

# Financial Report

2012-2013





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# GENERAL INFORMATION

## PHYSICAL FEATURES

Hastings covers an area of **3,078 hectares**

The Council owns land amounting to approximately **1,012 hectares**

The length of the coastline is **12 kilometres/7.5 miles**

## POPULATION

The Town's estimated population at the March 2011 Census as provided by the Office of National Statistics was 90,254. The age structure was as follows :-

Age Range	Males	Females	Total	%
0 - 14	8,011	7,648	15,659	17
15 - 29	8,406	8,743	17,149	19
30 - 44	8,965	8,712	17,677	20
45 - 59	8,850	9,426	18,276	20
60 - 74	6,909	7,132	14,041	16
75 and over	2,873	4,579	7,452	8
	<b>44,014</b>	<b>46,240</b>	<b>90,254</b>	100

The registered electorate in 2012-13 was : **65,005**

## COUNCIL TAX & BUSINESS RATING INFORMATION

Rateable value of business premises at 31 March 2013	<b>£57,755,216</b>
Net Borough Council Revenue Expenditure (excluding capital charges)	<b>£17,086,613</b>
Council Tax Base	<b>29,614</b>
Council Tax at Band D - includes all preceptors	<b>£1,614.43</b>

## EMPLOYEES

The average number of persons employed by the Council during the period was :-

	NUMBER OF EMPLOYEES	
	2011-12	2012-13
Full time	333	279
Part time (full time equivalents)	54	75
Total	387	354

The cost of employment during the year was :-

	£'000	£'000
	2011-12	2012-13
Wages and Salaries	10,579	10,077
National Insurance	799	766
Pension Contributions	2,011	1,921
Total	13,389	12,764



# EXPLANATORY FOREWORD

## INTRODUCTION

The Council's accounts for the year of 2012-13 are set out on pages 26 to 90. This foreword provides a brief explanation of the financial aspects of the Council's activities and draws attention to the main characteristics of the Council's position.

### 1. Annual Financial Report

The annual financial report is made up as follows:

#### (i) Service summaries

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Authority on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:-

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

The service summaries reflect the outturn position for each directorate as compared to the revised budget.

A reconciliation between the Directorate Income and Expenditure to the Cost of Services in the Comprehensive Income and Expenditure Statement can be found in Note 45.

#### (ii) Annual Governance Statement

Governance issues relating to internal financial controls are particularly pertinent to the preparation and publication of the Statement of Accounts. Regulation 4 of the Accounts and Audit Regulations 2011 requires authorities to carry out an annual review of the effectiveness of its system of internal control. Having considered the findings of the review, members are then required to approve an annual governance statement, prepared in accordance with proper practices in relation to internal control. This statement is included within the final accounts for ease of reference.

#### (iii) The Statement of Responsibilities

The Statement of Responsibility sets out the general responsibilities of both the Borough Council and the Head of Finance, in making proper financial arrangements and in maintaining financial records.

#### (iv) The Independent Auditor's report

#### (v) The Statement of Accounts.

The Statement of Accounts consists of the following:

#### (a) The Core Accounting Statements:

The following four statements show in broad terms where the Council's money comes from, what it is spent on, and what services it provides.

# EXPLANATORY FOREWORD

## *Movement in Reserves Statement*

This shows the movement in the year on the different reserves held by the Council, analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus (or Deficit) on the Provision of Services line shows the true economic cost of providing the Council’s services, more details of which are shown in the Comprehensive Income and Expenditure Account. These are different from the statutory amounts required to be charged to the General Fund Balance for tax setting purposes (see Note 7 for details). The line entitled “Net Increase / Decrease before Transfers to Earmarked Reserves” shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

## *The Comprehensive Income and Expenditure Statement*

This 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. Councils raise taxation to cover expenditure in accordance with regulations, and this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

## *The Balance Sheet*

This shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first grouping is of usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (such as the Capital Receipts Reserve being restricted to fund capital expenditure or to repay debt). The second grouping includes reserves that hold unrealised gains or losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line “Adjustments between accounting basis and funding basis under regulations”.

## *The Cash Flow Statement*

This shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of the services provided by the Council. Investing activities represent the amount to which cash outflows have been made for resources which are intended to contribute towards the Council’s future service delivery.

(b) Notes to the Core Financial Statements, which include explanations and more detailed information.

(c) The Collection Fund Income and Expenditure Account - the Council is required to maintain a Collection Fund to receive sums by way of Council Tax, Business Rates, and any other amounts relating to the fund.

Payments out include sums required by precepting bodies such as the East Sussex County Council, the Police and the Council's own General Fund, the contribution to the national Business Rating Pool and other amounts relating to the operation of the Fund.

## **2. Changes to Accounting Policies: International Financial Reporting Standards**

This Statement of Accounts, in common with those for all other local authorities, is compiled in line with International Financial Reporting Standards (IFRS).

Full details of the change to policies are given in Note 1 to the accounting statements.

# EXPLANATORY FOREWORD

## 3. Material assets/liabilities

No material assets have been acquired or material liabilities incurred.

## 4. Pension

The Council provides for the pensions of its past and present employees by contributing to the East Sussex County Council Pension Fund.

There has been an increase in the net deficit as shown in the balance sheet since last year. This is principally because falling bond yields reduce the rate for discounting liabilities and therefore increase the value of the liabilities. This is partially offset by investment returns being higher than expected. The overall effect is that the pension fund has moved from a deficit of £27 million to a deficit of £32 million

## 5. Revenue

The cost of services in 2012-13 has fallen significantly from the previous year, although this was anticipated last year.

The following table compares the major elements of the budget and actual for general fund services in 2012-13:-

	2012-13 Estimate Budget £	2012-13 Revised Budget £	2012-13 Actual Outturn £	2012-13 Variance £
<b>Directorates</b>				
Corporate Resources	1,957,860	3,018,100	1,858,760	(1,159,340)
Environmental Services	8,559,990	8,478,300	8,259,055	(219,245)
Regeneration	7,226,840	6,673,970	6,525,686	(148,284)
Contingencies	400,000	221,000	0	(221,000)
<b>Direct Service Expenditure</b>	<b>18,144,690</b>	<b>18,391,370</b>	<b>16,643,501</b>	<b>(1,747,869)</b>
Net Interest (Earnings) / Payments	124,400	(41,000)	(85,000)	(44,000)
Other operating costs	496,000	496,000	496,000	0
Net Contribution to / (from) Reserves*	(1,824,273)	93,828	2,019,588	1,925,760
<b>Net Council Expenditure</b>	<b>16,940,817</b>	<b>18,940,198</b>	<b>19,074,089</b>	<b>133,891</b>
Less Government Grant	(9,913,025)	(11,912,406)	(12,046,297)	(133,891)
Collection Fund Surplus	(43,337)	(43,337)	(43,337)	0
<b>Amount to be met by Council Tax Payers</b>	<b>6,984,455</b>	<b>6,984,455</b>	<b>6,984,455</b>	<b>0</b>

There is an improvement of £343,000 in the net expenditure position compared to the revised budget. This figure includes £221,000 of contingency monies that were not required in the year

After, excluding reserve funded items, but allowing for single year adjustments such as Housing Benefit overpayment recovery rate (£225,000), the writing back of provisions (Foreshore – £260,000, MMI insurance - £158,000), severance payments (£265,000), transfer of a provision to a reserve (£79,000 in respect of an insurance claim settlement), this figure improves by a further £987,000. It should be noted that £75,000 is being carried forward into 2013-14.

# EXPLANATORY FOREWORD

## 2013-14 Budget

The table below summarises planned net expenditure on services for 2013-14, compared to 2012-13, and shows how this is funded from government grants, business rates and council tax. The Council's target of a balanced budget is being achieved by matching planned expenditure by income from fees, charges, government grants and council tax, while the controlled use of reserves and surplus investment income is used to meet one-off priority spending. The table shows that this closely defined use of earmarked reserves for one-off spending is planned to change.

	2012-13 Revised Budget £	2013-14 Estimate Budget £	Change 2012-13 to 2013-14 £
<b>Directorates</b>			
Corporate Resources	3,018,100	2,921,750	(96,350)
Environmental Services	8,478,300	8,073,220	(405,080)
Regeneration	6,673,970	6,077,210	(596,760)
<b>Direct Service Expenditure</b>	<b>18,170,370</b>	<b>17,072,180</b>	<b>(1,098,190)</b>
Contingencies	221,000	400,000	179,000
Interest payable	(41,000)	197,000	238,000
Other operating costs	496,000	496,000	0
Net Contribution to / (from) Reserves	93,828	(1,039,045)	(1,132,873)
<b>Net Council Expenditure</b>	<b>18,940,198</b>	<b>17,126,135</b>	<b>(1,814,063)</b>
Less Government Grant :-			
Revenue Support Grant	(7,391,559)	(5,085,921)	2,305,638
Transitional Grant/Efficiency Support Grant	(2,137,391)	(974,522)	1,162,869
Business Rates Retained	0	(3,281,618)	(3,281,618)
Other general grants	(2,383,456)	(2,137,117)	246,339
Collection Fund Surplus	(43,337)	(147,166)	(103,829)
<b>Amount to be met by Council Tax Payers</b>	<b>6,984,455</b>	<b>5,499,791</b>	<b>(1,484,664)</b>

The Comprehensive Spending Review 2010 identified that real term reductions in local government grant funding would be some 28% over a four year period. For Hastings BC the reductions in grant funding over the four year period are expected to exceed 50% in cash terms (over 60% in real terms), once the effects of the loss of Area Based Grants are taken into account. The Chancellor's 2012 autumn statement made it clear that significant funding cuts will continue. A further Comprehensive Spending Review is to be carried out in the first half of 2013 (SR spending review 2013 in respect of 2015-16) and the Council will see funding reductions beyond the current review period.

# EXPLANATORY FOREWORD

## 6. Current Economic Climate

The Council's spending plans continue to be linked to residents' priorities and the Government's national priorities for all local authorities. The 2013-14 budget has been set against an uncertain economic background. The Council's medium term financial strategy sets out its spending plans for the period 2013-14 to 2015-16. In common with other local authorities a reduction in funding received from Central Government each year has been built in to future spending plans.

The replacement of the Transition Grant in 2013-14 with a much reduced outcome based Efficiency Support Grant and further reductions in grant funding have major implications for the Council. Throughout the year Directors and Heads of Service in conjunction with lead members have been identifying and implementing efficiency savings to assist in addressing the financial position for 2013-14 and beyond. As in previous years, Priority, Income and Efficiency Reviews (PIER) have been held in order to achieve a balanced budget. These reviews also impacted on the outturn position for 2012-13. Work in 2013-14 will look at the savings achieved in 2012-13 and identify further savings to produce a balanced budget for 2014-15.

## 7. Capital Expenditure

The Council spent £3.650 million on capital projects during 2012-13. Schemes included :-

	2012-13 Budget £'000	2012-13 Outturn £'000
Housing Renewal (including Disabled Facilities Grants)	1,466	1,737
Car Park - Priory Street	238	181
Castleham Business Units	160	141
Conservation and Regeneration schemes	313	211
Local Authority Mortgage Scheme	1,000	1,000
Other Schemes	649	380
<b>Total</b>	<b>3,826</b>	<b>3,650</b>

This capital expenditure was financed as shown below:-

	£'000
Borrowing	1,150
Proceeds from the sale of assets	409
Grants	1,807
Reserves	284
<b>Total financing</b>	<b>3,650</b>

# EXPLANATORY FOREWORD

The Council is planning to spend £8.362 million on capital projects during 2013-14. Significant schemes include :-

	2013-14 Budget £'000
Housing Renewal (including Disabled Facilities Grants)	2,562
Coastal Space Regeneration project	3,620
Factory Refurbishments	473
Seafront Improvements	270
Conservation and Regeneration schemes	811
CCTV	250
Other Schemes	376
<b>Total</b>	<u><u>8,362</u></u>

This capital expenditure will be financed as shown below:-

	£'000
Borrowing	3,522
Proceeds from the sale of assets	1,495
Grants	2,874
Reserves/revenue	471
<b>Total financing</b>	<u><u>8,362</u></u>

## 8. Borrowing Facilities

Total loans outstanding owed to external sources for capital spending amount to £11.5m. Under the prudential code for borrowing the Councils Capital Financing Requirement is £16.94m.

## 9. Reserves

The Council has set aside reserves for a number of purposes, including provision for the renewal and repair of equipment, repair and maintenance of buildings, carry forwards and the financing of capital expenditure.

The balance on these reserves at 31st March 2013 is £15.822 million compared with £14.844 million at 31st March 2012.

# EXPLANATORY FOREWORD

## **10. Material write-offs**

Following a review of non-current asset records, the Council has identified and written out £873,000 in balances that did not represent the value of assets owned by the Council. This charge is reflected in the "disposals" line of Note 14 (Property Plant and Equipment), and in the "Other Operating Expenditure" line of the Comprehensive Income and Expenditure Statement". It is not, however, a charge against the General Fund, and forms part of the adjustments between accounting and funding bases in the Movement in Reserves Statement.

## **11. Events after the balance sheet date**

From 1 April 2013 the regime around the income that Local Authorities collect from National Non Domestic or Business Rates (NNDR) changes from one where the Authority collects purely on behalf of Central Government to one where this income is shared between Central Government, Local Authorities and major precepting bodies . This change affects the retention of that income collected and also carries a risk to the Council for failure to collect rates in comparison with a predetermined "Start-Up" funding assessment.

Risks of non-collection include rates billed from 1 April, but also those not yet collected from prior years and also appeals that were not resolved before that date, some of which involve companies at a national level.

In relation to Hastings' NNDR there is a risk of non-collection and also the potential for losses on appeal. This is estimated at £0.6m for prior year appeals (as at 31 March 2013). Hastings' share of these potential losses is 40%, with the balance being Government 50%, ESCC 9% and the Fire and Rescue Authority 1%. This amounts to a potential loss to Hastings of around £0.24m. These are potential losses at the point of change and could be higher.

## **FURTHER INFORMATION**

Further information about the accounts is available from Financial Services at the address shown on page 1.

**P. Grace , CPFA**  
**Head of Finance**

## EXPENDITURE SUMMARY

2011-12				2012-13 REVISED ESTIMATE			2012-13 ACTUAL			
EXPEND. £	INCOME £	NET £		EXPEND. £	INCOME £	NET £		EXPEND. £	INCOME £	NET £
<b>CORPORATE RESOURCES</b>										
459,141	72	459,213	Director Corporate Resources	158,860	153,178	0		153,178		
304,461	0	304,461	Corp. Policy, Partnerships & Perform.	646,280	684,533	(10,500)		674,033		
378,103	0	378,103	Estates Service	331,470	323,108	0		323,108		
333,951	0	333,951	Democratic Services		0	0		0		
612,521	(38,768)	573,753	Legal Services	452,150	454,897	(40,681)		414,216		
427,407	(67,792)	359,615	Audit & Investigations Division	383,400	516,750	(68,690)		448,060		
836,386	(166)	836,220	Accountancy & Exchequer Services	797,040	786,991	672		787,662		
2,413,327	(82,750)	2,330,577	Revenues Division	2,391,660	2,567,499	(67,781)		2,499,718		
530,286	(5,365)	524,921	Personnel & Organisational Development	766,020	775,709	(3,577)		772,132		
293,293	0	293,293	Facilities Management Team	0	0	0		0		
77,024	(2,135)	74,889	Admin. Buildings - Renaissance House	33,000	27,454	(8,750)		18,704		
175,290	(1,913)	173,377	Admin. Bldgs - Town Hall	178,460	161,435	(1,266)		160,170		
628,427	(83)	628,344	Admin. Build. Aquila House	711,190	703,800	(100)		703,699		
88,378	0	88,378	Admin. Buildings - General Expenses	112,500	121,235	0		121,235		
45,893	0	45,893	Admin. Buildings - Bank Buildings	0	0	0		0		
68,311	0	68,311	Admin. Bldgs - Corp. Archive, Castleham	91,560	85,778	0		85,778		
716,425	0	716,425	Corporate Expenses	0	1,037,654	0		1,037,654		
(8,189,724)	0	(8,189,724)	Less recharges to other accounts	(7,078,590)	(8,176,235)	0		(8,176,235)		
198,900	(198,900)	0		(25,000)	223,786	(200,673)		23,113		
130,885	(1,987)	128,898	Corporate Personnel Expenses	106,280	108,651	(168)		108,483		
775,672	0	775,672	Corporate Management	488,460	486,087	(5,400)		480,687		
173,000	0	173,000	Non Distributed Corporate Expenses	180,490	178,861	0		178,861		
64,762,016	(63,546,063)	1,215,953	Benefits payments and Admin	1,465,370	66,254,442	(64,966,151)		1,288,291		
912,932	(329,421)	583,511	Tax Collection Costs	582,440	962,359	(377,455)		584,904		
122,731	0	122,731	Concessionary Travel	0	0	0		0		
0	0	0	Hastings Pier - Closure	21,000	58,827	0		58,827		
318,426	0	318,426	Foreshore Trust	0	519,993	(519,989)		4		
57,443	(346,266)	(288,823)	Employment Areas	(276,900)	47,779	(349,018)		(301,239)		
292,962	(1,335,283)	(1,042,321)	Factory Units	(1,067,250)	290,936	(1,377,093)		(1,086,156)		
249,120	(1,572,279)	(1,323,159)	Farms and Other Properties	(1,186,620)	218,406	(1,449,261)		(1,230,855)		
39,339	0	39,339	St Mary in the Castle	96,020	125,969	(5,223)		120,746		
0	0	0	Small Eng. Projects		0	0		0		
(40,886)	(63,858)	(104,744)	Other Income/ Exp.	564,170	(216,597)	(4,573)		(221,171)		
117,971	(1,610)	116,361	Registration of Electors	139,130	127,660	(1,774)		125,887		
1,434,041	(2,828)	1,431,213	Cost of Democracy	1,483,570	1,351,123	(73)		1,351,050		
260,081	(87,744)	172,337	Election Expenses	208,200	327,493	(92,779)		234,713		
51,549	(7,249)	44,300	Local Strategic Partnership	34,670	33,699	0		33,699		
21,805	0	21,805	Sustainable Development	19,680	15,475	(382)		15,093		
37,856	0	37,856	Public Consultation	26,140	24,312	0		24,312		
92,515	(64,667)	27,848	Future Cities	67,250	117,179	(48,371)		68,808		
1,380	0	1,380	Property searches	0	704	0		704		
51,218	(266)	(214,360)	VAT refunds from HMRC	0	0	0		0		
<b>70,060,956</b>	<b>(67,823,733)</b>	<b>2,237,223</b>		<b>2,927,100</b>	<b>71,257,142</b>	<b>(69,398,382)</b>		<b>1,858,760</b>		

