estimated net liability for the pensions scheme, currently £913,000. This net liability is offset by the

pensions reserve and is calculated by the pensions actuary, Hymans Robertson. The movement on net liability was approximately £295,000, this was mainly due to a change in the method of calculating the discount rate. It should be noted that amounts shown in the Airport's accounts relating to this legislation, Financial Reporting Standard 17, have no effect on the surplus.

Significant changes in Accounting Policies

There has been one significant change in accounting policies. The Airport's property portfolio has been valued as at 31st March 2005 by Drivers Jonas. This is a new valuation methodology to bring the Airport's Accounts in line with the requirements of the 2004 SORP. In previous years, the fixed assets included the costs of the capital works but did not include any revaluations of property and land. The effect of this change has resulted in an increase in the fixed asset values on the balance sheet from £4,252,018 in 2003/04 to £21,530,211 in 2004/05. This adjustment has been made within the following asset categories: Other Land & Buildings; Vehicles, Plant, Furniture & Equipment; Infrastructure; Investment Properties and Assets Under Construction.

Capital Summary

The Airport's capital programme was funded from borrowing (£85,354) and revenue (£15,000).

Airport Capital Programme 2004/05			
SCHEME	BUDGET FOR YEAR	SPEND FOR YEAR	VARIANCE OUTTURN
	£'000	£'000	£'000
Airport Masterplan	60,000	50,000	(10,000)
Parking Apron Extension	25,000	18,671	(6,329)
Rescue & Fire Vehicle Upgrade	100,000	0	(100,000)
Drainage at north end of runway	10,000	11,305	1,305
Footway west of Premier House	15,000	20,378	5,378
TOTAL	210,000	100,354	(109,646)

Further Information

Further information about the accounts is available from Central Accountancy Services, Financial Services, King's House, Hove. In addition, interested members of the public have a statutory right to inspect the accounts and their availability is advertised in the local press.

I certify that the accounts present fairly the financial position of the Airport as at 31st March 2005.



Catherine Vaughan CPFA
Director of Finance and Property
(Airport Treasurer)

SHOREHAM AIRPORT STATEMENT OF RESONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

Shoreham Airport Joint Committee's Responsibilities

The Joint Committee is required:

- To make arrangements for the proper administration of the Airport's financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this instance that officer is Brighton and Hove City Council's Chief Finance Officer (the Director of Finance and Property).
- To manage its affairs to secure economic, efficient and effective use of resources, and to safeguard its assets.

The Airport Treasurer's Responsibilities

The Airport Treasurer is responsible for the preparation of the Airport's Statement of Accounts which, in terms of the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Local Authority Accounting in United Kingdom, is required to present fairly the financial position of the Airport at the accounting date and its income and expenditure for the year. In preparing this statement of accounts, the Treasurer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code

The Treasurer has also:

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

SHOREHAM AIRPORT STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom issued in 2003/04, by the Chartered Institute of Public Finance and Accountancy (CIPFA), and also with guidance notes issued by CIPFA on the application of Statements of Recommended Practice (SORPs). The accounts are presented on an historic cost basis for fixed assets (see paragraph 4).

The Accounts have been prepared in accordance with Financial Reporting Standard (FRS) 18, which deals primarily with the selection application and disclosure of accounting policies.

2. Fixed Assets

The Code of Practice on Local Authority Accounting in the United Kingdom requires the Airport to value its land and property. These assets should be maintained in a register and the total value presented within the Airport balance sheet. The Code of Practice requires the owning Authority to charge the Airport with a capital charge which comprises a depreciation charge (the extent to which the asset has been worn out or used up during the year) and a notional interest charge that reflects the benefit that the service received from the decision to tie up capital resources in its particular assets.

The Airport is required to distinguish between “intangible” and “tangible” fixed assets. Intangible fixed assets are defined in FRS 10, Goodwill and Intangible Assets, as “non-financial fixed assets that do not have a physical substance but are identifiable and are controlled by the entity through custody or legal rights”. This could include software licences or patents. Tangible fixed assets are further distinguished between “operational” and “non-operational” fixed assets which determines the method of valuation.

- Operational assets are held and used by the Airport in the direct delivery of services or used for functions which are directly related to the support of such services. They have been included in the balance sheet at the lower of net replacement cost and the net realisable value in existing use.
- Non operational assets, such as commercial or investment property, have no direct link with the performance of the Airport’s services and functions. These have been included in the balance sheet at the lower of net current replacement cost and net realisable value (represented by open market value).

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis.

Intangible assets held on the Airport’s balance sheet relate to computer software. These are valued at cost and are amortised to revenue on a straight line basis over their expected useful life.