## EXPENDITURE SUMMARY

2011-12			2012-13		2012-13 ACTUAL			
EXPEND.	INCOME	NET	REVISSED ESTIMATE	EXPEND.	INCOME	NET		
£	£	£	£	£	£	£	£	
			<b>SERVICES :</b>					
			<b>REGENERATION</b>					
437,006	(8,356)	428,650	Planning Manage. and Admin	155,600	161,796	(7,190)	154,606	
1,053,008	(20)	1,052,988	Regeneration Admin	1,000,990	978,828	(273)	978,554	
1,078,361	(4,417)	1,073,944	Communications and Marketing	1,171,250	1,130,018	(10,689)	1,119,329	
1,506,706	(3,209)	1,503,497	Housing Services - Admin	1,619,090	1,595,650	(5,256)	1,590,394	
590,926	(101)	590,825	Information Technology	563,830	561,491	0	561,491	
636,984	8,198	645,182	Contact Centre	833,210	1,299,277	(494,255)	805,023	
136,000	(535)	135,465	Information Technology Hardware	126,330	125,284	0	125,284	
127,224	0	127,224	Information Technology Reserve	175,290	188,414	0	188,414	
<b>(5,557,775)</b>	<b>0</b>	<b>(5,557,775)</b>	Less recharges to other accounts	<b>(5,533,590)</b>	<b>(5,552,572)</b>	<b>0</b>	<b>(5,552,572)</b>	
8,440	(8,440)	0	Non-recharged costs	112,000	488,186	(517,663)	(29,477)	
214,072	(7,650)	206,422	Regeneration	467,790	464,330	(51,591)	412,739	
364,780	(45,840)	318,940	Planning Policy	454,120	490,077	(72)	490,005	
89,784	(125,201)	(35,417)	Employability	74,090	70,952	0	70,952	
89,803	0	89,803	Cultural Activities	86,810	104,035	(17,000)	87,035	
71,021	0	71,021	Public Art	46,930	48,606	(7,000)	41,606	
78,057	(5,287)	72,770	Community Cohesion	71,770	75,935	(3,987)	71,949	
193,093	(5,000)	188,093	Area Co-ordination	83,860	86,063	0	86,063	
98,557	(80,754)	17,803	Cultural Development	108,880	245,293	(157,968)	87,325	
239,023	(34,600)	204,423	Safer Hastings Partnership	237,750	309,795	(71,705)	238,090	
220,050	(95,588)	124,462	Hastings Pier	14,770	51,969	2,099	54,069	
64,478	0	64,478	External Funding Initiatives	60,930	59,150	0	59,150	
93,453	(20,129)	73,324	Answers in the Carbon Economy	95,760	171,590	(99,524)	72,067	
(33)	0	(33)	Jackson Hall	0	0	0	0	
39,589	(28,137)	11,452	Fisheries Local Action Group	56,590	99,485	(65,476)	34,009	
0	1,329	1,329	ECOFAB	0	0	0	0	
580,210	(579,540)	670	Future Jobs Fund	0	0	0	0	
335,133	0	335,133	Area Based Grant Projects	85,000	73,700	0	73,700	
29,038	0	29,038	Coastal Change Pathfinders	47,170	31,204	0	31,204	
646,875	0	646,875	Community Action	551,730	571,022	0	571,022	
82,694	(810)	81,884	Older and Younger People	94,260	64,327	0	64,327	
41,742	(34,843)	6,899	Hastings & Bexhill Task Force	0	0	0	0	
16,236	0	16,236	Youth Activities	19,130	16,015	0	16,015	
265,374	(96,377)	168,997	1066 Country Campaign	169,740	251,698	(86,244)	165,454	
429,966	(18,939)	411,027	Tourism Marketing	351,680	351,756	(20,205)	331,550	
58,442	(7,215)	51,227	Community Awareness	51,560	70,160	(11,072)	59,088	
31,924	(14,003)	17,921	Twinning	19,030	27,324	(11,211)	16,113	
189,695	(32,910)	156,785	Raising the Profile of Hastings	216,750	289,767	(59,463)	230,304	
13,626	(17,622)	(3,996)	Filming	(4,000)	15,476	(15,343)	133	
0	0	0	Norman Castles Interreg Project	0	7,307	(7,307)	0	
221,725	0	221,725	Stade Improvement	0	0	0	0	
8,328	0	8,328	Meteorological Expenses	7,900	8,533	0	8,533	
545,857	(545,857)	0	Hastings Information Centre	0	0	0	0	
93,886	(1,835)	92,051	Civic & Ceremonial Expenses	95,980	85,825	(1,773)	84,052	
459,924	(86,595)	373,329	Homelessness	428,980	612,694	(149,511)	463,183	
252,021	(43,790)	208,231	Homelessness Strategy	794,570	793,702	(1,015)	792,687	
62,667	(87,500)	(24,833)	Youth Homelessness	72,240	75,942	(6,250)	69,692	
35,149	(7,500)	27,649	Renovation Grant Administration	48,120	69,330	(21,243)	48,087	
0	0	0	Land Auction Pilot	25,000	20,456	0	20,456	
512,985	(199,490)	313,495	Housing Renewal	413,240	455,577	(10,883)	444,694	
22,072	0	22,072	Migration Impact Fund	19,000	14,765	0	14,765	
41,950	(32,000)	9,950	County Housing Co-Ordination	0	0	0	0	
115,145	(84,152)	30,993	Prev. Offenders Accom. Loss	28,020	93,299	(64,385)	28,914	
163,153	(118,374)	44,779	Housing Licensing Team	81,380	169,330	(61,917)	107,413	
199,573	0	199,573	Housing Advice & Aid	0	0	0	0	
76,800	0	76,800	Liaison-Agencies & Hsng. Assoc.	0	0	0	0	
206,129	0	206,129	Housing Register / Nominations	0	0	0	0	
0	864	864	Central St Leonards Renewal	0	0	0	0	
56,740	0	56,740	Local Space - funded by HBC	81,860	180,421	(105,533)	74,887	
40,000	(40,000)	0	Local Space	0	0	0	0	
108,747	0	108,747	Conservation	77,700	83,663	(6,897)	76,766	
941,973	(292,534)	649,439	Development Control	755,640	963,504	(227,374)	736,130	
182,989	(51,273)	131,716	Building Control Services	73,780	102,491	1,264	103,755	
111,196	(229,609)	(118,413)	Local Land Charges Register	100,000	225,566	(205,574)	19,993	
667	0	667	Dangerous Structures	4,120	501,630	(500,714)	916	
74,437	0	74,437	Land & Property Systems	73,340	83,148	0	83,148	
0	0	0	Traveller Sites	10,000	13,124	0	13,124	
30,813	0	30,813	Other	0	0	0	0	
<b>9,150,048</b>	<b>(3,077,201)</b>	<b>6,072,847</b>		<b>6,764,970</b>	<b>9,088,222</b>	<b>(2,562,535)</b>	<b>6,525,686</b>	

## EXPENDITURE SUMMARY

2011-12			2012-13		2012-13 ACTUAL		
EXPEND.	INCOME	NET	SERVICES :	REVISED ESTIMATE	EXPEND.	INCOME	NET
£	£	£	<u>ENVIRONMENTAL SERVICES</u>	£	£	£	£
1,380,601	(4,643)	1,375,958	Environmental Services admin	1,458,710	1,414,307	(1,102)	1,413,205
44,770	0	44,770	Emergency Call Out Service	48,750	47,009	0	47,009
540,330	0	540,330	Waste Management Team	388,270	377,623	(40)	377,583
0	0	0	Waste and Parking Team	0	0	0	0
982,588	(95)	982,493	Amenities & Resorts admin	1,046,450	1,031,153	(120)	1,031,033
99,179	0	99,179	Highways Services admin.	77,000	72,760	(33)	72,727
194,349	(9)	194,340	Leisure Services admin.	206,140	208,524	0	208,524
(3,237,071)	0	(3,237,071)	Less recharges to other accounts	(3,225,320)	(3,150,081)	0	(3,150,081)
4,746	(4,747)	(1)	Non-recharged costs	0	1,294	(1,294)	(0)
202,731	(3,622)	199,109	Food Safety/Infectious Diseases	220,360	209,575	(705)	208,870
199,728	0	199,728	Health & Safety	230,890	220,257	0	220,257
368,029	(3,959)	364,070	Environmental Protection	414,850	379,492	(4,012)	375,480
115,045	(15,826)	99,219	Pest Control	75,490	86,673	(11,502)	75,171
93,625	(148,760)	(55,135)	Local Licence Fees	(35,750)	122,501	(159,101)	(36,600)
133,126	(79,384)	53,742	Liquor Licensing	49,980	134,524	(83,517)	51,007
13,100	(27,972)	(14,872)	Gambling Licensing	(14,230)	14,475	(29,153)	(14,678)
57,282	0	57,282	Tobacco Control	25,440	22,263	0	22,263
46,636	(50)	46,586	Environmental Enforcement	36,810	31,942	(575)	31,367
55,002	(7,033)	47,969	Emergency Planning	37,500	38,806	(4,877)	33,928
153,193	(69,932)	83,261	Bulverhythe Depot	45,010	113,013	(88,592)	24,421
529,144	(3,486)	525,658	Public Conveniences	425,440	449,191	(30,524)	418,667
2,053,016	(313,615)	1,739,401	Waste Collection	1,729,720	2,023,955	(287,886)	1,736,069
1,580,046	(19,317)	1,560,729	Street Cleansing	1,427,110	1,418,300	(17,760)	1,400,540
158,833	(182,715)	(23,882)	Greenwaste	(15,470)	179,046	(204,314)	(25,268)
494,855	(3,835)	491,020	Environmental Enforcement Team	574,840	599,978	(6,405)	593,573
32,965	0	32,965	Together Action	48,300	47,131	0	47,131
661,829	(899,633)	(237,804)	Cemetery & Crematorium	(313,650)	606,791	(970,166)	(363,375)
623,383	(1,923,288)	(1,299,905)	Car Parking - Off Street	(650,860)	1,207,580	(1,833,560)	(625,980)
44,871	(1,465)	43,406	DVLA Powers	32,470	36,766	(480)	36,286
1,096,071	(1,244,539)	(148,468)	Car Parking - On Street	(148,310)	1,098,930	(1,222,063)	(123,133)
153,441	(75,176)	78,265	Closed Circuit Television	78,730	91,019	(5,120)	85,899
16,415	0	16,415	Highways Shelters and Seats	46,630	23,452	0	23,452
28,852	0	28,852	Naming & Numbering Streets	28,290	38,325	0	38,325
92,580	(83,057)	9,523	ESCC Highways Management	0	76,227	(82,227)	(6,000)
33,370	0	33,370	Traffic Management & Calming	39,000	40,873	0	40,873
10,315	0	10,315	Transport Policy	13,130	10,058	0	10,058
37,996	(367)	37,629	Abandoned Vehicles	30,470	36,253	(386)	35,867
43,907	0	43,907	Coastal Protection	47,560	48,025	0	48,025
11,295	0	11,295	Navigational Aids	10,290	8,943	0	8,943
69,863	0	69,863	Watercourses	55,020	52,299	0	52,299
10,874	0	10,874	Env. Schemes Net Shops	10,250	9,745	0	9,745
261,375	(309,611)	(48,236)	Cliff Railways	(70,710)	252,655	(319,592)	(66,937)
21,847	(51,749)	(29,902)	Castle & Caves	(36,200)	20,690	(86,501)	(65,811)
79,166	(163,837)	(84,671)	Chalets	(77,490)	76,297	(168,292)	(91,996)
26,887	0	26,887	Travellers Costs	33,200	27,736	0	27,736
92,723	(2,217)	90,506	Decorative Lighting	105,010	84,687	(678)	84,008
440,884	(179,091)	261,793	Seafront	177,360	180,566	(40,942)	139,624
29,076	0	29,076	Floral Decs Town Centre	33,690	31,578	0	31,578
112,026	(11,608)	100,418	Allotments	109,590	124,139	(12,351)	111,788
55,632	0	55,632	Ecology	100,780	81,140	0	81,140
425,113	(40,119)	384,994	Museums and Art Gallery	435,810	466,544	(38,332)	428,213
56,622	(16,353)	40,269	Stade Education Project	0	0	0	0
129,797	(200)	129,597	Arboriculture	144,070	157,819	(100)	157,719
1,782,521	(214,764)	1,567,757	Parks & Gardens	1,625,700	1,922,596	(235,774)	1,686,822
210,886	(5,814)	205,072	Hastings Country Park	169,120	195,172	(29,228)	165,945
17,759	0	17,759	Pebsham Country Park	29,240	29,320	0	29,320
45,335	(43,311)	2,024	Countryside Stewardship	40,120	66,128	(70,448)	(4,320)
573,056	(28,996)	544,060	White Rock Theatre	646,230	644,104	0	644,104
30,003	(100)	29,903	Falaise Fitness Centre	25,890	37,278	(100)	37,178
131,211	(27,120)	104,091	Sports Centres	71,860	93,950	(22,366)	71,584
72,076	(52,649)	19,427	Sports Management	19,950	79,044	(55,322)	23,721
5,000	0	5,000	William Parker Athletics Track	5,000	17,000	0	17,000
59,045	0	59,045	Sports Development	66,890	73,817	0	73,817
51,967	(28,404)	23,563	Street Games	4,390	45,981	(71,984)	(26,003)
37,426	(44,707)	(7,281)	British Heart Foundation Project	7,280	12,454	(5,029)	7,426
14,543	(2,272)	12,271	Fishing 4 U Project	0	0	0	0
141,308	(98,210)	43,098	Active Hastings	77,750	147,112	(77,355)	69,757
11,237	(24,643)	(13,406)	Active Leaders Project	0	0	0	0
130,970	(22,847)	108,123	Play Development	99,500	121,412	(23,252)	98,160
0	0	0	Make Way for Play	0	0	0	0
4,047	0	4,047	Primary Care Trust Play Grant	14,000	9,993	(500)	9,493
43,830	0	43,830	Play Pathfinder	54,740	56,553	(50)	56,503
96,660	(82,611)	14,049	Active Women	16,770	116,859	(120,042)	(3,183)
18,124	(18,124)	0	US Girls	(6,550)	39,745	(8,800)	30,945
0	0	0	Boyne Road Playground	0	35,240	(35,000)	240
20,346	(666)	19,680	Stade Hall	0	0	0	0
14,454,662	(6,581,801)	7,872,861		8,478,300	14,725,314	(6,466,259)	8,259,055

## EXPENDITURE SUMMARY

2011-12				2012-13		2012-13 ACTUAL		
EXPEND. £	INCOME £	NET £	SERVICES :	REVISED ESTIMATE £	EXPEND. £	INCOME £	NET £	
93,665,666	(77,482,735)	16,182,931	<b>DIRECT SERVICE EXPENDITURE</b>	<u>18,170,370</u>	<u>95,070,678</u>	<u>(78,427,177)</u>	<u>16,643,501</u>	
<b>2011-12</b>	<b>SERVICE MEASURES</b>							<b>2012-13</b>
Numbers of :-								
66,166			Museum visitors				<b>69,324</b>	
23			Public Conveniences				<b>23</b>	
124			Burials				<b>93</b>	
80,861			Grave spaces				<b>80,933</b>	
1,316			Cremations				<b>1,387</b>	
17,848			Kilometres of Street Swept per annum				<b>17,848</b>	
3.01 million			Dustbins Emptied (Bin Equivalentents)				<b>3.12 million</b>	
7,797			Recycling tonnage				<b>7,148</b>	
703			Planning Applications				<b>661</b>	
2			Conservation Area Projects				<b>2</b>	
346			Building Regulation Applications				<b>345</b>	
1,330			Local Land Charges (full searches only)				<b>1,176</b>	
2,105			Car Parking Spaces (Off-Street)				<b>2,135</b>	
940,699			Vehicles Parked (Off Street)				<b>932,807</b>	
22,011			Penalty Charge Notices issued				<b>17,760</b>	
2,472			Licences Issued				<b>2,516</b>	
504			Food Hygiene Inspections				<b>548</b>	
85			Health & Safety Inspections				<b>86</b>	
63,958			Local Electorate				<b>65,005</b>	
99			Number of Factory Units				<b>99</b>	
£1,320,824			Rental Income from Factory Units				<b>£1,354,753</b>	

**Hastings Borough Council**

**Annual Governance Statement 2012/2013**

**Scope of responsibility**

1. Hastings Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Hastings Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, Hastings Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions which includes arrangements for the management of risk. Hastings Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE framework "Delivering good governance in local government".
3. A copy of the code is on our website at [www.hastings.gov.uk](http://www.hastings.gov.uk) . This statement explains how Hastings Borough Council has complied with the code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2011 in relation to the publication of a statement on internal control.

**The purpose of the governance framework**

4. The governance framework comprises the systems and processes, culture and values for the direction and control of the authority and its activities through which it accounts to, engages and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
5. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risks to the achievement of policies, aims and objectives and therefore provides a reasonable rather than an absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Hastings Borough Council policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

6. The governance framework has been in place for a number of years at Hastings Borough Council and, in particular, for the year ended 31 March 2013, up to the date of approval of the Statement of Accounts.

### **The governance framework**

7. The key elements of the systems and processes that comprise the authority's governance arrangements include arrangements for the following:
  - Hastings Borough Council continues to have an established Corporate Plan setting out a strategic overview and the priorities that guide our investment and activities. Part II of the Corporate Plan sets out the Council's work plan for the current financial year with targets and performance indicators which are monitored and reported on publicly every quarter.
  - Hastings Borough Council facilitates policy and decision-making via a Cabinet Structure with Cabinet Member portfolios. There are two Overview and Scrutiny Committees which cover all portfolios. An Audit Committee provides independent assurance to the Council on risk management and control, and the effectiveness of the arrangements the Council has for these matters. It undertakes the core functions of an audit committee as identified in 'CIPFA's Audit Committees: Practical Guidance for Local Authorities'. The Constitution is reviewed at least annually by the Monitoring Officer and is codified into one document that is available on the intranet and external web pages.
  - Hastings Borough Council ensures compliance with established policies, procedures, laws and regulations – including risk management. There is a corporate induction programme in place for new staff and information regarding policies and procedures are held on the intranet which continues to be enhanced and developed.
  - The Council has an Internal Audit function and established protocols for working with External Audit. External Audit also reviews compliance with policies, procedures, laws and regulations within their remit.
  - Hastings Borough Council has continued to enhance and strengthen its internal control environment through the introduction of new policies and procedures.
  - The Council's Risk Champion is the Director for Environment who leads the Corporate Risk Management Group to meet regularly and discharge further work that is acknowledged as necessary. This also incorporates the Health & Safety framework.
  - The Council has a Whistle Blowing Policy based on the British Standards model that enables staff, contractors or members of the public to confidentially raise with the Council any suspicions they may

have. There is also a customer complaints system that is monitored by management quarterly.