The Airport’s property portfolio has been valued as at 31st March 2005 by Drivers Jonas. This is a new valuation methodology to bring the Airport’s Accounts in line with the requirements of the 2004 SORP. In previous years, the fixed assets included the costs of the capital works but did not include any revaluations of property and land. The effect of this change has resulted in an increase in the fixed asset values on the balance sheet from £4,252,018 in 2003/04 to £21,530,211 in 2004/05. This adjustment has been made within the following asset categories: Other Land & Buildings; Vehicles, Plant, Furniture & Equipment; Infrastructure; Investment Properties and Assets Under Construction.

Drivers Jonas are recognised nationally as chartered surveyors with significant experience in the valuation of airports. The values have been determined in accordance with the Royal Institution of

Chartered Surveyors (R.I.C.S.) Appraisal and Valuation Manual. The Airport has revalued its assets whilst the Procurement Vision for its future regeneration is in progress. Fixed plant and machinery, such as lifts and central heating, are included in the valuation of buildings.

It must be emphasised that the value of assets shown in the Airport's balance sheet does not reflect the market value of the Airport. The Code of Practice requires each asset to be valued individually, therefore the Airport's balance sheet value exceeds the Airport's worth as a single entity if sold on the open market. The balance sheet value exceeds what the Airport is worth because the balance sheet value does not reflect that there is a revenue cost of running the Airport operations including Airport management, maintenance of the assets, the fire and rescue service and air traffic control, all of which reduce its open market value.

3. Deferred Charges

Deferred charges are payments of a capital nature where no fixed asset is created. From 2004/05 these charges must be written out to Revenue in the year during which the Capital Expenditure was incurred.

4. Charging for Capital

The revenue account receives a financing charge for all fixed assets used in the provision of Airport services. The total charge covers the annual provision for depreciation plus a capital financing charge determined by applying a specified notional rate of interest to net asset values. External interest payable and the provision for depreciation are charged to the Asset Management Revenue Account (AMRA), which is credited with capital charges to services.

Regulations prescribe that the minimum amount of debt repayment (known as the minimum revenue provision - MRP) to be charged in the revenue account is 4% of net outstanding debt. Any balance on the AMRA is then transferred to the Airport revenue account, together with any difference between the depreciation charge and the minimum revenue provision. In effect, the net capital cost borne by the Airport revenue account is the actual external interest payable and the minimum revenue provision.

Amounts set aside from revenue for the repayment of external loans, or to finance capital expenditure or as transfers to other earmarked reserves are disclosed separately as appropriations in the revenue account, below net operating expenditure. The framework for the prudential system, and in particular the prudential code, requires financing to be on an accruals basis

5. Capital Receipts

Income from the disposal of fixed assets is accounted for on an accruals basis. Balances may be used to finance further capital expenditure. Any such income that is not reserved for the repayment of external loans, and has not been used to finance capital expenditure, is included in the balance sheet as usable capital receipts.

6. Debtors and Creditors

The Revenue Accounts of the Airport are maintained on an accruals basis in accordance with the Accounting Code of Practice and Financial Reporting Standard (FRS) 18. Any significant sums due to or from the Airport during the year are included whether or not the cash has actually been received or paid in the year. There has been a change in accounting policy regarding the rents in respect of rents invoiced in advance.

7. Stocks

Stocks are valued at the average cost of the commodity in stock.

8. Provisions

The Airport makes provision for future expenditure that is likely or certain to be incurred, but the amount and date of which cannot yet be determined accurately. Note 6 to the consolidated balance sheet highlights that as at 31st March 2005, the Airport had a bad debts provision of £25,313.

9. Reserves

The airport maintains capital and revenue reserves, these are shown in the Statement of Total Movement in Reserves:

- The fixed asset restatement account reflects the balance of surpluses and deficits arising from the ongoing revaluations of fixed assets.
- The capital financing account represents amounts set aside from capital receipts for the repayment of external loans.

Neither the fixed asset restatement account nor the capital financing account are backed by cash resources and thus cannot be called on to support spending.

10. Cost of Support Services

The costs of support services have been fully recharged to the Airport. These costs have been apportioned using the most appropriate base including employee numbers, accommodation areas, gross or net service expenditure.

11. Investments

The Airport invests its repairs and renewals fund and part of its general reserve. The investment is wholly with Brighton & Hove City Council.

12. Depreciation

Depreciation is provided for on buildings, vehicles, plant and equipment. Depreciation is applied according to the following policy:

- Newly acquired assets are depreciated commencing in the year following acquisition, but assets in the course of construction are not depreciated until they are brought into use
- Depreciation is calculated using the straight line method.