- Hastings Borough Council's Internal Audit function continues to support managers at all levels to give a better understanding of how to enhance risk management in their area of responsibility and to have some understanding of the process throughout the Council. The high-level risk management methodology was reviewed to provide more focus to member and senior officer management of risk. The Corporate Risk Register is formally reviewed at least once a quarter by Corporate Management Group (CMG) and the Operational Risk Registers are regularly reviewed at Directorate Management Team (DMT) meetings.
- The Corporate and Operational Risk Registers are comprehensively scrutinised by the Audit Committee at least once a year.
- Hastings Borough Council ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised. The External Auditor passed an unqualified audit opinion on value for money providing assurance to the public over its financial resilience and that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.
- Financial management in Hastings Borough Council and the reporting of financial standing is undertaken through a general ledger and management information system, Agresso, which integrates the general ledger function with those of budgetary control and payments. These are supported by the Financial Operating Procedures (FOPs) Manual held on the Council's intranet which contains information on financial and business procedures and processes to be followed in all areas of the Council.
- A scheme of delegation which sets out the powers of Directors, the Financial rules and Contract Standing Orders form part of the Constitution. A rigorous system of monthly financial monitoring ensures that any significant budget variances are identified in a timely way, and corrective action is initiated if necessary.
- Performance management in Hastings Borough Council and the reporting of performance management continues to show good results. In response to the de-regulation of Performance Management the Council has focussed its quarterly reporting of data on 31 Key Indicators that can be used to assess the 'health' of the organisation. This, together with the reporting on each of the Service's Part II commitments, enables a rounded view of how the Council is performing against key issues of concern to local people. Performance indicators are recorded and monitored using the Performance Plus computer system.

- Hastings Borough Council is the Trustee for all purposes to the Foreshore Trust. Its business is conducted through the Charity Committee which meets every quarter. The charity has a Protector to protect the charity from conflicts of interest, financial and otherwise, arising from the Council's position as charitable trustee and local authority with its own priorities. At Annual Council, the Leader of the Council allocates responsibilities of the Cabinet to include Chair of the Charity Committee.

### **Changes to the Council's Structure and Governance arrangements**

8. There have been a number of changes to service provision that have impacted on the governance arrangements at Hastings Borough Council. The key changes are:
  - East Sussex County Council took back the 'On Street Parking' service on 1 April 2013.
  - The Council entered into a new joint waste contract along with Wealden, Rother and Eastbourne Councils with significant savings per annum ongoing. It will come into effect for Hastings Borough Council on 1 July 2013 after which a mobilisation period of 4 months will follow.
  - As reported previously, a senior management restructure was ratified by Cabinet on 16 November 2011 which saw the reduction of five senior management posts, including those of the Chief Executive and Borough Solicitor. Following the transition period, the new structure was implemented on 1 April 2013. A post implementation review was carried out in October 2012 by an independent consultant who concluded that the Directors are working effectively with the Council Leader in the absence of a Chief Executive

### **Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on 'The Role of the Chief Finance Officer in Local Government (2010)'**

9. The Head of Finance is the Section 151 Officer who leads and directs the Finance function that continues to be sufficiently resourced and fit for purpose and is also professionally qualified and suitably experienced.

### **Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on 'The Role of the Head of Internal Audit in Local Government (2010)'**

10. The role of the Head of Internal Audit generally complies with the CIPFA statement. This is fully met with a caveat to the second principle requiring objective opinion on governance, risk management and internal control. The Head of Internal Audit has some strategic responsibility for

Procurement and Housing Benefit and Council Tax Investigations. The independence is achieved through the Head of Internal Audit's job description and also by overview of the Section 151 Officer. In addition, the majority of procurement has been transferred to the East Sussex Procurement Hub with effect from 1 May 2013

### **Review of effectiveness**

11. Hastings Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control and effectiveness of Internal Audit. The review of effectiveness is informed by the work of the Directors within the authority who have responsibility for the development and maintenance of the governance environment, the Audit Committee's annual report to Council and also by comments made by the external auditors and other review agencies and inspectorates.
12. The Council contributes to the delivery of the town's Sustainable Community Strategy through its membership of the Local Strategic Partnership and via targets included in the Corporate Plan. The Council monitors and reports publicly on progress so residents can see how issues that matter to them are being tackled. The plan is monitored on a quarterly basis by Overview and Scrutiny Committees.
13. The Council's constitution, which is reviewed at least annually by the Monitoring Officer, sets out the responsibilities of both Members and their senior managers. In particular, the Council has identified the three statutory posts as follows:
  - Head of Paid Service - Director of Corporate Resources
  - Section 151 Officer - Head of Finance
  - Monitoring Officer - Head of Corporate Services
14. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the CIPFA/SOLACE guidance and has developed a local code of corporate governance.
15. The arrangements for the provision of internal audit are contained within the Council's Financial Rules, which are included within the Constitution. Responsibilities of the Section 151 officer transferred from the Director of Corporate Resources to the Head of Finance who is now responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2011. The Internal Audit service is managed, independently, by the Head of Finance and operates in accordance with the CIPFA code of practice for Internal Audit in Local Government 2006. It is in the transition of adopting the Public Sector Internal Audit Standards which came into effect on 1 April 2013. The

Council is adopting the Public sector Internal Audit Standards and therefore a report will be brought to the September meeting of the Audit Committee. The Hastings audit plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Council's corporate governance arrangements, including risk management. The work is further supplemented by reviews around the main financial systems, scheduled visits to Council establishments and fraud investigations. The resulting work plan is discussed and agreed with the Corporate Directors and the Audit Committee and shared with the Council's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. All Hastings Internal Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any areas needing improvement.

16. The Council's review of the effectiveness of the system of internal control is informed by:
  - Directorate assurance based on management and performance information
  - Scrutiny reports covering a planned scrutiny review programme but also any item can be subject to a scrutiny review
  - Work undertaken by Hastings BC Internal Audit during the year and summarised in the Annual Internal Audit Report
  - Work undertaken by the external auditor reported in their Annual Audit Letter and particularly their audit opinion on the Financial Statements and on Value for Money
  - Other work undertaken by independent inspection bodies.
  - Corporate Management Group and Audit Committee review of the Corporate and Operational Risk Registers
17. From the work undertaken by Hastings Audit in 2012/13 the Chief Auditor was able to give the following assurance "I am able to provide a reasonable assurance on the key areas of risk management, corporate governance and financial control". In this context "reasonable assurance" means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts.
18. The Council's management arrangements for securing data quality were reviewed by audit and found to be effective.

## Significant governance issues

19. There are no significant governance issues and the Council follows the CIPFA/SOLACE guidance entitled 'Delivering Good Governance in Local Government (Guidance Note for English Authorities)'.
20. There were no significant issues to report in the Annual Governance Statement 2011/12 but attention was drawn to two emerging risks at that time.
21. The first of those risks related to the reduction in Government grant funding. A balanced budget for 2013/14 was achieved whilst retaining an appropriate level of reserves but indications are that funding will continue to be under extreme pressure as the Government seeks to reduce public spending into the future.
22. The second changing environment reported was the Localism Act 2011. The council has kept abreast with all new legislative requirements of which there were several when it was first introduced but there has not been the impact realised yet from changes anticipated.
23. This year has again, been a period of change and development. There have been continuing financial pressures and we have had to make some tough decisions. Despite this challenging environment there have been significant achievements and continuing improvement in the Council's overall governance arrangements. Where we have identified areas for further improvement we will take the necessary action to implement changes that will further develop our governance framework.

Signed:.....

Leader of the Council

Signed:.....

Director of Corporate Resources

# STATEMENT OF RESPONSIBILITIES

## THE COUNCIL'S RESPONSIBILITIES

The Council is required :-

- (i) To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Hastings that officer is the Head of Finance (referred to as Chief Financial Officer hereafter).
- (ii) To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- (iii) To approve the Statement of Accounts.

## RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER

The chief financial officer is responsible for the preparation of the Council's statement of accounts which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in United Kingdom (the CODE), is required to present fairly the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2013.

In preparing this statement of accounts, the Chief Financial Officer 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 Chief Financial Officer 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 I have fulfilled my responsibilities noted above and that the accounts set out on pages 26 to 90 give a true and fair view of the financial position of the Council as at 31 March 2013 and its income and expenditure for the year ended 31st March 2013.



Signed on behalf of Hastings Borough Council:  
P Grace CPFA,  
Head of Finance and Chief Financial Officer

Robert Cooke  
Chair of the Audit Committee

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HASTINGS BOROUGH COUNCIL**

### **Opinion on the Council's financial statements**

We have audited the financial statements of Hastings Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Hastings Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Financial Officer and auditors**

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

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Hastings Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

### **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We have nothing to report in respect of the following other matters which the Code of audit practice for local government bodies (March 2010) requires us to report to you if:

- we have been unable to satisfy ourselves that the annual governance statement meets the disclosure requirements set out in the guidance 'Delivering Good Governance in Local

Government: a Framework' published by CIPFA/SOLACE in June 2007 or is misleading or inconsistent with other information that is forthcoming from the audit;

- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

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

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

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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

### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Hastings Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

### **Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Robert Grant  
For and on behalf of BDO LLP, Appointed Auditor

London UK

September 2013

## MOVEMENT IN RESERVES STATEMENT

2011-12	General Fund Balance £'000	Earmarked Reserves £'000	Capital Receipts reserve £'000	Capital grants unapplied £'000	Total usable reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
<b>Balance at 31 March 2011</b>	<b>(500)</b>	<b>(12,232)</b>	<b>(3)</b>	<b>(890)</b>	<b>(13,625)</b>	<b>(58,207)</b>	<b>(71,832)</b>
<u>Movement in Reserves in 2011-12</u>							
Surplus (deficit) on the provision of services (accounting basis)	4,394	0	0	0	4,394	0	4,394
Other Comprehensive Income and Expenditure	0	0	0	0	0	3,282	3,282
<b>Total Comprehensive Income and Expenditure</b>	<b>4,394</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,394</b>	<b>3,282</b>	<b>7,676</b>
Adjustments between accounting and funding basis under regulation - note 7	(7,006)	0	(1)	328	(6,679)	6,679	0
<b>Net increase/decrease before transfers to Earmarked reserves</b>	<b>(2,612)</b>	<b>0</b>	<b>(1)</b>	<b>328</b>	<b>(2,285)</b>	<b>9,961</b>	<b>7,676</b>
Transfers to/from Earmarked reserves - note 8	2,612	(2,612)	0	0	0	0	0
<b>(Increase)/Decrease in Year</b>	<b>0</b>	<b>(2,612)</b>	<b>(1)</b>	<b>328</b>	<b>(2,285)</b>	<b>9,961</b>	<b>7,676</b>
<b>Balance at 31 March 2012</b>	<b>(500)</b>	<b>(14,844)</b>	<b>(4)</b>	<b>(562)</b>	<b>(15,910)</b>	<b>(48,246)</b>	<b>(64,156)</b>
<p>Details of Comprehensive Income and Expenditure are given in the Comprehensive Income and Expenditure Statement. A further analysis of adjustments between accounting and funding bases are given in Note 7, and further information on earmarked reserves and unusable reserves is given in note 8 and 27.</p>							

## MOVEMENT IN RESERVES STATEMENT

2012-13	General Fund Balance	Earmarked Reserves	Capital Receipts reserve	Capital grants unapplied	Total usable reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2012</b>	<b>(500)</b>	<b>(14,844)</b>	<b>(4)</b>	<b>(562)</b>	<b>(15,910)</b>	<b>(48,246)</b>	<b>(64,156)</b>
<u>Movement in Reserves in 2012-13</u>							
Surplus (deficit) on the provision of services (accounting basis)	2,661	0	0	0	2,661	0	2,661
Other Comprehensive Income and Expenditure	0	0	0	0	0	(9,064)	(9,064)
<b>Total Comprehensive Income and Expenditure</b>	<b>2,661</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,661</b>	<b>(9,064)</b>	<b>(6,403)</b>
Adjustments between accounting and funding basis under regulation - note 7	(3,639)	0	4	213	(3,422)	3,422	0
<b>Net increase/decrease before transfers to Earmarked reserves</b>	<b>(978)</b>	<b>0</b>	<b>4</b>	<b>213</b>	<b>(761)</b>	<b>(5,642)</b>	<b>(6,403)</b>
Transfers to/from Earmarked reserves - note 8	978	(978)	0	0	0	0	0
<b>(Increase)/Decrease in Year</b>	<b>0</b>	<b>(978)</b>	<b>4</b>	<b>213</b>	<b>(761)</b>	<b>(5,642)</b>	<b>(6,403)</b>
<b>Balance at 31 March 2013</b>	<b>(500)</b>	<b>(15,822)</b>	<b>0</b>	<b>(349)</b>	<b>(16,671)</b>	<b>(53,888)</b>	<b>(70,559)</b>
<p>Details of Comprehensive Income and Expenditure are given in the Comprehensive Income and Expenditure Statement. A further analysis of adjustments between accounting and funding bases are given in Note 7, and further information on reserves is given in note 8, 9 &amp; 10 and unusable reserves is given in note 27.</p>							

# COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

2011-12			2012-13			
GROSS EXPEND. £'000	INCOME £'000	NET EXPEND. £'000	SERVICES	GROSS EXPEND. £'000	INCOME £'000	NET EXPEND. £'000
8,644	(2,258)	6,386	Cultural and Related Services	8,257	(2,176)	6,081
8,607	(2,045)	6,562	Environmental and Regulatory Services	7,787	(2,033)	5,754
5,889	(4,662)	1,227	Planning Services	6,192	(4,227)	1,965
1,967	(3,251)	(1,284)	Highways, Roads & Transport Services	2,482	(3,162)	(680)
68,267	(64,331)	3,936	Housing Services	69,882	(65,460)	4,422
1,757	(747)	1,010	Central Services to the Public	2,045	(1,269)	776
2,738	(63)	2,675	Corporate & Democratic Core Expenses	2,046	(60)	1,986
452	(68)	384	Non Distributed Costs	466	(69)	397
2,964	0	2,964	Planning Services Exceptional item	0	0	0
1,103	0	1,103	Corporate & Democratic Core Expenses - Exceptional Item	0	0	0
<b>102,388</b>	<b>(77,425)</b>	<b>24,963</b>	<b>Total continuing operations, excluding services transferred to East Sussex County Council</b>	<b>99,157</b>	<b>(78,456)</b>	<b>20,701</b>
123	0	123	Concessionary fares (transferred to East Sussex County Council from 1 April 2011)		0	0
<b>102,511</b>	<b>(77,425)</b>	<b>25,086</b>	<b>Cost of Services</b>	<b>99,157</b>	<b>(78,456)</b>	<b>20,701</b>
	32	32	Other Operating Expenditure - Note 11		1,570	1,570
275	(468)	(193)	Financing and Investment Income and Expenditure - Note 12	796	(447)	349
	(20,531)	(20,531)	Taxation and non-specific grant income - Note 13		(19,959)	(19,959)
<b>102,786</b>	<b>(98,392)</b>	<b>4,394</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>99,953</b>	<b>(97,292)</b>	<b>2,661</b>
		(4,972)	(Surplus) or deficit on revaluation of non-current assets.			(13,968)
		519	Impairment losses on non-current assets charged to the revaluation reserve			0
		7,735	Actuarial (gains)/losses on pension assets/liabilities			4,904
		<b>3,282</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(9,064)</b>
		<b>7,676</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(6,403)</b>

# BALANCE SHEET

2011-12 £'000		2012-13 £'000
83,254	Property, Plant and Equipment - <i>Note 14</i>	86,178
1,138	Investment Properties - <i>Note 15</i>	1,145
102	Intangible Assets - <i>Note 16</i>	79
5,400	Heritage Assets - <i>Note 18</i>	12,617
1,092	Long Term Debtors - <i>Note 19</i>	2,059
90,986	<b>LONG TERM ASSETS</b>	102,078
86	Inventories	94
810	Assets Held for Sale - <i>Note 17</i>	943
2,629	Short Term Debtors - <i>Note 19</i>	4,980
0	Short Term Investments - <i>Note 20</i>	10,000
16,924	Cash and Cash Equivalents - <i>Note 21</i>	7,644
20,449	<b>CURRENT ASSETS</b>	23,661
(6,313)	Short Term Creditors - <i>Note 22</i>	(7,001)
(1,778)	Grants Received in advance - <i>Note 43</i>	(934)
(66)	Short Term Borrowing- <i>Note 23</i>	(2,065)
(296)	Provisions - <i>Note 24</i>	(96)
(8,453)	<b>CURRENT LIABILITIES</b>	(10,096)
(10,500)	Long Term Borrowing - <i>Note 25</i>	(11,500)
(1,163)	Long Term Creditors - <i>Note 22</i>	(1,190)
(27,163)	Other Long Term Liabilities - <i>Note 26</i>	(32,393)
(38,826)	<b>LONG TERM LIABILITIES</b>	(45,083)
64,156	<b>NET ASSETS</b>	70,560
64,156		70,560

## BALANCE SHEET (Cont.)

2011-12 £'000		2012-13 £'000
(500)	General Fund Balance	(500)
(4)	Usable Capital Receipts Reserve-( <i>movement in reserves</i> )	0
(562)	Capital Grants Unapplied -( <i>movement in reserves</i> )	(349)
(14,844)	Earmarked Reserves - <i>Note 8</i>	(15,822)
(15,910)	<b>Usable reserves</b>	<b>(16,671)</b>
(22,875)	Revaluation Reserve - <i>Note 27</i>	(36,503)
(12)	Deferred Capital Receipts Reserve - <i>Note 27</i>	(12)
(52,307)	Capital Adjustment Account - <i>Note 27</i>	(49,517)
(275)	Financial Instruments Adjustment Account - <i>Note 27</i>	(224)
(159)	Collection Fund Adjustment Account Balance - <i>Note 27</i>	(247)
219	Accumulated Absences Account - <i>Note 27</i>	222
27,163	Pensions Reserve - <i>Note 27</i>	32,393
(48,246)	<b>Unusable Reserves</b>	<b>(53,888)</b>
(64,156)	<b>Total Reserves</b>	<b>(70,559)</b>
(64,156)		<b>(70,559)</b>

# CASH FLOW STATEMENT

2011-12 £'000		2012-13 £'000
(7,088)	Taxation	(7,210)
(79,834)	Grants and Contributions - Note 32	(76,272)
(12,317)	Sales of goods and rendering of services	(11,219)
(367)	Interest received	(348)
(48)	other receipts from operating activities	(36)
<u>(99,654)</u>	<b>Cash inflows generated from operating activities</b>	<u>(95,085)</u>
11,867	Cash paid to and on behalf of employees	11,569
62,932	Housing benefit payments	64,457
18,457	Cash paid to suppliers of goods and services	16,286
327	Interest paid	413
2,723	Other operating cash payments	3,728
<u>96,306</u>	<b>Cash outflows generated from operating activities</b>	<u>96,453</u>
<u>(3,348)</u>	<b>Net cashflows from operating activities</b>	<u>1,368</u>
(375)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(406)
1,451	Purchase of property, plant and equipment, investment property and intangible assets	804
0	Purchase of short-term and long-term investments	10,000
1,000	Other payments for investing activities	1,000
(9,000)	Proceeds from the sale of short-term and long-term investments	0
(289)	Other receipts from investing activities	(883)
<u>(7,213)</u>	<b>Net cashflows from investing activities</b>	<u>10,515</u>
(1,000)	Cash receipts from short term and long term borrowing.	(3,000)
0	Repayments of short term and long term borrowing	0
(164)	Changes in National Non-Domestic Rates balances held for Central Government	910
(679)	Changes in Council tax balances held for preceptors	(513)
<u>(1,843)</u>	<b>Net cashflows from financing activities</b>	<u>(2,603)</u>
(12,404)	<b>Net (Increase) / decrease in cash</b>	<b>9,280</b>

## CASH FLOW STATEMENT (Cont.)

Details of the cash balances are shown below:

	1st April 2012 £'000	2012-13 £'000	31st March 2013 £'000
Cash and bank balances	145	65	210
Money held in interest-bearing call accounts	16,779	(9,345)	7,434
Total Cash and Cash Equivalents	16,924	(9,280)	7,644

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 1 CHANGES TO ACCOUNTING POLICIES AND TO PREVIOUS YEARS FIGURES

#### 1.1 Introduction

The International Financial Reporting Standards, under which the Statement of Accounts is prepared, requires the Council to re-state the opening balances and the comparative figures for previous years in the main accounting statements and the notes in the following circumstances:

- Changes accounting policies, as set out in Note 2 below, which are derived from International Financial Reporting Standards, as determined for local authorities in the Code of Practice.
- Corrections to material errors or misstatements

For 2012-13 there have been no changes to accounting standards or policies that would require the Council to re-state the opening balances or the 2011-12 comparative figures. As no material adjustments are required for errors or misstatements, there are no restatements in the 2012-13 Statement of Accounts.

#### 1.2 Changes to Accounting Standards not yet adopted

The Code of Practice for 2013-14 adopts changes made in 2011 to accounting standards:

- IAS 19 Employee Benefits
- IAS 1 Presentation of Financial Statements
- IAS 7 Financial Instruments: Disclosures

In addition the 2013-14 Code augments its provisions on service concession arrangements.

Only the change to IAS 19, which takes effect from 1 April 2013, has any impact on this Council. At present the "Financing and Investment Income and Expenditure" section of the Comprehensive Income and Expenditure Statement includes both the interest cost on the liability and the expected return on assets, as described in Note 33. This is to be replaced with a net interest cost, calculated through the discount rate. In addition the current service cost is combined with the cost of curtailments to form a single "net interest cost". The result of the changes will be to increase the charge to Financing and Investment Income and Expenditure, but this is offset by an actuarial gain in the value of the scheme assets, so there is no impact on the liability for pensions as shown in the balance sheet.

The figures in the financial statements are based on the current version of IAS19. Changes to IAS19 come into affect for the financial year to 31 March 2014. The changes will be adopted retrospectively for the prior year, in accordance with IAS8. The effect of the change to IAS19 on the income statement to 31 March 2013 will be an increase of £930,000. This will be disclosed in the report covering the year to 31 March 2014. These changes will be included in the 2013-14 Statement of Accounts as re-statements for 2012-13 within the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, and in Notes 7 (Adjustments between accounting and funding basis), 12 (Financing and Investment Income and Expenditure), 27 (Unusable Reserves) and 33 (Post Employment Benefits).

## NOTES TO THE CORE FINANCIAL STATEMENTS

### **2 ACCOUNTING POLICIES, CRITICAL JUDGEMENTS AND ESTIMATION TECHNIQUES.**

#### **2.1 General Principles**

The Statement of Accounts summarises the Council's transactions for the 2012-13 financial year and its position at the end of 31 March 2013, the close of the financial year. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which specify that the Statement is prepared in accordance with proper accounting practices. These primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13, and the Service Reporting Code of Practice 2012-13, supported by International Financial Reporting Standards. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets.

#### **2.2 Accruals of Expenditure and Income**

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

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

The Council collects income from payers of Non-Domestic Rates. Up until the end of 2012/13 all of this income was collected on behalf of the Government, and was categorised as an agency service. In the 2012/13 Statement of Accounts the Council does not therefore account for the income or the payment over of business rates within its Income and Expenditure Account, and includes a single creditor or debtor in its balance sheet, representing the net amount of Non-Domestic Rate debtors, adjustments for doubtful debts, income in advance, and amounts due to or from the Government.

Similarly the Council collects income from Council Tax payers, but only part relates to this Council, the balance being on behalf of other major precepting authorities. The amounts of

## NOTES TO THE CORE FINANCIAL STATEMENTS

debtors, adjustments for doubtful debts, and income in advance that relate to the precepting authorities are shown as a single net creditor in the balance sheet. The element of the Collection Fund due to preceptors is split between payments due to be made in the following financial year, which are held as Short Term Creditors, and any other amounts, due in succeeding financial years, which are shown as Long Term Creditors. In the event of a deficit, the amounts would be split between Short Term and Long Term Debtors.

### 2.3 Cash and Cash Equivalents

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

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

### 2.4 Charges to Revenue for Non-Current Assets

Services including support services are debited with the following amounts to record the cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Revaluation and impairment losses on assets used by the service, where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Any subsequent reversal of such losses;
- The annual write-down of intangible fixed assets attributable to the service.

The Council is not required to raise Council Tax to fund these charges, and they are therefore reversed through an appropriation from the Capital Adjustment Account to the General Fund. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. This is termed the Minimum Revenue Provision (MRP). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by MRP by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

The Council participates in Local Authority Mortgage Scheme (LAMS) using the cash backed option. The mortgage lenders require a 5 year deposit from the local authority to match the 5 year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) has increased by the amount of the total indemnity. The deposit is due to be returned in full at maturity, with interest paid either annually or on maturity. Once the deposit matures and funds are returned to the local authority, the returned funds are classed as a capital receipt, and the CFR will reduce accordingly. As this is a temporary (5 year) arrangement and the funds should be returned in full, the Council has considered whether MRP should be made and has determined any amount is trivial and therefore there is no need to set aside a provision to repay the debt liability in the interim period.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 2.5 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

### 2.6 Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority 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 line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

### 2.7 Contingent Assets

A contingent asset is a possible asset that arises from a past event 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. Typically a contingent asset is related to a legal action by the authority, whose outcome is uncertain when the balance sheet is compiled.

Contingent assets are not recognised in the balance sheet, but their existence is recorded in a note to the accounting statements.

### 2.8 Contingent Liabilities

A contingent liability is a possible obligation that arises from a past event 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. Typically a contingent liability is related to a legal action against the authority, whose outcome is uncertain when the balance sheet is compiled.

Contingent liabilities are not recognised in the balance sheet, but their existence is recorded in a note to the accounting statements.

### 2.9 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, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority.

## NOTES TO THE CORE FINANCIAL STATEMENTS

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the accounting year multiplied by an average for pension and National Insurance. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that these accrued benefits are charged to the General Fund in the financial year in which the absence occurs.

### *Termination Benefits*

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These are charged on an accruals basis to the relevant service in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

### *Post-Employment Benefits*

The majority of employees of the Council are members of the Local Government Pension Scheme, administered by East Sussex County Council for local authorities within East Sussex. This scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council. We therefore account for this scheme as a defined benefit plan.

- The liabilities of the East Sussex County Council pension scheme attributable to this Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.5% (based on the indicative rate of return on the iBoxx Sterling Corporate Index, AA over 20 years).
- We include the assets of the East Sussex County Council Pension Fund attributable to this Council in 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 pensions liability is analysed into the following components:
  - Current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the service for which the employees worked.
  - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to the

## NOTES TO THE CORE FINANCIAL STATEMENTS

Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement.

- contributions by scheme participants, which reduce plan liabilities, but correspondingly increase plan assets, and are therefore not reflected in the Comprehensive Income and Expenditure Statement
- 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
- benefits paid, which reduce plan assets, but correspondingly reduce its liabilities, and are therefore not reflected in the Comprehensive Income and Expenditure Statement
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement
- gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement.
- contributions paid to the East Sussex County Council Pension Fund – the employer's contributions to the pension fund for the financial year, not accounted for as an expense.

Statutory provisions require the Council to charge the General Fund balance with the amount payable by the Council to the pension fund in the year, not the amount calculated according to the relevant accounting standards. This means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and the amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of contributions paid rather than as benefits are earned by the employee.

### *Discretionary Benefits*

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 2.10 Events after the Balance Sheet date

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

- If they provide evidence of conditions that existed at the end of the reporting period, the Statement of Accounts is amended to reflect these events;
- If they are indicative of conditions that arose after the reporting period, the Statement of Accounts is not amended. If, however, an event would have a material effect, a disclosure is made in the notes to the accounts, outlining the event and its estimated financial effect.

Any event taking place after the accounts are authorised for issue is not reflected in the Statement of Accounts.

### 2.11 Prior period adjustments

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

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

### 2.12 Changes in accounting estimates

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

### 2.13 Financial instruments

#### *Financial Liabilities*

The term "financial liability" covers contractual obligations to deliver or exchange financial assets to another entity. The Council's financial liabilities consist of loans taken out with the Public Works Loan Board, which come within the category of "loans and receivables".

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

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

## NOTES TO THE CORE FINANCIAL STATEMENTS

However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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

### *Financial Assets*

The term “financial asset” covers cash, equity instruments, and beneficial contractual rights to receive or exchange cash or liabilities. All of the Council’s investments come within the category of “loans and receivables”. These are financial assets that have fixed or determinable payments, and are not quoted in an active market. The Council’s balance sheet includes four groups of financial assets:

- Trade debtors are recorded as invoices issued to individuals or other entities, for which immediate payment is required. The balance awaiting collection (“Trade accounts receivable”) is included in the balance sheet under “short term debtors”.
- Cash held in current or call accounts, together with investments for periods of less than three months, is included in the balance sheet under “cash and cash equivalents”.
- Investments taken out for periods of between three months and one year are included in the balance sheet as “short term investments”.
- Investments taken out for periods of longer than one year are included in the balance sheet as “long term investments”.

### *Provision for Impairment on Doubtful Debts re: Trade Debtors*

Trade debtors are regularly assessed for possible non-payment, and an adjustment is made for possible impairment to the gross balance.

### *Loans and Receivables*

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a

## NOTES TO THE CORE FINANCIAL STATEMENTS

charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

### 2.14 Debtors

#### *Provision for Impairment on Doubtful Debts re: Collection of Council Tax and Non Domestic Rates*

In making a provision an assessment is made based on previous years collection rates and any known large debts that are deemed to be uncollectable based on current information. The Council's share of the loss is provided for.

#### *Provision for Impairment on Doubtful Debts re: Housing Benefit Overpayments*

At the 31<sup>st</sup> March the total outstanding debt for Housing Benefits overpayments is assessed. Information on the aged analysis is not available and full provision for the debt is made. Further information is being sought on the n the aged debt analysis. Whilst full provision may be made for older debts it is the Council's policy to pursue all debts where appropriate.

### 2.15 Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### 2.16 Government Grants and Other Contributions

Whether paid on account, by instalments or in arrears, we recognise government grants and third party contributions and donations as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments, and that the grants and contributions will be received.

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as capital grants received in advance (either current or long-term). When conditions are satisfied the grant or contribution is credited to the Comprehensive Income and Expenditure Statement.

Grants and contributions towards specific services for revenue purposes are credited against the appropriate line in the Cost of Services, but if grants and contributions are not related to specific services they are credited as Taxation and Non-Specific Grant Income,

## NOTES TO THE CORE FINANCIAL STATEMENTS

along with all grants and contributions receivable towards investment in Property Plant and Equipment, Investment Properties or Intangible Assets. As these capital grants and contributions are not legally credits to the General Fund, an equivalent appropriation is made from the General Fund into the Capital Grants and Contributions Reserve, which is set aside for the financing of capital investment.

### 2.17 Heritage Assets

The Authority's Heritage Assets are as follows:

- A collection of heritage assets at the Authority's Museums
- The mayor's Civic Regalia held at the Town Hall
- Hastings Castle
- Hastings Caves

The above assets are held in support of the primary objective of increasing the knowledge, understanding and appreciation of the Authority's history and local area. The key components of the above are:

#### **Hastings Castle and Hastings Caves**

The Authority does not consider that reliable cost or valuation information can be obtained for these items. This is because of the historic nature of the assets and lack of comparable market values. Consequently the Authority does not recognise these Heritage assets on the Balance Sheet.

Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The Authority's collection of heritage assets is accounted for as follows.

#### **Valuation**

##### *Civic Regalia and Museum Collection*

The above categories are reported in the Balance Sheet at market value as approximated by insurance valuation which is based on market values. There is a periodic programme of valuations and the items in the collection are valued by an external valuer. The assets in the categories above are deemed to have indeterminate lives and a high residual value; hence the Authority does not consider it appropriate to charge depreciation.

Gorringe's have valued our Heritage assets, Note 18, for insurance purposes, and per the code it is proposed that we use this valuation and show the increased value as a gain in 2012/13. The gain really arises not because of an increase in value or even through new valuations, but because the values used in 2011/12 have retrospectively turned out to be unreliable, by a factor of £7m, which is of course highly material.

The insurance values are reviewed on an annual basis to ensure there have been no material changes.

Valuation gains and losses are accounted for in accordance with the Authority's general policies on revaluation - see note 2.21.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### *Hastings Castle and Hastings Caves*

The Authority considers that obtaining valuations would involve disproportionate costs in comparison to the benefits to the users of the Authority's financial statements. This is because of the unique nature of the assets and the lack of comparable values for these archaeological items.

### **Acquisition Policy**

Acquisitions are made by purchase or donation. Purchases are made when an item is deemed to have local significance and are at reasonable cost, these acquisitions are normally made in conjunction with a grant or the proceeds of a bequest (see 2.22 re disposals).

Acquisitions are initially at cost and donations are recognised at valuation with valuations provided by an external valuer with reference when appropriate to commercial markets for the paintings using the most relevant and recent information from sales at auctions.

### **Impairments**

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment - see note 2.22.

### **Disposals**

The Authority will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts see notes 2.22.

### 2.18 Intangible Assets

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

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

Expenditure on the development of websites is not capitalised if the web site is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is written down over its useful life, as estimated by the appropriate officer, to the appropriate

## NOTES TO THE CORE FINANCIAL STATEMENTS

line in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired, and any losses are posted to the appropriate line in the Income and Expenditure Statement.

The calculated amounts for amortisation and impairment are charged to the Cost of Services in the Comprehensive Income and Expenditure Account, but they are not legal charges against the General Fund. A transfer is therefore made from the Capital Adjustment Account to the General Fund to reverse the impact.

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

In some instances software costs have been fully amortised but legacy systems are still in use and that current software licenses are below capitalisation limits.

### 2.19 Investment Properties

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

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

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

### 2.20 Leases

#### Definition of a lease

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or a number of payments, the right to use an asset (property, plant and equipment, investment properties, non-current assets available for sale or intangible assets) for an agreed period of time. A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership to the lessee. Any lease that does not come within the definition of a finance lease is accounted for as an operating lease.

The Council has a number of leasing agreements, acting both as lessee (paying for the use of assets) and as lessor (receiving money for the use of assets owned by others).

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

## NOTES TO THE CORE FINANCIAL STATEMENTS

The Council reviews all of its leases to determine how they stand against various criteria which distinguish between finance and operating leases. In undertaking this review, however, the Council operates a de minimis level, for assets or class of directly related assets valued at less than £50,000 are treated within the accounts as an operating lease.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

### (a) The Authority as Lessee

#### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

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

#### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

### (b) The Authority as Lessor

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

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

### Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a material/significant premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

#### 2.21 Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012-13 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation,
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early, and any depreciation and impairment charges chargeable on non-operational assets.

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

#### 2.22 Property, Plant and Equipment

##### *Definition and Categories*

Property plant and equipment consists of assets that have physical substance and are held for use in the provision of services, for rental to others, or for administrative purposes, and that are expected to be used during more than one financial year. They exclude assets which are held purely for investment purposes (Investment properties), assets which the Council is actively seeking to sell (Assets available for sale), and assets coming within the

## NOTES TO THE CORE FINANCIAL STATEMENTS

definition of Heritage Assets (2.17 above). Property plant and equipment consists of the following categories:

- Land and buildings – properties owned by the Council, other than those in another category shown below, or Investment Properties.
- Vehicles, plant and equipment – individual items or groupings of items which are purchased from capital resources.
- Infrastructure, which for this council consists of sea defences, and some footways, lighting and bus stops.
- Community assets – properties such as parks, which are used for the community as a whole, with no determinable market value in their present use, and which are not likely to be sold.
- Surplus assets – individual properties which the Council has determined to be surplus to operational requirements, but which are not actively being marketed.
- Assets under construction – capital expenditure on an asset before it is brought into use.

### *Recognition*

Expenditure on the acquisition, creation or enhancement of property plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that secures but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged to the Comprehensive Income and Expenditure Account as an expense when it is incurred. Assets valued at less than £50,000 are not included on the balance sheet, provided that the total excluded has no material impact.

### *Measurement*

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Land and buildings – fair value, usually based on the market value for the existing use (EUV). Some specialised properties, where the valuer cannot identify a market for the asset, are instead valued on the basis of depreciated replacement cost (DRC).
- Vehicles, plant and equipment – fair value, for which depreciated historic cost is normally used as a proxy.
- Infrastructure – depreciated historic cost
- Community Assets – historic cost or insurance value when first recognised as fixed assets
- Surplus assets - fair value, based on the market value for the existing use (EUV).
- Assets under construction – historic cost

### *Revaluation*

We revalue assets included in the Balance Sheet at current value when there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains are credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account. Reductions in value are

## NOTES TO THE CORE FINANCIAL STATEMENTS

charged to the Revaluation Reserve, up to the amount held for that asset in the Revaluation Reserve, or otherwise to the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### *Impairment*

The values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for as follows:

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

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account. Where impairment is subsequently reversed, the reversal is credited to the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for the depreciation that would have been charged if the loss had not been recognised.