13. Government Grants

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been satisfied and there is reasonable assurance that the grant or contribution will be received. Where the acquisition of a fixed asset is financed either wholly or in part by a Government grant or other contribution, the amount of the grant or contribution is credited initially to a Government grant deferred account. Amounts are released to the asset management revenue account over the useful life of the asset to match any depreciation charged on the asset to which it relates.

14. Capital Financing

In accordance with the 2004 SORP and the Prudential Code capital financing is now undertaken on a full accruals basis. Capital expenditure is included on an accruals basis and financed from borrowing or a revenue contribution to capital.

15. Accounting for Retirement Benefits

With effect from 2003/04 local authorities have to comply with Financial Reporting Standard (FRS) 17 with regard to pension costs. FRS17 is a complex accounting standard, but is based on a simple principle – that the Airport has to account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future. These accounting policies represent a

change to those applied prior to 2003/04. Previous policy was to recognise liabilities in relation to retirement benefits only when employer's contributions became payable to the pension fund or payments fell due to the pensioners for which the Airport was directly responsible. The new policies better reflect the Airport's commitment in the long term to increase contributions to make up any shortfall in attributable net assets in the pension fund.

The change has had the following effects on the results of the prior and current periods:

- the overall amount to be met from Airport revenue resources has remained unchanged but the costs disclosed in the Revenue Account are £5,000 lower after the replacement of employer's contributions by current service costs, and Net Operating Surplus is £5,000 higher than it would otherwise have been
- the requirement to recognise the net pensions liability in the balance sheet has reduced the reported net worth of the Airport by £0.913m.

SHOREHAM AIRPORT REVENUE ACCOUNT

2003/04 £	Revenue Account for the Year Ended 31st March	2004/05 £
<u>EXPENDITURE</u>		
700,773	Employees	772,788
293,111	Premises	363,170
51,501	Transport	54,042
831,708	Supplies and Services	779,787
66,420	Support Services	84,000
410,413	Capital Financing Charges	418,267
2,353,926		2,472,054
<u>INCOME</u>		
(2,405,938)	Customer & Client Receipts	(2,493,436)
(10,000)	Option Payment	(10,000)
(2,415,938)		(2,503,436)
(62,012)	Net Service (Income)/Expenditure	(31,382)
2,430	Transfer from AMRA	(12,389)
140,000	Interest on Pension Scheme Liabilities	133,000
(107,000)	Expected return on Employer Assets	(128,000)
(4,374)	Interest Receivable	(15,765)
2,307	Interest Payable	0
(28,649)	Net Operating (Surplus)/Deficit	(54,536)
<u>APPROPRIATIONS</u>		
(64,503)	MRP Adjustment	(54,855)
10,000	Transfer to Renewals Fund	10,000
(33,000)	Pensions Reserve	(5,000)
0	Revenue Contribution to Capital	15,000
(116,152)	(Surplus) / Deficit For Year	(89,391)

In 2004/05 there has been a change in the presentation of the revenue account with regard to the revenue implications of accounting for pensions (Financial Reporting Standard (FRS) 17) to comply with the 2004 SORP. We have therefore re-presented the 2003/04 figures in the new format to make them comparable. Please note there is no overall effect on the (Surplus)/Deficit for the Year however this revised presentation has led to adjustments of the Net Service (Income)/Expenditure and the Net Operating (Surplus)/Deficit for 2003/04.

SHOREHAM AIRPORT NOTES TO THE REVENUE ACCOUNT

1. Transactions on the Asset Management Revenue Account (AMRA)

2003/04 £	Asset Management Revenue Account	2004/05 £
	Income	
(408,579)	Capital Financing Charges	(416,599)
(42,601)	Government grants written down	(42,601)
	Expenditure	
255,173	Provision for depreciation/amortisation	254,088
198,437	External Interest Charges	192,723
2,430	Balance to Revenue Account	(12,389)

2. Minimum Revenue Provision Adjustment

2003/04 £	Minimum Revenue Provision	2004/05 £
148,069	Minimum Revenue Provision (4%)	156,632
(255,173)	Amount charged as Depreciation	(254,088)
42,601	Government grants written down	42,601
(64,503)	Credit to Revenue Account - Appropriations	(54,855)

3. Capital Financing Transactions

2003/04 £	Capital Financing Charges	2004/05 £
408,579	Capital Financing Charges	416,599
1,834	Debt Management Expenses	1,668
410,413	Total Charge to Revenue Account	418,267

The Notional Capital Financing Charges now include depreciation of all fixed assets (see Note 1 – Asset Management Revenue Account).

4. Disclosure of Executive Remuneration

2003/04 £	Remuneration Band	2004/05 £
0	£50,000 - £59,999	1

5. Pensions Costs

As part of the terms and conditions of its employees, the Airport offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Airport has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement. The Airport participates in the Local Government Pension Scheme, administered by East Sussex County Council. This is a funded scheme, meaning that the Airport and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

We recognise the cost of retirement benefits in the Net Service Income/Expenditure when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Airport revenue resources is based on the cash payable in the year, so the real cost of retirement benefits is adjusted in the Revenue Account after Net Operating Surplus/Deficit. The following transactions have been made in the Revenue Account during the year:

2003/04 £'000	Pension Costs	2004/05 £'000
	<u>Net Cost of Services</u>	
(58)	- current service cost	(84)
0	- past service cost	0
	<u>Net Operating Expenditure</u>	
(140)	- interest cost	(133)
107	- expected return on assets in the scheme	128
	Amounts to be met from Airport revenue resources:	
8	- movement on pensions reserve	0
	Actual amount charged against Airport revenue resources for pensions in the year:	
(83)	- employer's contributions payable to scheme	(89)

Note 11 to the Balance Sheet contains details of the assumptions made in estimating the figures included in this note. Note 6 to the Statement of Total Movements in Reserves details the costs that have arisen through the year. Estimates made in preparing figures for the previous year have had to be revised (for example, the expected return on investments).

6. Members' Allowances

All members serving on the Airport Joint Committee are co-opted from their respective authorities. There is no remuneration charged to the Airport for service on the Airport Joint Committee.

7. EURO Costs

The Airport has not undertaken any transactions denominated in the currency of the European Union.

8. Related Party Transactions

In accordance with Financial Reporting Standard (FRS) 8, material transactions with related parties not disclosed elsewhere in this statement of accounts are detailed below.

- **Central Government Grants**

There are no Central Government Grants within these accounts.

- **Joint Arrangements**

Brighton & Hove City Council owns two thirds and Worthing Borough Council owns one third of Shoreham Airport.

- **Members and Directors**

The Brighton & Hove City Council's Register of Members Interests and Hospitality were examined in order to identify any material transactions and no related party transactions were identified.

9. Audit Costs

The fees payable to the Audit Commission with regard to external audit services carried out by the District Auditor were the estimated fees of £4,440 for the 2003/04 accounts signed off in 2004/05. The 2004/05 Accounts do not include the estimated cost of auditing that year's Accounts.

SHOREHAM AIRPORT BALANCE SHEET

As at 31 st March 2004	BALANCE SHEET	As at 31 st March 2005	
£		£	£
	Fixed Assets (Note 1&2)		
10,869	<u>Intangible Assets</u>	8,152	8,152
	<u>Tangible Fixed Assets</u>		
	Operational Assets		
2,907,367	Other Land and Buildings	2,427,769	
180,624	Vehicles, Plant, Furniture & Equipment	107,411	
1,053,113	Infrastructure	5,870,734	
4,141,104			8,405,914
	Non-Operational Assets		
0	Investment Properties	12,060,100	
100,045	Assets Under Construction	1,056,045	
100,045			13,116,145
4,252,018	Total Fixed Assets		21,530,211
130,512	Long Term Investments (note 4)	241,664	
4,382,530	Total Long Term Assets		21,771,875
	<u>Current Assets</u>		
25,616	Stocks & Work in Progress (note 5)	32,740	
288,450	Debtors (note 6)	318,792	
2,815	Cash and Bank (note 7)	101,568	
316,881		453,100	
	<u>Current Liabilities</u>		
(171,083)	Creditors (note 8)	(279,064)	
145,798	Net Current Assets		174,036
4,528,328	Total Assets less Current Liabilities		21,945,911
(3,824,160)	Long Term Borrowing (note 9)	(3,792,882)	
(618,000)	Pensions Liability	(913,000)	
(4,442,160)			(4,705,882)
86,168	Total Assets Less Liabilities		17,240,029
119,320	Fixed Assets Restatement Account	(17,312,607)	
(407,311)	Capital Financing Account	(367,456)	
0	Govt Grant And External Contributions Account	0	
(169,513)	Government Grants Deferred (note 10)	(126,911)	
	Funds Balances & Reserves		
(139,850)	General Reserves	(229,241)	
618,000	Pensions Reserve (note 11)	913,000	
(106,814)	Repairs and Renewals Fund (note 12)	(116,814)	
(86,168)	Total Equity		(17,240,029)