### *Disposals*

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

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to property plant and equipment and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation 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.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Account. An equivalent transfer is made to the General Fund to the Capital Adjustment Account to eliminate the impact on the General Fund, and any revaluation gains accumulated for the asset in the Revaluation Reserve are also transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. These are credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Account, but an equivalent appropriation is made from the General Fund to the Capital

## NOTES TO THE CORE FINANCIAL STATEMENTS

Receipts Reserve. There is a legal requirement that sale proceeds held in this reserve can only be used to reduce debt or to finance capital expenditure.

In some cases the receipt of income from asset disposals is delayed until a future financial year. In such cases a credit is made to the unusable Deferred Capital Receipts Reserve, matched by a long-term or short term debtor. When the income is received, the debtor is written down and a transfer is made from the Deferred Capital Receipts Reserve to the Capital Receipts Reserve.

### *Depreciation*

Depreciation is provided for on all assets with a determinable finite life by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use. Depreciation is based on the opening net book value, Depreciation is calculated on the following bases:

- Land – not subject to depreciation
- Buildings – straight-line allocation over the life of the property as estimated by the valuer, taking account of newly assessed lives where properties were revalued as at 1 April, but without any charge for depreciation in the first year following the revaluation..
- Vehicles, plant and equipment – is depreciated on a straight-line basis over the expected life of the asset
- Infrastructure –is depreciated on a straight-line basis over the expected life of the asset
- Community assets – not subject to depreciation
- Surplus assets - straight-line allocation over the life of the property as estimated by the valuer
- Assets under construction – not subject to depreciation

Where new assets are acquired or brought into use, depreciation is charged from the start of the following year. Depreciation is charged for the full final year when assets are sold. Where assets are revalued during the year, depreciation is not charged on the amount by which the value has been changed.

Depreciation is charged to the Cost of Services in the Comprehensive Income and Expenditure Account, but this is not a not a legal charge against the General Fund. A transfer is therefore made from the Capital Adjustment Account to the General Fund to reverse the impact.

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

### *Changes in accounting estimates*

## NOTES TO THE CORE FINANCIAL STATEMENTS

During the year a number of fixed assets were revalued as part of the Councils' rolling programme of revaluation by the Chartered Surveyors Wilks Head and Eve (WH&E). The revaluations resulted in a number of changes in the useful lives of the assets, the value of the assets and the values of the components of the asset. The valuation by WH&E provides weighted average remaining useful lives for the assets. The value and remaining useful lives of the components are also provided by WH&E.

Where an asset has major components, with different estimated useful lives, these are assessed separately and the depreciation based on the weighted average remaining useful life of the whole depreciable asset is compared with the depreciation of the separate material components over the remaining useful life of the separate component and an adjustment made if any material difference is found between the two.

The exercise was undertaken investigating the 20 highest value assets of which the 5 largest assets with established material components were depreciated by actual estimated residual useful lives of the major components against the residual life of the asset. It was found that this resulted in a lower depreciation of £46,000 a year which could have a cumulative effect of £155,000 over the 5 year revaluation cycle. It was decided that this was not a material amount.

During 2010-11 in the accounts we did not write back current years depreciation on the assets revalued during the year which we had identified as potentially needing to be componentising. Subsequent work resulted in the conclusion that depreciation based on components would not be materially different from that on the weighted average life of the total depreciable asset. In this current year as we have written back the depreciation on these assets described above.

The effect is to increase the value of the asset held in other land and buildings under Property, Plant and Equipment and decrease the charge to the service on the Comprehensive Income and Expenditure Statement. This is then reversed out through the Movement in Reserves and credited to the revaluation reserve.

### 2.23 Reserves

The Council maintains two groups of reserves, usable and unusable.

Usable reserves comprise the following:

- Capital Receipts Reserve: proceeds from the sales of Property, Plant and Equipment are initially credited to the Income and Expenditure Account, but legally can only be used to finance capital expenditure, and so are transferred to the Capital Receipts Reserve and afterwards used for this specific purpose.
- Capital Grants Unapplied: the Council receives grants and contributions towards capital expenditure, and these are credited to the Income and Expenditure Account and immediately transferred into the Capital Grants Unapplied Reserve until required to finance capital investment.
- Earmarked Reserves: the Council may set aside earmarked reserves to cover specific projects or contingencies. These are transferred from the General Fund, and amounts are withdrawn as required to finance such expenditure. The expenditure itself is charged to the appropriate line in the Comprehensive Income and Expenditure Statement. There are no legal restrictions on the use of earmarked reserves, and unspent balances can be taken back to the General Fund in the same way.

## NOTES TO THE CORE FINANCIAL STATEMENTS

- General Fund: this represents all other usable reserves, without legal restrictions on spending, which arise from annual surpluses or deficits.

Unusable Reserves consist of those which cannot be used to finance capital or revenue expenditure:

- Deferred Capital Receipts: in some cases (particularly former housing stock disposed of, where the purchaser financed the transaction through a mortgage from the Council) an asset is disposed of, but the income cannot be collected immediately. The Council maintains records for a long term debtor, offset by a balance in the Deferred Capital Receipts Account. When the income is received the debtor is written down and a transfer is made between this account and the Capital Receipts Reserve.
- Revaluation Reserve: this consists of accumulated gains on individual items of Property, Plant and Equipment. The Reserve contains only gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains before that date are consolidated into the balance on the Capital Adjustment Account. The balance is reduced when assets with accumulated gains are:
  - revalued downwards or impaired and the gains are lost
  - used in the provision of services and the gains are consumed through depreciation, or
  - disposed of and the gains are realised.
- Capital Adjustment Account: Receives credits when capital is financed from revenue resources or other usable reserves, and receives debits to offset depreciation and other charges relating to capital which are not chargeable against the General Fund. The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The account contains revaluation gains accumulated on Property Plant and Equipment before 1 April 2007, the date on which the Revaluation Reserve was created to hold such gains.
- Pensions Reserve: The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority 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 Authority 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.
- Financial Instruments Adjustment Account: this represents the difference between the accounting and legislative charges for finance costs.
- Collection Fund Adjustment Account: this represents the differences arising from the recognition of Council tax income in the Comprehensive Income and Expenditure Statement as it falls due from Council tax payers, compared with the statutory arrangements for paying across amounts from the Collection Fund to the General Fund.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 2.24 Revenue Expenditure Financed from Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset, is charged as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged, so there is no impact on the level of Council Tax.

### 2.25 Inventories

Where the values are significant to an operation, inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average costing formula

### 2.26 Value Added Tax (VAT)

VAT 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.

## **NOTE 3. ROUNDING**

The accounting statements and notes are normally rounded to the nearest thousand pounds, the main exceptions being note 37 (nature and extent of risk arising from financial instruments) where amounts are in millions, and note 44 (remuneration of senior management) where amounts are to the nearest pound. The headings in the tables indicate the level of rounding.

## **NOTE 4. ASSUMPTIONS MADE ABOUT FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION AND UNCERTAINTY**

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

### Pensions Accounting

For this Council the only balance with a degree of uncertainty is the liability for future pension costs, which stood at about £32m at 31 March 2013. The estimate of this liability depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes to retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries, Hymans Robertson, is engaged to provide the Council with expert advice about the assumptions to be applied. For example, a 0.5% decrease in the discount rate would result in a decrease in the pension liability of £11,343,000, while an increase of 1 year in life expectancies for pensioners would increase the liability by £3,806,000. All these assumptions are listed in Note 33, and are re-assessed every year. Changes in any one assumption would be affected by changes in others, so that the effect of a number of changes would be a complex calculation.

In 2012-13 the actuary advised that the net pensions liability had increased by £7,535,000 as a result of estimates being corrected in the light of experience, and had also increased by £2,631,000 through the updating of assumptions.

### Valuations of Property

Valuations of property depend on various assumptions, as set out in detail in Note 2.22 above. In particular, valuers have to determine:

## NOTES TO THE CORE FINANCIAL STATEMENTS

- The estimated life of the building.
- Whether or not there is a market for the property in its existing use, which means that they could value at such a market value (EUV). If there is no such market properties are valued at Depreciated Replacement Cost (DRC), which is currently likely to give a higher value.

### **NOTE 5. EVENTS AFTER THE BALANCE SHEET DATE**

The Statement of Accounts were provisionally approved by the Head of Finance on 30th June 2013 and will be considered for approval by the Audit Committee on 25<sup>th</sup> September 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### **NOTE 6. MATERIAL ITEMS OF INCOME AND EXPENSE**

Following a review of non-current asset records, the Council has identified and written out £873,000 in balances that did not represent the value of assets owned by the Council. This charge is reflected in the "disposals" line of Note 14 (Property Plant and Equipment), and in the "Other Operating Expenditure" line of the Comprehensive Income and Expenditure Statement". It is not, however, a charge against the General Fund, and forms part of the adjustments between accounting and funding bases in the Movement in Reserves Statement.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details 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 the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2011-12	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts reserve £'000	Capital grants unapplied £'000	Movement in unusable reserves £'000
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</b>					
<i>Adjustments primarily involving the capital adjustment account</i>					
Charges for depreciation and impairment of non-current assets	(8,061)				8,061
Movements in the market value of Investment Properties	(29)				29
Amortisation of intangible assets	(19)				19
Revenue expenditure funded from capital under statute	(1,322)				1,322
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(17)				17
Amounts of non-current assets written off on assets held for sale or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(389)				389
Reversal of capital repayments of finance leases	0				0
Statutory provision for the financing of capital investment	685				(685)
<i>Adjustment primarily involving the Capital Grants Unapplied Account:</i>					
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	1,131			(1,131)	
Application of grants to capital financing transferred to the Capital Adjustment Account				1,459	(1,459)
<i>Adjustment primarily involving the Capital Receipts reserve</i>					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	376		(376)		
Use of the Capital Receipts Reserve to finance new capital expenditure			380		(380)
<i>Adjustments primarily involving the Deferred Capital Receipts Reserve</i>					
Transfer from Deferred Capital Receipts reserve upon receipt of cash			(5)		5
<i>Adjustments primarily involving the Financial Instruments Adjustment Account</i>					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from the finance costs chargeable in the year in accordance with statutory requirements	(51)				51
<i>Adjustments primarily involving the Pensions Reserve</i>					
Difference between accounting and statutory pension costs	167				(167)
<i>Adjustments primarily involving the Collection Fund Adjustment Account</i>					
Amount by which council tax income charged to the Comprehensive Income and Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements	116				(116)
<i>Insertion of items not debited or credited to the General Fund</i>					
Capital expenditure charged against the general fund	344				(344)
<i>Adjustments primarily involving the Accumulated Absences Account</i>					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement is different from the remuneration chargeable in the year in accordance with statutory requirements	63				(63)
	(7,006)	0	-1	328	6,679

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS (Cont.)

This note details 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 the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

2012-13	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts reserve £'000	Capital grants unapplied £'000	Movement in unusable reserves £'000
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</b>					
<i>Adjustments primarily involving the capital adjustment account</i>					
Charges for depreciation and impairment of non-current assets	(3,056)				3,056
Movements in the market value of Investment Properties	7				(7)
Amortisation of intangible assets	(22)				22
Revenue expenditure funded from capital under statute	(1,274)				1,274
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,451)				1,451
Amounts of non-current assets written off on assets held for sale or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(525)				525
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</i>					
Statutory provision for the financing of capital investment	727				(727)
<i>Adjustment primarily involving the Capital Grants Unapplied Account:</i>					
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	1,558			(1,558)	
Application of grants to capital financing transferred to the Capital Adjustment Account				1,771	(1,771)
<i>Adjustment primarily involving the Capital Receipts reserve</i>					
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	405		(405)		
Use of the Capital Receipts Reserve to finance new capital expenditure			409		(409)
<i>Adjustments primarily involving the Deferred Capital Receipts Reserve</i>					
Transfer from Deferred Capital Receipts reserve upon receipt of cash			0		0
<i>Adjustments primarily involving the Financial Instruments Adjustment Account</i>					
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from the finance costs chargeable in the year in accordance with statutory requirements	(51)				51
<i>Adjustments primarily involving the Pensions Reserve</i>					
Difference between accounting and statutory pension costs	(326)				326
<i>Adjustments primarily involving the Collection Fund Adjustment Account</i>					
Amount by which council tax income charged to the Comprehensive Income and Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements	88				(88)
<i>Insertion of items not debited or credited to the General Fund</i>					
Capital expenditure charged against the general fund	284				(284)
<i>Adjustments primarily involving the Accumulated Absences Account</i>					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement is different from the remuneration chargeable in the year in accordance with statutory requirements	(3)				3
	(3,639)	0	4	213	3,422

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 8. EARMARKED RESERVES

The table below shows the balances for earmarked reserves, and the transfers made to or from the General Fund.

	Balance at 31 March 2011 £'000	Movement £'000	Balance at 31 March 2012 £'000	Movement £'000	Balance at 31 March 2013 £'000
Capital Reserve	(2,779)	(125)	(2,904)	0	(2,904)
General Reserve	(1,690)	(1,407)	(3,097)	(1,678)	(4,775)
Area Based Grant Unapplied Reserve	(1,755)	601	(1,154)	281	(873)
Renewal and Repairs Reserve	(1,720)	(168)	(1,888)	187	(1,701)
Risk Management Reserve	(291)	20	(271)	(102)	(373)
Information Technology Reserve	(109)	(25)	(134)	(4)	(138)
Section 106 Reserve	(546)	(19)	(565)	90	(475)
Government Grants Reserve	(816)	6	(810)	41	(769)
VAT reserve	(1,522)	847	(675)	60	(615)
On-Street Car Parking Surplus Reserve	(140)	(79)	(219)	(69)	(288)
Interest Equalisation Reserve	(207)	0	(207)	207	0
Concessionary Travel Reserve	(290)	123	(167)	167	0
Monuments in perpetuity	(62)	5	(57)	5	(52)
Ore Valley Reserve	(305)	0	(305)	0	(305)
Mortgage Reserve	0	(5)	(5)	(23)	(28)
Transition Reserve	0	(722)	(722)	0	(722)
Redundancy Reserve	0	(769)	(769)	0	(769)
Community Safety Reserve	0	(350)	(350)	0	(350)
Economic Development Reserve	0	(545)	(545)	0	(545)
Land Charges Claim	0	0	0	(140)	(140)
<b>Total</b>	<b>(12,231)</b>	<b>(2,613)</b>	<b>(14,844)</b>	<b>(978)</b>	<b>(15,822)</b>

The reasons for maintaining these earmarked reserves are shown below:

- (i) The Capital Reserve is earmarked to support capital spending.
- (ii) The General Reserve is used to support revenue spending.
- (iii) The Area Based Grant reserve is that proportion of the grant received but not applied during the year of receipt.
- (iv) The Renewal and Repairs Reserve is maintained for the purchase of vehicles, plant, equipment and the repair and redecoration of property
- (v) The Risk Management Reserve is used to cover excesses on claims and certain small risks. The object is to minimise insurance premiums providing sufficient cover. It is also a reserve in respect of future MMI insurance liabilities.
- (vi) The Information Technology Reserve is for the purpose of financing the purchase of computing equipment and computer systems required by the Council.
- (vii) Section 106 Reserve – these are the developers contributions to be used to finance various projects: normally they would have to be repaid if they cannot be used for the specified purpose.
- (viii) Government Grants and Contribution Reserve contains the equivalent amount of grants provided by the Government or contributions from other bodies during the financial year that cannot be used until after 31 March.
- (ix) VAT reserve holds receipts of windfall VAT reclaim and the monies have been earmarked for use in various revenue and capital schemes
- (x) Surpluses from on-street car parking are shared with East Sussex County Council. Shares will be spent on traffic management and transportation issues within the borough.
- (xi) The Interest Equalisation reserve was created to 'smooth' the expected fluctuations in interest rates that would otherwise effect the revenue earnings arising from the substantial short term deposits. This reserve is no longer required due to low interest rates and the balance has been transferred to the General Reserve.
- (xii) The Concessionary Travel reserve was set up to cover possible liabilities arising from judicial reviews of the scheme of reimbursing bus operators, and for late claims relating to previous years. This reserve is no longer required. The balance has been transferred to the General Reserve.
- (xiii) The Monuments in Perpetuity reserve has been set up to maintain burial plots at the Cemetery.
- (xiv) Ore Valley reserve has been set up to fund activity in the area.
- (xv) Mortgage Reserve - interest earned on the deposit of the money invested in the Local Authority Mortgage Scheme is set aside in a ring fenced reserve to be used - this is to be used to fund potential liabilities in the event of any default and the guarantee being called upon.
- (xvi) Transition Reserve - sum put aside to cushion the impact of significant grant reduction in future years.
- (xvii) Redundancy Reserve - sum put aside to help meet expected redundancy costs arising in future years.
- (xviii) Community Safety Reserve - is specifically earmarked over the medium term to maintain Community Safety activities as further central Government grant reductions occur.
- (xix) Economic Development Reserve - is specifically earmarked for significant job creation activity over the medium term.
- (xx) Land Charges Claims - sums put aside for potential claims from individuals and property search companies.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 9. CAPITAL RECEIPTS RESERVES

The table below shows the balances on the capital receipts reserve.

	<b>Balance at 31 March 2012</b>	Income	Used to finance capital expenditure	<b>Balance at 31 March 2013</b>
	<b>£'000</b>	£'000	£'000	<b>£'000</b>
Council Mortgages	(4)	0	4	0
Sale of Land and Property	0	(166)	166	0
Repayment of Grant	0	(15)	15	0
Sale of Ex Council Houses	0	(224)	224	0
<b>Total</b>	<b>(4)</b>	<b>(405)</b>	<b>409</b>	<b>0</b>

### NOTE 10. UNAPPLIED CAPITAL GRANTS

The table below shows the balances on the unapplied capital grants reserve.