SHOREHAM AIRPORT NOTES TO THE BALANCE SHEET

I. Intangible Assets

Movements in year Intangible Assets	Software	Total
	£'000	£'000
Gross Book Value at 1st April 2004	23,587	23,587
Additions	0	0
Gross Book Value at 31st March 2005	23,587	23,587
	£'000	£'000
Accumulated Amortisation at 1st April 2004	(8,551)	(8,551)
Amortisation this year	(6,884)	(6,884)
Net Book Value 31st March 2005	8,152	8,152

2. Tangible Fixed Assets

	Land & Buildings	Vehicles, Plant & Equipment	Infra-structure	Investment Properties	Assets Under Construction	Total Fixed Assets
	£	£	£	£	£	£
Gross Book Value at 1st April 2004	3,298,113	892,199	1,347,281	0	100,045	5,637,638
Additions	0	0	50,354	0	50,000	100,354
Recategorisation	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
Revaluations	(870,344)	(55,405)	4,473,098	12,060,100	906,000	16,513,449
Gross book value at 31st March 2005	2,427,769	836,794	5,870,733	12,060,100	1,056,045	22,251,441
Accumulated Depreciation at 1 st April 2004	(390,746)	(711,576)	(294,168)	0	0	(1,396,490)
Depreciation this year	(73,560)	(57,770)	(120,040)	0	0	(251,370)
Depreciation written out on asset movements	464,306	39,963	414,209	0	0	918,478
Net Book Value at 31st March 2005	2,427,769	107,411	5,870,734	12,060,100	1,056,045	21,522,059

The Fixed Asset classifications have been revised to meet the requirements of SORP2004. In additions to this, a thorough review of fixed assets has resulted in further reclassifications.

As part of the annual inspection and ongoing management of the Airport’s property portfolio, attention is paid to the impact of obsolescence, physical damage and changes of use which affect values. If a building remains in use, the impact of physical damage, functional or economic obsolescence rarely have a significant effect on value. The Airport is located in the South East of England where there is a shortage of land and buildings, high demand sustains the upward pressure on values meaning that impairment is rare.

The valuations for property, infrastructure and operational assets have been carried out by Drivers Jonas, an independent company of commercial property consultants. It is a requirement that the valuers are RICS qualified. For further information regarding the basis of revaluations, please refer to the Statement of Accounting Policies.

It must be emphasised that the value of assets shown in the Airport’s balance sheet does not reflect the market value of the Airport. The Code of Practice requires each asset to be valued individually, therefore the Airport’s balance sheet value exceeds the Airport’s worth as a single entity if sold on the open market. The balance sheet value exceeds what the Airport is worth because the balance sheet value does not reflect that there is a revenue cost of running the Airport operations including Airport management, maintenance of the assets, the fire and rescue service and air traffic control, all of which reduce its open market value.

Depreciation is calculated on a straight-line basis over the expected life of the asset. The land has not been valued separately from the buildings. Depreciation is charged on all assets except work in progress. Each type of asset has a set life. Operational buildings are set at 50 years, furniture and equipment is 5-10 years depending on the nature of the asset. Infrastructure is 10-20 years depending on the nature of the asset.

3. Leases

There are no finance leases or operating leases at the airport.

4. Long Term Investments

The long term investments for the airport are consolidated within the Brighton & Hove City Council investment policy. The movement in the year reflects the profit for 2003/04 £116,152, plus £10,000 for the option payment less £15,000 revenue contribution to capital.

5. Stock

Stocks are valued at the average cost of the commodity in stock.

6. Debtors

The airport debtors are:

31 st March 2004		31 st March 2005
£		£
308,763	Sundry Debtors	344,105
(20,313)	Provision for Doubtful Debts	(25,313)
288,450	TOTAL	318,792

In 2004/05 there has been a change in the treatment of rents in advance and their inclusion in Debtors and Creditors. We have therefore re-presented the 2003/04 figures accordingly to make them comparable.

7. Cash and Bank

The airport cash balances are:

31 st March 2004			31 st March 2005	
£			£	
600	Cash in hand		600	
2,215	Bank Account		100,968	
2,815	TOTAL		101,568	

8. Creditors

The airport creditors are:

31 st March 2004			31 st March 2005	
£			£	
(52,539)	Inter Authority balance with B & HCC		(122,394)	
7,500	Return Cheques		0	
(29)	Trade Creditors		(58,578)	
(126,015)	Sundry creditors		(98,092)	
(171,083)	TOTAL		(279,064)	

In 2004/05 there has been a change in the treatment of rents in advance and their inclusion in Debtors and Creditors. We have therefore re-presented the 2003/04 figures accordingly to make them comparable.

9. Long Term Borrowing

Financing charges have been calculated in accordance with the Local Government Act 2003. Regulations prescribe that the minimum amount of debt repayment (known as the minimum revenue provision - MRP) to be charged in the revenue account is 4% of net outstanding debt. The Airport follows the Brighton & Hove City Council's policies on long term borrowing. Brighton & Hove City Council does not operate a separate debt and investment portfolio for the Airport, which in accordance with CIPFA guidance on Treasury Management.

10. Government Grants Deferred Account

Government grants deferred represents grants that have been used to purchase fixed assets. As the value of the asset is reduced by depreciation, so the value of the "Government Grants Deferred" account reduces to offset that depreciation charge. Government grants deferred has moved to the financing side of the balance sheet to meet the requirements of SORP2004.

11. Disclosure of Net Pensions Asset/Liability

Note 14 to the Revenue Account contains details of the Airport's participation in the Local Government Pension Scheme, administered by East Sussex County Council, in providing employees with retirement benefits. The underlying assets and liabilities for retirement benefits attributable to the Airport at 31 March are as follows:

2003/04 £	Movement in Surplus/Deficit of the Pension Fund during the year	2004/05 £
(826,000)	Deficit at beginning of the year	(618,000)
(58,000)	Current Service Costs	(84,000)
88,000	Employer Contributions	88,000
6,000	Contributions in respect of Unfunded Benefits	7,000
(33,000)	Net Return on Assets	(5,000)
205,000	Actuarial Gains/(Losses)	(301,000)
(618,000)		(913,000)

The liabilities show the underlying commitments the Airport has in the long-run to pay retirement benefits. The total liability of £0.913m has a substantial impact on the net worth of the Airport as recorded in the balance sheet, resulting in a negative overall balance of £0.192m. However, statutory arrangements for funding the deficit mean that the financial position of the Airport remains reasonably healthy. The deficit on the pension scheme will be made good by increased contributions from the employers, as assessed by the scheme actuary.

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The pension fund liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, estimates for the pensions fund being based on the latest full valuation of the scheme as at 31 March 2004. The main financial assumptions used in their calculations have been:

2003/04		2004/05
2.90%	Rate of inflation	2.90%
4.40%	Rate of increase in salaries	4.40%
2.90%	Rate of increase in pensions	2.90%
6.50%	Rate for discounting scheme liabilities	5.40%

Assets in the pension fund are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the Fund:

31 st March 2004			31 st March 2005	
%	£'000		%	£'000
74.10%	1,354	Equity investments	74.30%	1,513
12.20%	224	Bonds	11.00%	224
10.50%	192	Property	10.90%	222
3.20%	59	Cash	3.80%	76
100.00%	1,829	TOTAL	100.00%	2,035

12. Earmarked Reserves

The earmarked reserve is a repairs and renewals fund to maintain the Airport assets.

13. Contingent Liabilities

A contingent liability or asset is a possible loss or gain which is not recognised in the accounts because it cannot be accurately estimated or because the event giving rise to the possible loss or gain is not considered sufficiently certain. This item is disclosed by way of a note to the accounts.

There are no contingent liabilities identified as at 31 March 2005.

14. Post Balance Sheet Events

The joint owners are going through a procurement process to attract a private sector operator to manage and regenerate Shoreham Airport. The councils intend to make a decision in 2005/06.

SHOREHAM AIRPORT STATEMENT OF TOTAL MOVEMENTS IN RESERVES

2003/04		2004/05	
£		£	£
116,152	Surplus / (deficit) for the year	89,391	
208,000	Deduct appropriation from Pension reserve	(295,000)	
10,000	Movements on specific revenue reserves	10,000	
334,152	Total increase/(decrease) in revenue resources (note 1)		(195,609)
0	Increase/(decrease) in usable capital receipts	0	
0	Increase /(decrease) in unapplied capital grants and contributions	0	
0	Total increase/(decrease) in realised capital resources (note 2)		0
0	Gains/(losses) on revaluation of fixed assets	17,431,927	
0	Impairment losses on fixed assets due to general changes in prices	0	
4,250	Capital expenditure written off	0	
4,250	Total increase/(decrease) in unrealised value of fixed assets (note 3)		17,431,927
0	Value of assets sold, disposed of or decommissioned (note 4)		0
0	Capital Receipts Set Aside	0	
(64,503)	Revenue resources set aside	(39,855)	
(42,602)	Movement on Government Grants Deferred	(42,602)	
(107,105)	Total increase/(decrease) in amounts set aside to finance capital investment (note 5)		(82,457)
231,297	Total recognised gains and losses		17,153,861