	<b>Balance at 31 March 2012</b>	Income	Used to finance capital expenditure	<b>Balance at 31 March 2013</b>
	<b>£'000</b>	£'000	£'000	<b>£'000</b>
Townscape Heritage Initiative - Lottery Funding	(91)	0	91	0
Play Pathfinder Grant	(9)	0	9	0
Heritage Lottery re: Jackson Hall	(16)	0	16	0
Regional Housing Board	(317)	0	68	(249)
s106 Monies	(100)	0	0	(100)
Local Space	0	(731)	731	0
Other	(29)	(66)	95	0
<b>Total</b>	<b>(562)</b>	<b>(797)</b>	<b>1,010</b>	<b>(349)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 11. OTHER OPERATING EXPENDITURE

2011-12 £'000	2012-13 £'000
Amounts of non-current assets written off on assets held 389 for sale	525
(357) (Gains) & Losses on Disposal of non-current assets	1,045
32 (Gains) & Losses on Disposal of non-current assets	1,570

During the year a number of assets were sold/disposed of, amongst these were:-

- \* Various parcel of land no longer required
- \* 18 East Parade
- \* Land at Beaufort
- \*Kenilworth Road

### NOTE 12. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2011-12 £'000	Expenditure:	EXPEND. £'000	IAS 19 £'000	INCOME £'000	2012-13 £'000
370	Interest payable and similar charges	426	0	0	426
(95)	Pensions interest cost and expected return on pension assets	0	370	0	370
(413)	Interest receivable and similar income	0	0	(355)	(355)
(55)	Income and expenditure in relation to investment properties and changes in their fair value	0	0	(92)	(92)
(193)		426	370	(447)	349

### NOTE 13. TAXATION AND NON-SPECIFIC GRANT INCOME

2011-12 £'000	Income	2012-13 £'000
(7,065)	Council Tax Income	(7,116)
(5,953)	Non domestic rates	(6,879)
(1,840)	Revenue Support Grant	(133)
(5,384)	Non-ringfenced government grants	(5,034)
(289)	Capital grants and contributions	(797)
(20,531)		(19,959)

# NOTES TO THE CORE FINANCIAL STATEMENTS

## NOTE 14 PROPERTY, PLANT AND EQUIPMENT

Assets are revalued on a rolling programme basis, service by service. On this basis all major assets are revalued within a five year period.

Operational and Non-operational assets are valued on an open market basis. Infrastructure and Community assets are valued in general on a historic cost basis. (see derecognition review below)

Valuations have been carried out by the Wilks Head and Eve Chartered Surveyors of Newlands House, 40 Berners, Street London, W1T 3NA. Valuations carried out are as at 1st April 2012. An impairment review was carried out to review any impairments to the 31st March 2013

### Derecognition review

There was a continuing review of Property, plant and equipment . Where these assets were deemed to have no continuing value to the Authority they were derecognised.

This resulted in a charge in the Provision of Services, the Derecognition of the assets are as follows:

	£'000	£'000	£'000
	Gross Book Value	Depreciation	Net book value
Other land and buildings	212	(8)	<b>204</b>
Vehicles plant and equipment	492	(477)	<b>15</b>
Infrastructure	1,669	(1,015)	<b>654</b>
	<b>2,373</b>	<b>(1,500)</b>	<b>873</b>

Assets being re-valued upwards in the year within the WH&E valuation where there had been impairments in prior periods resulted in £191k being reversed through the provision of service lines in the Comprehensive Income and Expenditure Account

# NOTES TO THE CORE FINANCIAL STATEMENTS

## NOTE 14. PROPERTY, PLANT AND EQUIPMENT (cont'd)

### Depreciation

Depreciation on all tangible assets is calculated on a straight-line basis over the expected remaining life of those assets. It is assessed on the difference between the book value and any estimated residual value.

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

-Other Land and Buildings	Up to 60 years
- Vehicles plant and equipment	Up to 20 years
- Infrastructure	Up to 40 years

For assets acquired and valued after the 1st of April 2010, significant components have been identified and where these components are material and have lives significantly different from the life of the main asset, these components will be depreciated over the useful life of the component.

### Capital Commitments

At 31 March 2013 the Council was contractually committed to the payment of £157k under its capital programme of which £142k will be recoverable from the Foreshore Trust, compared to £524k at 31 March 2012.

	Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infrastructure £'000	Community £'000	Surplus £'000	Assets Under Construction £'000	Total £'000
<b>Balance at 1 April 2011:</b>							
Gross carrying amount	59,007	4,811	15,263	11,992	225	4,231	<b>95,529</b>
Cumulative depreciation & impairment	(1,664)	(2,591)	(6,182)	(287)	(1)	0	<b>(10,725)</b>
<b>Total</b>	<b>57,343</b>	<b>2,220</b>	<b>9,081</b>	<b>11,705</b>	<b>224</b>	<b>4,231</b>	<b>84,804</b>
<b>Balance at 1 April 2012:</b>							
Gross carrying amount	61,280	5,148	15,341	12,515	773	0	<b>95,057</b>
Cumulative depreciation & impairment	(1,863)	(2,933)	(6,705)	(287)	(15)	0	<b>(11,803)</b>
<b>Total</b>	<b>59,417</b>	<b>2,215</b>	<b>8,636</b>	<b>12,228</b>	<b>758</b>	<b>0</b>	<b>83,254</b>
<b>Balance at 31 March 2013:</b>							
Gross carrying amount	66,014	4,658	13,822	12,700	547	0	<b>97,741</b>
Cumulative depreciation & impairment	(2,103)	(2,928)	(6,231)	(288)	(13)	0	<b>(11,563)</b>
<b>Total</b>	<b>63,911</b>	<b>1,730</b>	<b>7,591</b>	<b>12,412</b>	<b>534</b>	<b>0</b>	<b>86,178</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## NOTE 14. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Movements in operational assets during the years 2011-12 and 2012-13 :-

	Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infrastructure £'000	Community £'000	Surplus £'000	Assets Under Construction £'000	Total £'000
Balance at 1 April 2011	57,343	2,220	9,081	11,705	224	4,231	<b>84,804</b>
Additions	261	96	112	24	0	896	<b>1,389</b>
Revaluations	4,453	0	0	0	1	0	<b>4,454</b>
Impairment losses	(2,064)	(419)	0	0	0	(2,963)	<b>(5,446)</b>
Impairment loss reversals	7	0	0	0	0	0	<b>7</b>
Depreciation	(1,120)	(546)	(534)	0	(3)	0	<b>(2,203)</b>
Disposals	(10)	0	0	0	0	0	<b>(10)</b>
Reclassifications	547	864	(23)	499	536	(2,164)	<b>259</b>
<b>Balance at 31 March 2012</b>	<b>59,417</b>	<b>2,215</b>	<b>8,636</b>	<b>12,228</b>	<b>758</b>	<b>0</b>	<b>83,254</b>
Balance at 1 April 2012	59,417	2,215	8,636	12,228	758	0	<b>83,254</b>
Additions	400	3	151	65	0	0	<b>619</b>
Revaluations	6,922	0	0	0	0	0	<b>6,922</b>
Impairment losses and downward revaluations	(1,484)	0	0	0	0	0	<b>(1,484)</b>
Impairment loss reversals	191	0	0	0	0	0	<b>191</b>
Depreciation	(927)	(473)	(542)	0	(3)	0	<b>(1,945)</b>
Disposals	(204)	(15)	(654)	0	0	0	<b>(873)</b>
Reclassifications	(404)	0	0	119	(221)	0	<b>(506)</b>
<b>Balance at 31 March 2013</b>	<b>63,911</b>	<b>1,730</b>	<b>7,591</b>	<b>12,412</b>	<b>534</b>	<b>0</b>	<b>86,178</b>
Carried at historical cost							
valued at fair value as at:	2,786	1,198	7,591	12,260	21	0	<b>23,856</b>
31 March 2013	21,253	452	0	114	0	0	<b>21,819</b>
31 March 2012	12,527	80	0	0	0	0	<b>12,607</b>
31 March 2011	6,818	0	0	0	0	0	<b>6,818</b>
31 March 2010	20,527	0	0	38	513	0	<b>21,078</b>
31 March 2009 *	0	0	0	0	0	0	<b>0</b>
<b>Total Cost or Valuation</b>	<b>63,911</b>	<b>1,730</b>	<b>7,591</b>	<b>12,412</b>	<b>534</b>	<b>0</b>	<b>86,178</b>

\*The assets that were re-valued in 2009 have subsequently either been de-recognised or revalued in 2012-13.

## NOTE 15. INVESTMENT PROPERTIES

2011-12	<b>2012-13</b>
£'000	<b>£'000</b>
84 Rental income from investment property	<b>85</b>
0 Direct operating expenses arising from investment property	<b>0</b>
(29) Net gain/(loss)	<b>7</b>
<u>55</u> Total	<u><b>92</b></u>
2011-12	<b>2011-12</b>
£'000	<b>£'000</b>
1,168 Balance at start of the year	<b>1,138</b>
(30) Net gains/losses from fair value adjustments	<b>7</b>
<u>1,138</u> Balance at end of the year	<u><b>1,145</b></u>



## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 18. HERITAGE ASSETS

The accounting policies note 2.17 contains details on the acquisition, preservation and management of Heritage Assets.

The assets are preserved in ways appropriate to their nature and condition, and details of them are kept by the requisite department for control purposes and to allow periodic insurance valuations.

Where possible the items are displayed in the town's museums or are open to the public such as the Castle and Caves. Items of Civic Regalia are used on public display where circumstances permit.

Hastings Castle was impaired in the prior year to zero as no similar assets of historical or architectural significance could be identified. The cost of valuation would be disproportionate to the value for the users of the financial statements.

Valuations of Heritage assets was carried out during 2012-13 by Gorrings Fine Arts Auctioneers and Valuers of 15 North Street Lewes East Sussex, BN7 2PD.

The impairment of Hastings Castle was disclosed within the service cost of Cultural and Related Services in 2011-12

2010-11	2011-12		2012-13
£'000	£'000		£'000
0	5,818	Previously disclosed	5,400
5,827	0	Reclassifications	0
(9)	0	Accumulated depreciation	0
0	0	Revaluations	7,217
0	(418)	Impairment losses	0
<u>12,617</u>	<u>5,400</u>	Restated Balance at end of the year	<u>12,617</u>

For periods earlier than detailed above information is not available.

The Heritage assets with balance sheet values have been subdivided by the following major categories

2011-12		2012-13
	<i>Museum and Art Collection</i>	
250	Turner Painting of Old Town	300
657	Art Collection - General	1,572
2,633	Art Collection - other	6,298
	<i>Ceramics and Glass, Porcelain Work and Figurines</i>	
322	Ceramics Glass & Porcelain	770
	<i>Miscellaneous including Silver, Pewter, Books and manuscripts</i>	
1,403	Misc. - Silver Books manuscripts etc.	3,355
	<i>Machinery, Equipment and other Artefacts</i>	
58	Machinery, Equipment & other	139
	<i>Civic Regalia - Includes the Mayoral chains and other regalia of office</i>	
77	Civic Regalia	183
<u>5,400</u>		<u>12,617</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 19. DEBTORS

The table below analyses the balance sheet figures between different types of debt.

2011-12 £'000	<b>AMOUNTS FALLING DUE WITHIN ONE YEAR:</b>	2012-13 £'000
1,371	Other trade debtors	2,433
640	Trade Accounts receivable*	645
320	Related parties	997
236	Prepayments	459
62	Other	446
<u>2,629</u>	<b>TOTAL</b>	<u>4,980</u>
<b>AMOUNTS FALLING DUE GREATER THAN ONE YEAR:</b>		
<u>1,092</u>	Other entities and individuals **	<u>2,059</u>

\*Trade accounts receivable is within the definition of Financial Instruments. Invoices are sent to individuals and other entities, where money cannot be obtained in advance of the service being rendered and where payment is required on receipt of the invoice.

\*\* The large variation between 2011-12 and 2012-13 is as a result of the £1,000,000 deposit in respect of LAMS

The Council has made a provision for impairment of £318,000, for doubtful debts in this category (£324,000 as at 31st March 2012). The rest of the doubtful debt provision relates to Housing Benefit overpayments and the Council's share of Council tax debts.

2011-12 £'000	<b>AMOUNTS FALLING DUE WITHIN ONE YEAR:</b>	2012-13 £'000
468	Central government bodies	1,510
412	Other Local Authorities & Public Bodies	289
0	Public corporations	153
1,715	All other bodies	3,028
34	NHS	0
<u>2,629</u>	<b>TOTAL</b>	<u>4,980</u>
<b>AMOUNTS FALLING DUE GREATER THAN ONE YEAR:</b>		
<u>1,092</u>	All other bodies**	<u>2,059</u>

### NOTE 20. SHORT TERM INVESTMENTS

2011-12 £'000	<b>AMOUNTS FALLING DUE WITHIN ONE YEAR:</b>	2012-13 £'000
0	Bank deposits	10,000
<u>0</u>	<b>Total</b>	<u>10,000</u>

### NOTE 21. CASH AND CASH EQUIVALENTS

2011-12 £'000		2012-13 £'000
4	Cash held by the Council	4
141	Bank current accounts	206
16,779	Short term deposits with building societies/banks	7,434
<u>16,924</u>		<u>7,644</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 22. CREDITORS

2011-12 £'000	<b>AMOUNTS FALLING DUE WITHIN ONE YEAR:</b>	2012-13 £'000
1,449	Central government bodies	510
2,445	Other Local Authorities	2,607
0	NHS	0
83	Public Corporations	29
2,336	All other bodies	3,855
<u>6,313</u>	<b>Total</b>	<u>7,001</u>
	<b>LONG TERM CREDITORS:</b>	
367	Other entities and individuals	292
796	Other Local Authorities	898
<u>1,163</u>	<b>Total</b>	<u>1,190</u>

### NOTE 23. SHORT TERM BORROWING

2011-12 £'000	<b>AMOUNTS FALLING DUE WITHIN ONE YEAR:</b>	2012-13 £'000
66	Short term loans	2,000
	Interest payable within 1 year	65
<u>66</u>	<b>Total</b>	<u>2,065</u>

### NOTE 24. PROVISIONS

The Council made provisions in 2012-13 for the legal fees relating to the Foreshore Trust land and Storm damage repairs. All provisions, when made are expected to be paid within the year. The costs relating to the legal fees for the Foreshore Trust were not paid following resolution of the land boundaries between the Council and the Trust. The spend on the storm damage repairs is being re-profiled.

	Balance at 1 April 2012 £'000	Additional Provisions made Year £'000	Amounts used in Year £'000	Unused amounts reversed Year £'000	Balance at 31 March 2013 £'000
Provision for legal fees	217	0	0	217	0
Storm damage repairs	79	0	3	76	0
MMI provision (see note 30)	0	(74)	0	0	74
Hillcrest Sports Centre provision (i)	0	(10)	0	0	10
Support for athletics track (ii)	0	(12)	0	0	12
	<u>296</u>	<u>(96)</u>	<u>3</u>	<u>293</u>	<u>96</u>

(i) Hillcrest Sports Centre provision -our share of the Hillcrest lift liability

(ii) Support for athletics track - a contribution to the repair and refurbishment of the Willam Parker Athletic track

### NOTE 25. LONG TERM BORROWING

2011-12 £'000	<b>AMOUNTS FALLING DUE GREATER THAN ONE YEAR:</b>	2012-13 £'000
(10,500)	Public Works Loan Board	(11,500)
<u>(10,500)</u>	<b>Total</b>	<u>(11,500)</u>

### NOTE 26. LONG TERM LIABILITIES

2011-12 £'000	<b>AMOUNTS FALLING DUE GREATER THAN ONE YEAR:</b>	2012-13 £'000
(27,163)	Pension Liabilities	(32,393)
<u>(27,163)</u>	<b>Total</b>	<u>(32,393)</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 27 UNUSABLE RESERVES

	Deferred Capital Receipts £'000	Revaluation Reserve £'000	Pension Reserve £'000	Capital Adjustment Account £'000	Financial Instruments Adjustment £'000	Accumulated Absences Account £'000	Collection Fund Adjustment £'000	Total Unusable Reserves £'000
Balance at 31 March 2011	(17)	(18,861)	19,595	(58,837)	(326)	282	(43)	(58,207)
(Gain) or Loss on revaluation of assets		(4,453)						(4,453)
Actuarial (gains)/ losses on pension			7,735					7,735
<b>Total Other Comprehensive</b>	<b>0</b>	<b>(4,453)</b>	<b>7,735</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,282</b>
<b>Reversal of items debited or credited to Comprehensive Income and Expenditure Statement</b>								
Write down Intangible Assets				19				19
Depreciation and impairment of non-current assets (per segmental analysis)				8,061				8,061
Movements in the market value of Investment Properties				29				29
Gain or (Loss) on sale of non-current assets		9		8				17
Gain or (Loss) on sale of non-current assets held for sale				389				389
Difference between accounting and statutory finance costs					51			51
Difference between accounting and statutory employee benefit						(63)		(63)
Difference between accounting and statutory credit for Council Tax							(116)	(116)
Revenue Expenditure financed from Capital under Statute				1,322				1,322
Difference between accounting and statutory pension costs			(167)					(167)
<b>Insertion of items not debited or credited to Comprehensive Income and Expenditure Statement:</b>								
Statutory provision for the financing of capital investment				(685)				(685)
Repayment of Council Mortgages	5							5
Capital expenditure financed from revenue				(344)				(344)
Financing of capital expenditure directly from reserves				(1,459)				(1,459)
Revenue expenditure financed from grants and contributions								0
Capital expenditure financed from unapplied grants								
Capital expenditure financed from capital receipts				(380)				(380)
<b>Other adjustments</b>								
Depreciation charged to Revaluation		430		(430)				0
Adjustments between accounting and funding basis under regulation	5	439	(167)	6,530	51	(63)	(116)	6,679
Increase / Decrease in Year	5	(4,014)	7,568	6,530	51	(63)	(116)	9,961
Balance at 31 March 2012	(12)	(22,875)	27,163	(52,307)	(275)	219	(159)	(48,246)

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 27 UNUSABLE RESERVES (Cont.)