NOTES TO THE STATEMENT OF TOTAL MOVEMENTS IN RESERVES

1. Movement in revenue resources

	Revenue Resources	
	£	£
Surplus / (deficit) for 2004/05	89,391	
Appropriations from revenue	10,000	
Actuarial gains and losses relating to pensions	(295,000)	
		(195,609)
Balance brought forward at 1 st April 2004		(371,336)
Balance carried forward at 31st March 2005		(566,945)

2. Movement in realised capital resources

	Usable capital receipts	
	£	£
Amount Receivable in 2004/05	0	
Surplus / (deficit) for the year	0	
Amounts applied to finance new capital investment in 2004/05	0	
Total increase / (decrease) in realised capital resources in 2004/05		0
Balance brought forward at 1 st April 2004		0
Balance carried forward at 31st March 2005		0

3. Movement in unrealised value of fixed assets

Fixed Asset Restatement Account	
	£
Gains / losses on revaluation of fixed assets in 2004/05	17,431,927
Impairment losses on fixed assets due to general changes in prices in 2004/05	0
Capital Expenditure written off	0
Total increase / (decrease) in unrealised capital resources in 2004/05	17,431,927

4. Value of Assets Sold, Disposed of or Decommissioned

Amounts written off Fixed Asset balances for disposals in 2004/05	0
Total movement on reserve in 2004/05	17,431,927
Balance brought forward at 1 st April 2004	(119,320)
Balance carried forward at 31st March 2005	17,312,607

5. Movements in amounts set aside to finance capital investments

	Capital Financing Account	Government Grants deferred	Total
	£	£	£
<u>Capital receipts set aside in 2004/05</u>			
- Reserved Receipts	0		
- Usable receipts applied	0		
Total receipts set aside in 2004/05			0
<u>Revenue resources set aside in 2004/05</u>			
- Capital expenditure financed from revenue	15,000		
- Reconciling amount for provisions for loan repayment	(54,855)		
Total revenue resources set aside in 2004/05			(39,855)
- Grants applied to capital investment in 2004/05		0	
- Amounts credited to the Asset Management Revenue Account in 2004/05		(42,602)	
			(42,602)
Total increase / (decrease) in amounts set aside to finance capital investment			(82,457)
Total movement on reserve in 2004/05	(39,855)	(42,602)	
Balance brought forward at 1 st April 2004	407,311	169,513	
Balance carried forward at 31st March 2005	367,456	126,911	

6. Pensions Reserve

The actuarial gains identified as movements on the Pensions Reserve in 2004/05 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2005

	£'000	%
Differences between the expected and actual return on assets	81	4.00%
Differences between actuarial assumptions about liabilities and actual experience	68	2.30%
Changes in the demographic and financial assumptions used to estimate liabilities	(439)	
Total for 2004/05	(290)	
Comparative totals for 2003/04	205	

CASH FLOW STATEMENT

Year to 31 st March 2004		Year to 31 st March 2005	
£		£	£
	REVENUE ACTIVITIES		
	<u>Cash Outflows</u>		
709,873	Cash Paid to and on behalf of Employees	763,160	
1,266,233	Other Operating Costs	1,399,562	
1,976,106			2,162,722
	<u>Cash Inflows</u>		
(883,405)	Rents	(885,238)	
(1,520,881)	Other Operating Cash Receipts	(1,625,141)	
(2,404,286)			(2,510,379)
(428,180)	Net Cash (Inflow) / outflow from revenue activities <i>(Note 1)</i>		(347,657)
	Returns on Investments and Servicing of Finance		
	<u>Cash Outflows</u>		
198,437	Interest Paid - AMRA	192,723	
2,307	Interest Paid – Other	0	
200,744			192,723
	<u>Cash Inflows</u>		
(4,374)	Interest Received	(15,765)	
(4,374)			(15,765)
	Capital Activities		
	<u>Cash Outflows</u>		
332,086	Purchase of Fixed Assets	50,354	
30,045	Work in progress	75,000	
362,131			125,354
	<u>Cash Inflows</u>		
0	Sale of Fixed Assets	0	
0	Capital Grants Received	0	
0			0
130,321	Net Cash (inflow) outflow before Financing		(45,345)
23,212	Management of Liquid Resources		111,152
	Financing		
	<u>Cash Outflows</u>		
148,069	Repayments of Amounts Borrowed	156,632	
1,834	Debt management expenses	1,668	
149,903			158,300
	<u>Cash Inflows</u>		
(362,130)	New Loans Raised	(125,354)	
(362,130)			(125,354)
(189,015)	Net Cash (inflow) / outflow from Financing		144,098
(58,694)	(Increase) / Decrease in cash (Note 2)		98,753

NOTES TO CASH FLOW STATEMENT

I. Revenue Activities Net Cashflow

2003/04 £		2004/05 £
(116,152)	(Profit)/Loss for the Year	(89,391)
(196,370)	Interest	(176,958)
(235,003)	Add non cash transactions	(10,793)
Add Items accrued in accounts:		
3,481	Increase / (decrease) in stocks	7,124
225,776	(Increase) / decrease in creditors	(107,981)
(109,912)	Increase / (decrease) in debtors	30,342
(428,180)	Net Cash (inflow) / outflow from Revenue Activities	(347,657)

2. Movements in Cash

Movements During the year	Balance at 01/04/04 £	Balance at 31/03/05 £	Movement in Year £
Cash in Hand	600	600	0
Cash Overdrawn	2,215	100,968	98,753
TOTAL	2,815	101,568	98,753

3. Reconciliation of items under the Financing and Management of Liquid Resources sections to the opening and closing balance sheets

Movements During the year	Balance at 01/04/04 £	Balance at 31/03/05 £	Movement in Year £
Investments	130,512	241,664	111,152
TOTAL	130,512	241,664	111,152

See note 5 to the balance sheet.

4. Government Grants received during the year

No revenue or capital grants were received during 2004/05.

SHOREHAM AIRPORT GLOSSARY OF TERMS

Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Capital Charge

A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services. The charge is for notional interest (to represent the cost of tying up resources in those assets) and may include depreciation (intended to represent the cost of using the asset).

Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure which adds to and not merely maintains the value of an existing fixed asset.

Capital Financing Account

This reserve represents the amounts set aside from capital receipts for the repayment of external loans.

Capital Receipt

The proceeds from the sale of a fixed asset.

Contingent Asset

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Airport's control.

Contingent Liability

A contingent liability is either:

- a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Airport's control; or
- a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount cannot be measured with sufficient reliability.

Creditor

Amounts owed by the Airport but not paid at the date of the balance sheet.

Current Asset

An asset held which will be consumed or cease to have value within the next financial year; examples are stock and debtors.

Current Liability

An amount which will become payable or could be called in within the next accounting period, examples are creditors and cash overdrown.

Debtors

Amounts owed to the Airport but not paid at the balance sheet date.

Deferred Charges

Deferred charges are payments of a capital nature where no fixed asset is created.

Depreciation

The loss in value of an asset due to age, wear and tear, deterioration or obsolescence.

Fixed Assets

Tangible assets that yield benefit to the Airport and the services it provides for a period of more than one year.

Government Grants

Grants made by the government towards capital expenditure to support the cost of the provision of the Airport's services. These grants are towards the cost of particular capital schemes.

Infrastructure Assets

Fixed assets that are not able to be transferred or sold, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways, footpaths and bridges.

Intangible Fixed Assets

Non-financial fixed assets that do not have a physical substance but are identifiable and are controlled by the entity through custody or legal rights. This could include software licences or patents.

Liquid Resources

Current asset investments that are readily disposable by the Airport without disrupting its business and are either:

- readily convertible to known amounts of cash as or close to the carrying amount; or
- traded in an active market.

Minimum Revenue Provision (MRP)

Is the minimum amount which must be charged to the revenue account each year in order to provide for the repayment of loans and other amounts borrowed by the Airport.

Non-Operational Assets

Fixed assets held but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operational Assets

Fixed assets held and occupied, used or consumed by the Airport in the direct delivery of services for which it has either a statutory or discretionary responsibility.

Post Balance Sheet Events

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Provision

An amount set aside in the accounts for liabilities or losses which are certain or very likely to occur and for which a reliable estimate of the amount of the obligation can be made.

Provision for Credit Liabilities

This represents the sum set aside for repayment of debt. This provision is subsumed within the capital financing account.

Related Party Transaction

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

Reserves

These result from events which have allowed money to be set aside or surpluses of income over expenditure. They are not allocated to specific liabilities in the way that provisions are. Earmarked reserves are allocated for a specific purpose. Unallocated reserves are often described as balances.

Revenue Expenditure

The day to day running costs relating to the accounting period irrespective of whether or not the amounts due have been paid. Examples are salaries, wages, materials, supplies and services.

Temporary Borrowing

Money borrowed for a period of less than one year.

Useful Life

The period over which benefits will be derived from the use of a fixed asset.

Work in Progress

The cost of work done on an uncompleted project at the balance sheet date, which should be accounted for.