	Deferred Capital Receipts £'000	Revaluation Reserve £'000	Pension Reserve £'000	Capital Adjustment Account £'000	Financial Instruments Adjustment £'000	Accumulated Absences Account £'000	Collection Fund Adjustment £'000	Total Unusable Reserves £'000
Balance at 31 March 2012	(12)	(22,875)	27,163	(52,307)	(275)	219	(159)	(48,246)
(Gain) or Loss on revaluation of assets		(13,968)						(13,968)
Actuarial (gains)/losses on pension			4,904					4,904
Total Other Comprehensive Expenditure and Income	0	(13,968)	4,904	0	0	0	0	(9,064)
<b>Reversal of items debited or credited to Comprehensive Income and Expenditure Statement</b>								
Write down Intangible Assets				22				22
Depreciation and impairment of non-current assets (per segmental analysis)				3,056				3,056
Movements in the market value of Investment Properties				(7)				(7)
Gain or (Loss) on sale of non-current assets				1,451				1,451
Gain or (Loss) on sale of non-current assets held for sale				525				525
Difference between accounting and statutory finance costs					51			51
Difference between accounting and statutory employee benefit						3		3
Difference between accounting and statutory credit for Council Tax							(88)	(88)
Revenue Expenditure financed from Capital under Statute				1,274				1,274
Difference between accounting and statutory pension costs			326					326
<b>Insertion of items not debited or credited to Comprehensive Income and Expenditure Statement:</b>								
Statutory provision for the financing of capital investment				(727)				(727)
Repayment of Council Mortgages	0							0
Capital expenditure financed from revenue				(284)				(284)
Revenue expenditure financed from grants and contributions				(1,771)				(1,771)
Capital expenditure financed from unapplied grants								0
Capital expenditure financed from capital receipts				(409)				(409)
<b>Other adjustments</b>								<b>0</b>
Prior period adjustment								
Depreciation charged to Revaluation Reserve *		340		(340)				0
Adjustments between accounting and funding basis under regulation	0	340	326	2,790	51	3	(88)	3,422
Increase / Decrease in Year	0	(13,628)	5,230	2,790	51	3	(88)	(5,642)
Balance at 31 March 2013	(12)	(36,503)	32,393	(49,517)	(224)	222	(247)	(53,888)

\* The additional depreciation £340K (2012-13) and £430K (2011-12) which is transferred from the Revaluation Reserve to the Capital Adjustment Account represents the depreciation of the revaluation gain on assets to reduce the gain over the remaining useful life of the asset.

# NOTES TO THE CORE FINANCIAL STATEMENTS

**NOTE 28. AGENCY SERVICES**

The Council is responsible for the collection of National Non Domestic Rates, which it collects and passes on to the Government. It also collects Council Tax on behalf of East Sussex County Council, East Sussex Fire and Rescue Services and Sussex Police Authority, as well as itself. While the element of Council Tax collected for this Council is accounted for in the Income and Expenditure Account, the remainder of the tax collection activity is excluded from this account and is accounted for as an agency service.

All amounts collected and paid over under these agency activities are excluded from the main accounting statements and the notes, other than the Cash Flow Statement, where the changes during the year are included in the "financing activities" heading.

The totals collected on this basis are shown below:

2011-12 £'000	2011-12 £'000		2012-13 £'000	2012-13 £'000
		Council Tax collection		
34,125		East Sussex County Council	34,302	
2,412		East Sussex Fire and Rescue Service	2,424	
4,078		Sussex Police Authority	4,099	
	40,615	Total agency Council Tax collection		40,825
	20,223	NNDR collected for Government		20,231
	60,838	Total Agency Income		61,056

**NOTE 29. EXTERNAL AUDIT COSTS**

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's external auditors PKF.

2011-12 £'000		2012-13 £'000
107	Fees payable to PKF (UK) LLP with regard to external audit services carried out	61
31	Fees payable to PKF (UK) LLP for the certification of grant claims and returns	26
1	Fees payable in respect of other services provided	0
139		87

**NOTE 30. CONTINGENT LIABILITIES**

The Government wrote to all local authorities in England and Wales on the 27 July 2010 revoking the statutory fee for a personal search of the land charges register and advising authorities to stop charging. It is possible that the Council could be faced with claims from individuals or property search companies potentially seeking refunds for past charges. The potential sums involved have yet to be determined. The Council does not believe it has a responsibility for repayment of claims but in the event of this being found to be incorrect the Council's maximum exposure is estimated at £140k. This cost is likely to be financed from Central Government funding.

The Council participates in the Local Authority Mortgage Scheme (LAMS). The mortgage lenders require a 5 year deposit from the local authority to match the 5 year life of the indemnity. The Council is putting aside a sum each year into a mortgage reserve to cover the costs of any mortgage defaults.

The Council served a notice on 16 June 2006 to restrict access to the Pier under Section 78 of the Buildings Act 1984. This action was taken due to the extremely dangerous condition of the Pier following the failure by the owners to undertake works to ensure the safety of users. A company (Manolete Partners Plc) is making a claim against the Council as a result of restricting access in the sum of £300,000 plus £1.5 million for loss of goodwill. The Council does not accept that it should be liable to pay any compensation as a result of the action taken to safeguard the public. In addition there are two arbitrations outstanding. One concerns 4 previous tenants of the Pier. They have not quantified their claims. The other arbitration is by Manolete Partners plc and is based on the figures already quoted.

MMI (Municipal Mutual Insurance Ltd), a previous insurer of the Council and one that underwrote up to 95% of the insurance risks for local authorities in the early 1990's ceased underwriting in 1992 having suffered substantial losses. The Council and most of MMI's public sector members elected to participate in a 'Scheme of Arrangement' effectively becoming 'Scheme Creditors'. This potentially results in the Council having to pay back part of all claims that have been settled on behalf of Hastings BC since 1993 following the Scheme of Arrangement being triggered. 15% of the liability has been provided for in 2012-13 and a further 13% has been set aside within the Risk Management Reserve. There remains a risk that the costs could increase over time, the remaining potential liability has been estimated at £357,000.

**NOTE 31. CONTINGENT ASSET**

Following the case of Fleming v HMRC it has been possible for VAT registered bodies to reclaim tax paid in relation to such activities as cultural, sporting, car parking excess charges, trade waste and crematorium memorial fees, going back over a number of years. As a result the Council employed a national firm of accountants to pursue the recovery of a significant sum of overpaid VAT (and subsequent interest) and a claim was lodged. The Council have been successful in the cultural, sporting, cultural and trade waste claims. A claim for compound interest has been made relating to these claims and is dependent on success in the High Courts.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 32 GRANTS AND CONTRIBUTIONS

The table below outlines Government grants and other external contributions accounted for within the Comprehensive Income and Expenditure Statement and the Cash Flow Statement.

2011-12				2012-13		
Grants	Contribs.	Total		Grants	Contribs.	Total
£'000	£'000	£'000		£'000	£'000	£'000
(63,207)	0	(63,207)	DWP benefits grants	(64,590)	0	(64,590)
0	(195)	(195)	Contributions from other local authorities	0	(277)	(277)
(109)	0	(109)	Grants for revenue financed from capital under statute	(35)	0	(35)
(671)	0	(671)	Future Jobs Fund		0	0
(910)	0	(910)	Other Grants and Contributions	(1,175)	0	(1,175)
<hr/>				<hr/>		
(64,897)	(195)	(65,092)	<b>Total within Cost of Services</b>	<b>(65,800)</b>	<b>(277)</b>	<b>(66,077)</b>
<hr/>				<hr/>		
(1,840)	0	(1,840)	Revenue Support Grant	(133)	0	(133)
(5,953)	0	(5,953)	Non Domestic Rates	(6,879)	0	(6,879)
0	0	0	New Burden Grant	(84)	0	(84)
(1,288)	0	(1,288)	Benefits Administration Grant	(1,212)	0	(1,212)
(195)	0	(195)	New Homes Bonus	(385)	0	(385)
(174)	0	(174)	Council Tax Freeze Grant	(175)	0	(175)
(732)	0	(732)	Disabled Facilities Grant	(761)	0	(761)
(2,995)	0	(2,995)	Local Services Support Grant	(2,342)	0	(2,342)
			Grants and contributions towards capital expenditure	(66)	(731)	(797)
0	(289)	(289)	Other non-specific grant	(75)	0	(75)
<hr/>				<hr/>		
(13,177)	(289)	(13,466)	<b>Total within Taxation and non-specific grant income</b>	<b>(12,112)</b>	<b>(731)</b>	<b>(12,843)</b>
<hr/>				<hr/>		
(78,074)	(484)	(78,558)	<b>Total within Comprehensive Income and Expenditure Statement</b>	<b>(77,912)</b>	<b>(1,008)</b>	<b>(78,920)</b>
<hr/>				<hr/>		
(1,760)	0	(1,760)	Adjust for variation in accruals	2,648	0	2,648
<hr/>				<hr/>		
(79,834)	(484)	(80,318)	<b>Total within Cash Flow Statement</b>	<b>(75,264)</b>	<b>(1,008)</b>	<b>(76,272)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 33. DEFINED BENEFIT PENSION SCHEMES

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

The Council participates in the Local Government Pension Scheme, administered locally by East Sussex County Council this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

Under the Local Government Pension Scheme retirement benefits are based on the employee's final salary, and are increased each year in line with the Consumer Price Index.

The accounting policy (2.9) for this pension plan, including the recognition of actuarial gains and losses, is set out in the accounting policies.

#### Annual movement in plan obligations and assets

The table below shows separately the movements in the obligations and assets relating to the accounting group.

We recognise the cost of retirement benefits in the Comprehensive Income and Expenditure Account when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that we are required to make against Council Tax is based on the contributions payable in the year. To adjust for this statutory requirement, the estimated cost of retirement benefits arising during the year is included in the Income and Expenditure Account, but the net effect is removed, as shown in the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement (the charges to Support Services are included within the overall support service recharge to other services):

2011-12		2012-13
£'000		£'000
	<b>Comprehensive Income and Expenditure Statement</b>	
	<i>Cost of Services</i>	
1,805	Current Service Cost	1,712
9	Past Service Cost	27
373	Curtailements	366
<u>2,187</u>		<u>2,105</u>
	<i>Financing and Investment Income and Expenditure</i>	
5,679	Interest Cost	5,358
(5,774)	Expected Return on Assets	(4,988)
<u>2,092</u>	Total Post Employment Benefit Charged to the Surplus/Deficit on the Provision of Services	<u>2,475</u>
7,735	Actuarial (Gains) and Losses	4,904
<u>9,827</u>	<b>Total Comprehensive Income and Expenditure Statement</b>	<u>7,379</u>
	<b>Movement in Reserves Statement</b>	
2,092	Reversal of items relating to retirement benefit debited or credited to the Comprehensive Income and Expenditure Statement	2,475
<u>(2,259)</u>	Employer's pension contributions and direct payments to pensioners payable in the year	<u>(2,149)</u>
<u>(167)</u>	<b>(Surplus) or Deficit on Provision of Services</b>	<u>326</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 33. DEFINED BENEFIT PENSION SCHEMES (cont'd)

2011-12 £'000	<b>Reconciliation of Fair Value of Employer Assets (scheme Assets):</b>	2012-13 £'000
84,537	Value of Assets at 1 April	85,501
5,774	Expected Return on Assets	4,988
643	Contributions by Members	592
2,259	Contributions by the Employer	2,149
(3,095)	Actuarial Gains and (Losses)	7,394
0	Settlements	(1,455)
(178)	Unfunded Benefits Paid	(175)
(4,439)	Benefits Paid	(4,509)
85,501		94,485
2011-12 £'000	<b>Reconciliation of Defined Benefit Obligation (scheme Liabilities):</b>	2011-12 £'000
(104,132)	Value of Liabilities at 1 April	(112,664)
(1,805)	Current Service Cost	(1,712)
(5,679)	Interest Cost	(5,358)
(643)	Contribution by Members	(592)
(4,639)	Actuarial Gains and (Losses)	(12,298)
0	Settlements	1,343
(9)	Past Service Gains and (Losses)	(27)
(373)	(Losses) and Gains on Curtailments	(254)
4,616	Benefits Paid	4,684
(112,664)		(126,878)
(27,163)	Asset/Liability at 31st March	(32,393)

#### Scheme History

The table below shows the liability for the current year compared to the previous four financial years:

	2008-09 £'000	2009-10 £'000	2010-11 £'000	2011-12 £'000	2012-13 £'000
Present value of liabilities	(84,219)	(131,723)	(104,132)	(112,664)	(126,878)
Fair value of assets	59,186	79,984	84,537	85,501	94,485
Surplus / (Deficit) in the scheme	(25,033)	(51,739)	(19,595)	(27,163)	(32,393)

The actuarial gains/(losses) identified as movements on the Pension Reserve in 2012-13 can be analysed into the following categories, plan liabilities as a percentage of plan liabilities and on plan assets as a percentage of plan assets at the balance sheet date:

	2008-09 £'000	2009-10 £'000	2010-11 £'000	2011-12 £'000	2012-13 £'000
Difference between the expected and actual return on assets	(22.25%)	20.61%	0.29%	(3.62%)	7.83%
Experience gains and losses on liabilities	(0.03%)	0.12%	(7.68%)	1.45%	(0.11%)

#### Change in estimation technique

In 2012-13 the actuaries advised that the net pensions liability had increased by £7,535,000 as a result of estimates being corrected in the light of experience, and had also increased by £2,631,000 through the updating of assumptions

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 33. DEFINED BENEFIT PENSION SCHEMES (cont'd)

#### Annual Contribution to fund

The estimated contribution for 2013-14 is £1,768,000 compared with the actual contribution of £2,149,000 for 2012-13.

#### Cumulative Actuarial Gains and Losses

The cumulative amount of actuarial gains and losses recognised in this statement is (£31,088,000). The equivalent figure for 2011-12 was (£26,184,000).

#### Plan Assets

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

2011-12		2012-13
80%	Equities	<b>80%</b>
9%	Bonds	<b>9%</b>
9%	Property	<b>8%</b>
2%	Cash	<b>3%</b>
100%		<b>100%</b>

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

The actual return on scheme assets in the year was £12,394,000 compared to £2,691,000 in 2011-12.

#### Actuarial Assumptions

Liabilities have been assessed on an actuarial basis using the projected unit method. An estimate of the pensions that will be payable has been prepared by Hymans Robertson LLP, an independent firm of actuaries, being based on the latest full valuation of the scheme as at 31 March 2013. The main assumptions used in their calculations are:

2011-12	Long term expected rate of return on scheme assets:	2012-13
	Equity Investments	
6.3%	Equities	<b>4.5%</b>
4.4%	Bonds	<b>4.5%</b>
4.4%	Property	<b>4.5%</b>
3.5%	Cash	<b>4.5%</b>
	Mortality assumptions:	
	Longevity at 65 for current pensioners	
21.3	Men	<b>21.3</b>
23.4	Women	<b>23.4</b>
	Longevity at 65 for future pensioners:	
23.3	Men	<b>23.3</b>
25.7	Women	<b>25.7</b>
2.5%	Rate of inflation	<b>2.8%</b>
4.8%	Rate of increase in salaries	<b>5.1%</b>
2.5%	Rate of increase in pensions	<b>2.8%</b>
4.8%	Rate for discounting scheme liabilities	<b>4.5%</b>
50%	Take-up of option to convert annual pension into retirement lump sum pre April 2008 in 2011-12	<b>50%</b>
75%	Take-up of option to convert annual pension into retirement lump sum post April 2008	<b>75%</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 34. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

2011-12 £'000		2012-13 £'000
15,618	Opening Capital Financing Requirement 1 April	16,523
	<i>Capital Investment</i>	
1,200	Property, Plant and Equipment	608
0	Investment Properties	0
62	Intangible Assets	0
189	Assets Held for Sale	731
1,000	Long Term Debtors	1,000
	Revenue Expenditure Funded from Capital under Statute	
1,322		1,309
	<i>Sources of finance</i>	
(379)	Capital receipts	(409)
(1,459)	Government grants and other contributions	(1,807)
(127)	Sums set aside from revenue and reserves	(283)
(218)	Direct revenue contributions	0
(685)	MRP <i>note 40</i>	(727)
16,523	Closing Capital Financing Requirement 31 March	16,945
	 Explanations of movements in year:	
905	Increase in underlying need to borrow	422
905	Increase/(decrease) in Capital Financing Requirement	422

### NOTE 35. CONSTRUCTION CONTRACTS

At 31 March 2013 the Council had no construction contracts in progress.

### NOTE 36. MEMBERS ALLOWANCES

Allowances and expenses paid to Councillors during the year were :-

2011-12 £'000		2012-13 £'000
273	Members Allowances	272
6	Conferences, Training and Travelling Expenses	6
279		278
32	Number of Councillors	32
£ 8,719	Average sum per Councillor	£ 8,688

# NOTES TO THE CORE FINANCIAL STATEMENTS

## NOTE 37 NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

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.
- Re-financing risk the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

### Overall procedures for managing risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government Act 2003/Local Government (Scotland) Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and Investment Guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations / standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
  - The Council's overall borrowing;
  - Its maximum and minimum exposures to fixed and variable rates;
  - Its maximum and minimum exposures to the maturity structure of its debt;
  - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Guidance ;

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was last approved by Council on 18/01/2012 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2012-13 was set at £30m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £30m. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 100% based on the Council's net debt.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices – TMPs) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

### Credit risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied after this initial criteria is applied. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments. The borrowing of monies purely to invest or on lend and make a return is unlawful and this Council will not engage in such activity. The key elements are the security of capital and the liquidity of investments.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 37 NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

This Council uses the creditworthiness service provided by Sector. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

The full Investment Strategy for 2012-13 was approved by Full Council on 18/01/12 and is available on the Council's website.

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 internal ratings in accordance with parameters set by the council.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £17.4m 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 Authority's deposits, but there was no evidence at the 31 March 2013 that this was likely to crystallise.

The following analysis summarises the Council's maximum exposure to credit risk on other financial assets, based on experience of default, adjusted to reflect current market conditions

	Amount	Bad Debt Provision	Estimated maximum exposure to default	Amount	Bad Debt Provision	Estimated maximum exposure to default
	£000s	£000s	£000s	£000s	£000s	£000s
	31-Mar-12	31-Mar-12	31-Mar-12	31-Mar-13	31-Mar-13	31-Mar-13
Trade debtors *	886	(324)	562	964	(318)	646
<b>Total</b>	<b>886</b>	<b>(324)</b>	<b>562</b>	<b>964</b>	<b>(318)</b>	<b>646</b>

\* - Excluding statutory debtors – Council Tax/NNDR

The Council reviews Trade Debtors on a regular basis. In 2012-13 the Council made 100% provision against specific debts and 50% provision on the balance of debts over 90 days. It additionally made a 10% provision against Trade Debtors from 1 to 90 days.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 37 NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont'd)

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council does not generally allow credit for its trade debtors, such that £0.6m of the £0.9m balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

31-Mar-12		31-Mar-13
£000s		£000s
547	Less than three months	620
339	More than three months	344
886	Total	964

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

#### Liquidity risk

The authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

All of the financial assets of the Council were of less than one year's maturity, both at 31 March 2012 and 31 March 2013 except £2 million deposited with Lloyds in respect of the Local Authority Mortgage Scheme.

The maturity analysis of financial assets is as follows:

31-Mar-12		31-Mar-13
£000s		£000s
0	Less than 1 year	15,000
0	Less than 5 years greater than 1 year	2,000
-	Total	17,000

#### Refinancing and Maturity risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the 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 indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury 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; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.
- The maturity analysis of financial liabilities is as follows:

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 37 NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont.)

	Actual 31 March 2012	Actual 31 March 2013
	£000s	£000s
Less than 1 year *	66	<b>2,065</b>
Between 1 and 5 years	1,000	<b>2,000</b>
Between 5 and 10 years	2,000	<b>2,000</b>
More than 10 years	7,500	<b>7,500</b>
<b>Total</b>	<b>10,566</b>	<b>13,565</b>

\* Includes interest of £65,000 (£66,000 in 2011-12)

#### 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 variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise.
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances).
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise.
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance, subject to influences from Government grants. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 37 NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS (cont.)

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£000s
Increase in interest payable on variable rate borrowings	20
Increase in interest receivable on variable rate investments	(174)
Impact on Surplus or Deficit on the Provision of Services	<u>(154)</u>

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at Amortised Cost.

**Price risk** - The Council, excluding the pension fund and external fund managers, does not generally invest in equity shares or marketable bonds.

**Foreign exchange risk** - The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

### NOTE 38 FINANCIAL INSTRUMENTS

#### *Year end balances compared to fair value*

As noted under the heading of "Accounting Policies (Note 2.12), all of the Council's investments come within the category of "loans and receivables". These are financial assets that have fixed or determinable payments, and are not quoted in an active market.

31 March 2012			31 March 2013	
Book Value £000s	Fair Value £000s		Book Value £000s	Fair Value £000s
1,000	1,094	Investments over one year	0	0
0	0	Less interest due within one year	0	0
<u>0</u>	<u>1094</u>	<b>Long term Debtors</b>	<u>0</u>	<u>0</u>
0	0	Bank deposits	10,000	10,257
<u>0</u>	<u>0</u>	<b>Short term Investments</b>	<u>10,000</u>	<u>10,257</u>
562	562	Trade accounts receivable	646	646
<u>562</u>	<u>562</u>	<b>Short Term Debtors</b>	<u>646</u>	<u>646</u>
16,924	16,935	Cash and Cash Equivalents	7,644	7,440
<u>18,486</u>	<u>18,591</u>	<b>Total Financial Assets</b>	<u>18,290</u>	<u>18,343</u>

In respect of the Local Authority Mortgage Scheme (LAMS) the estimated fair value, based on a reasonable assumption has been calculated at £2,097,000 based on deposits of £2,000,000 (book value) - these are on deposit with Lloyds TSB. These sums are not disclosed as investments in the 2012-13 accounts, which is a change of accounting practice from 2011-12. This change stems from advice received from our treasury advisors and is at variance to external audit opinion - hence this further disclosure.

The Council's borrowings are liabilities carried at amortised cost, and the details are set out below.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 38 FINANCIAL INSTRUMENTS (cont.)

The Council's borrowings are liabilities carried at amortised cost, and the details are set out below.

31 March 2012			31 March 2013	
Book Value	Fair Value		Book Value	Fair Value
£000s	£000s		£000s	£000s
(10,500)	(12,595)	Public Works Loan board	(11,500)	(12,060)
(1,163)	(1,163)	Long Term Creditors	(1,190)	(1,190)
<u>(11,663)</u>	<u>(13,758)</u>	<b>Long Term Liabilities</b>	<u>(12,690)</u>	<u>(13,250)</u>
0	0	Short Term Loans	(2,000)	(2,002)
(6,313)	(6,313)	Short Term Creditors	(7,001)	(7,001)
<u>(6,313)</u>	<u>(6,313)</u>	<b>Short Term Liabilities</b>	<u>(9,001)</u>	<u>(9,003)</u>
<u>(17,976)</u>	<u>(20,071)</u>	<b>Total Financial Liabilities</b>	<u>(21,691)</u>	<u>(22,253)</u>

#### **Interest Receivable**

The table below sets out the interest receivable and payable for the year related to financial assets and liabilities, reconciled to the amounts included in the Comprehensive Income and Expenditure Statement:

2011-12		2012-13
£'000		£'000
	<b>Interest receivable</b>	
(407)	Interest from loans and receivables	(350)
(6)	Other interest receivable	(5)
<u>(413)</u>	<b>Total Interest receivable</b>	<u>(355)</u>
	<b>Interest payable</b>	
377	Interest on long term borrowing	391
(7)	Other interest payable and similar charges	35
<u>370</u>	<b>Total Interest payable</b>	<u>426</u>

#### **Valuation Techniques for Fair Value**

The fair values valuations have been provided by the Council's Treasury Management advisor, Sector. This uses the Net Present Value (NPV) approach, which provides an estimate of the value of payments in the future in today's terms. This is a widely accepted valuation technique commonly used by the private sector. The discount rate used in the NPV calculation should be equal to the current rate in relation to the same instrument from a comparable lender. This will be the rate applicable in the market on the date of valuation, for an instrument with the same duration i.e. equal to the outstanding period from valuation date to maturity. The structure and terms of the comparable instrument should be the same, although for complex structures it is sometimes difficult to obtain the rate for an instrument with identical features in an active market. In such cases, Sector has used the prevailing rate of a similar instrument with a published market rate, as the discount factor.

For loans from the PWLB premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures.

The purpose of the fair value disclosure is primarily to provide a comparison with the carrying value in the Balance Sheet. Since this will include accrued interest as at the Balance Sheet date, the calculations also include accrued interest in the fair value calculation. This figure is calculated up to and including the valuation date.

The rates quoted in this valuation were obtained by Sector from the market on 31st March, using bid prices where applicable.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## NOTE 39. RELATED PARTY TRANSACTIONS

### Definition

The term "related party" covers relationships between the Council and body or individual where one of the parties can exercise significant influence over the policies and decisions of the other.

### Central Government

The central government provides much of the Council's funding and determines its statutory framework. Details of transactions with central government are shown in the Comprehensive Income and Expenditure Statement, the Cash Flow Statement, and notes 32 (grants income), 19 (debtors) and 22 (creditors).

### East Sussex Pension Scheme

The Council participates in the East Sussex Pension Scheme, making annual contributions to the East Sussex Pension Fund as set out in Note 33. Although the scheme is administered by East Sussex County Council, the pension fund is a separate entity, and East Sussex County Council is not in itself a related party.

### Members and Senior Officers

All members and senior officers are required to complete an annual return, disclosing the details of any interest of themselves and their close family members, which might have an impact on their activities on behalf of the Council.

Members of the Council have direct control over the Council's financial and operating policies. The council also nominates members to sit on outside bodies. Eight members are also members of East Sussex County Council. £360,220 was paid to Hastings and St Leonards Foreshore Charitable Trust of which some members are Trustees. Grants totalling £167,397 (see below) were paid to voluntary organisations in which six members had an interest. The relevant members did not take part in any discussion or decision relating to the grants. There were no other interests in any related party transactions during the year. The register of Member's Interest is held at the Town Hall and is open to public inspection.

<b>Grant to voluntary organisations</b>	<b>£'000</b>
Amicus Horizon	9
Bridge Community Enterprise	23
Hastings & Rother Credit Union Limited	6
Hastings Trust	4
In 2 Play	42
Let's Do Business	23
St Mary in the Castle Friends	1
1066 Enterprise	59
Other	
Total	<u>167</u>

### The Hastings and St Leonards Foreshore Charitable Trust

The Hastings and St Leonards Foreshore Charitable Trust, The Foreshore Trust, was constituted in accordance with a conveyance on trust from the Crown to Hastings Corporation in 1893 to hold a area of the Foreshore for the common good of all Her Majesty's subjects. From 13th January 2011, under a scheme by the Charity Commission Hastings Borough Council became the sole trustee.

The scheme is so constituted so that the Council does not exercise control of the Charity as HBC may not obtain benefits from the entity's activities.

Structures have been set up to ensure that the charitable purposes of the Trust are met, these include, the establishment of a separate committee of Cabinet, the Charity Committee, which make decisions to ensure there are not breaches of trust.

The delegation to Charity Committee was as follows:-

All member decisions relating to charities administered by the Council, in particular the Hastings and St Leonards Foreshore Charitable Trust (the Foreshore Trust), the Cabinet delegates its functions to the Charity Committee to make trustee decisions and to avoid any breach of trust or perception or apprehension of breach of trust by reason of a conflict of interest between the charity and the Council and its executive. The Committee has special responsibility in particular under the Charity Commission Scheme to have regard to the recommendations of the Protector, the Coastal Advisory Group and the Grant Advisory Group in relation to specified matters concerning the Foreshore Trust.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## NOTE 39. RELATED PARTY TRANSACTIONS (Cont.)

The Financial statements of the Trust at the 1st April 2012 showed

	£,000	£,000
Fixed assets		211
Current assets	1,816	
Creditors	(4)	
Net current assets		1,812
Total Funds		<u>2,023</u>

During the year 2012-13 the Trust accrued net income resulting from the activities recorded in the Council's accounts. The net result was made up of income of £1,006k and expenditure of £646k, giving a net figure of £360k within the Council's own Accounts. (net figure 2011-12 was £216k).

The net income was mainly in respect of car parking and seafront entertainment.

### Local Space

Hastings Borough Council and Local Space Housing Association are jointly developing a potential approach to addressing the housing, economic and social problems caused in the Borough by poor private sector rented housing.

The Borough Council declared St Leonards a Housing Renewal Area in 2003. However, the funding that previously came from Government to support the improvement of private sector housing is now finished and the Council and its partners have sought new ways in which a strategic and co-ordinated approach can be taken to address this issue -

- The use of Compulsory Purchase Order (CPO) powers to acquire empty property and make it available.
- Very active enforcement against derelict or unsafe properties using both Environmental Health and planning powers.
- A new Housing in Multiple Occupation (HMO) scheme.
- The use of an Article 4 direction to make the conversion of properties to HMOs subject to planning powers.

Local Space have provided £2million for the regeneration project. The remaining amount of £0.9 million is being held as a grant receipt in advance. Where the Council contracts for the works and pays for them using funds provided by Local Space, the funding provided by Local Space would be regarded as consideration for the eventual freehold or leasehold disposal of the converted properties.

At the end of September 2012 The Chairman of Local Space confirmed to the Council that whilst they still fully supported the aims of the project, they did not feel they could financially support the project beyond the initial trial. Based upon the higher acquisition and works costs associated with delivering the initial units, the Board had concluded that the scale of investment required from themselves to deliver a larger scheme was beyond that which they were prepared to make, even with the substantial investment of the HCA, and potentially that of the Council.

Local Space further agreed to work with the Council and the HCA to facilitate the transfer of the remaining HCA grant to AmicusHorizon.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 40. AMOUNT SET ASIDE FOR THE REPAYMENT OF EXTERNAL LOANS - MINIMUM REVENUE PROVISION (MRP)

From 1 April 2007 the Government introduced new regulations concerned with the treatment of MRP. This places a general duty on the Council to make prudent provision for the repayment of capital debt.

2011-12			2012-13		
£'000	£'000	£'000	£'000	£'000	£'000
Notional			Notional		
MRP	MRP	Total	MRP	MRP	Total
810	462	1,272	1,456	685	2,141
646	223	869	496	231	727
			Balance 1 April		
			Provision in year		
1,456	685	2,141	1,952	916	2,868

Balance 31 March

### NOTE 41. TERMINATION BENEFITS AND EXIT PACKAGES

Termination benefits include lump sum payments to departing employees, enhancements to retirement benefits, and salaries paid to the end of a notice period, but when the employee ceases to provide services to the Council. We accrue for such payments at the point when a decision is made to terminate employment, rather than when the benefits fall due for payment. These payments are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement.

The Council terminated the contracts of a number of employees in 2012-13, incurring liabilities of £596,206 (£274,000 in 2011-12). These costs are charged to the Council's Comprehensive Income and Expenditure Statement in the current year.

There is a difference between the termination benefits disclosed and the amounts charged to the Comprehensive Income and Expenditure Statement. The methodology and assumptions used to determine the curtailment cost are different to those used to determine the strain cash contribution due from employers. The reasons for this are:

- The curtailment figure is determined using accounting assumptions at the accounting date (in line with the requirements of the accounting standard). In addition, the methodology used to determine this figure differs slightly from that used to determine the strain contribution.
- The strain cash contribution due from the employer is based on the assumptions at the 2013 actuarial valuation and, as mentioned above, the methodology is slightly different than that applied for the curtailment figure.

The strain costs are reflected in the figures below on a cash basis but in fact are paid into the fund on a monthly basis as a 1% enhanced charge to the employer.

The number of employees of the Council whose exit packages were within the following ranges were :

	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages	
	2011-2012	2012-2013	2011-2012	2012-2013	2011-2012	2012-2013	£	£
£0 - 20,000	0	5	5	9	5	14	41,277	154,511
£20,001 - 40,000	1	1	0	3	1	4	31,490	103,310
£40,001 - 60,000	0	2	0	0	0	2	0	81,259
£60,001 - 80,000	0	1	0	2	0	3	0	211,990
£80,001 - 100,000	1	0	0	0	1	0	95,854	0
£100,001 - 150,000	0	0	1	1	1	1	105,289	120,039
	2	9	6	15	8	24	273,910	671,109

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 42 RECONCILIATION BETWEEN THE SURPLUS/DEFICIT ON THE PROVISION OF SERVICES AND THE CASH FLOWS FROM OPERATING ACTIVITIES

2011-12		2012-13
£'000		£'000
4,394	<b>(Surplus) or deficit on the provision of services</b>	<b>2,661</b>
(2,203)	Depreciation of Non Current Assets	<b>(1,946)</b>
(5,858)	Impairment of Non Current Assets	<b>(1,111)</b>
(19)	Amortisation of Intangible Fixed Assets	<b>(23)</b>
167	Pension Fund adjustments	<b>(326)</b>
(29)	Movements in the market value of Investment Properties	<b>7</b>
(17)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	<b>(525)</b>
(389)	Amounts of non-current assets written off on assets held for sale or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	<b>(1,451)</b>
(23)	Increase/(Decrease) in Stocks	<b>9</b>
(762)	Increase/(Decrease) in Debtors	<b>1,571</b>
893	(Increase)/Decrease in Creditors	<b>1,215</b>
375	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	<b>406</b>
0	Application of grants to capital financing transferred to the Capital Adjustment Account	<b>883</b>
122	Other non-cash movement*	
<b>(3,349)</b>	<b>Net cash flows from Operating Activities</b>	<b>1,370</b>

### NOTE 43. GRANTS RECEIVED IN ADVANCE

2011-12		2012-13
£'000		£'000
(1,771)	Capital	<b>(934)</b>
(7)	Revenue	<b>0</b>
<u>(1,778)</u>		<u><b>(934)</b></u>

Local Space had provided £2million to the Council for a regeneration project to help address the housing, economic and social problems caused in the Borough by poor private sector rented housing. The scheme has now finished and the balance will be returned to Local Space. The Council still own one property in Carisbrooke Road that has been purchased by CPO and is being held under assets held for sale.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 44. EMPLOYEE REMUNERATION

Post holder information (Post title)	Salary (Inc. fees & Allowances) £	Bonuses £	Expense Allowances £	Compensation for loss of office £	Benefits in Kind (e.g. leased cars)* £	Pension Contributions** £	Total Remuneration £
<b>Financial Year: 2011-12</b>							
Chief Executive	101,577	0	189	77,663	6,771	40,639	<b>226,839</b>
Director of Corporate Resources	81,282	0	189	0	5,562	19,184	<b>106,217</b>
Borough Solicitor	59,466	0	0	81,836	2,417	36,288	<b>180,007</b>
Director of Regeneration	73,458	0	0	0	5,976	16,234	<b>95,668</b>
Director of Environmental Services	73,458	0	189	0	7,868	16,234	<b>97,749</b>
Head of Corporate Services	52,487	0	0	0	2,703	11,555	<b>66,745</b>
<b>Total</b>	<b>441,728</b>	<b>0</b>	<b>567</b>	<b>159,499</b>	<b>31,297</b>	<b>140,135</b>	<b>773,225</b>
<b>Financial Year: 2012-13</b>							
Head of Paid Service and Director of Corporate Resources	83,658	0	189	0	4,809	20,113	<b>108,769</b>
Head of Corporate Services and Monitoring Officer	61,992	0	0	0	4,809	13,948	<b>80,749</b>
Head of Finance and Section 151 Officer	72,129	0	0	0	0	15,448	<b>87,577</b>
Director of Regeneration	75,000	0	0	0	4,809	16,875	<b>96,684</b>
Director of Environmental Services	79,073	0	189	0	4,809	17,791	<b>101,862</b>
<b>Total</b>	<b>371,852</b>	<b>0</b>	<b>378</b>	<b>0</b>	<b>19,236</b>	<b>84,175</b>	<b>475,641</b>

The figures above included where appropriate amounts receivable in relation to returning officer duties

\* Lease car costs shown in benefits in kind above are based on P11D values provided to HMRC and do not necessarily reflect the actual costs borne by the council.

\*\* This includes pension strain costs where applicable. The strain costs are reflected in the figures on a cash basis but in fact are paid into the fund on a monthly basis as a 1% enhanced charge to the employer.

## NOTES TO THE CORE FINANCIAL STATEMENTS

**NOTE 44. EMPLOYEE REMUNERATION (excluding employers pension contributions - cont.)**

The table below shows the number of employees in the year whose remuneration was greater than £50,000. For this purpose remuneration means amounts paid to or receivable by an employee, and includes sums due by way of expenses allowance (so far as these sums are chargeable to United Kingdom income tax), and the estimated monetary value of any other benefits received by an employee otherwise than in cash.

The table below shows total remuneration paid to individual employees for the year, whereas the detailed tables above show remuneration against the relevant senior post. In some cases a particular post was held by more than one employee during the course of the year, and conversely an employee held more than one post.

The number of employees of the Council whose emoluments were within the following ranges were :-

2011-12		2012-13
4	£50,000 - 54,999	5
4	£55,000 - 59,999	3
6	£60,000 - 64,999	5
3	£65,000 - 69,999	4
0	£70,000 - 74,999	1
1	£75,000 - 79,999	2
1	£80,000 - 84,999	0
1	£85,000 - 89,999	1
0	£90,000 - £94,999	0
0	£95,000 - £99,999	0
0	£100,000 - £104,999	0
1	£105,000- £109,999	0
<hr style="width: 100%; border: 0.5px solid black;"/>		<hr style="width: 100%; border: 0.5px solid black;"/>
21		21
<hr style="width: 100%; border: 0.5px solid black;"/>		<hr style="width: 100%; border: 0.5px solid black;"/>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 45 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

	Corporate Services	Regeneration	Environmental Services	Cost of Services	Corporate Items	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Directorate Income and Expenditure</b>						
<b>Restated 2011-12</b>						
Fees, Charges and Other Service Income	(4,347)	(1,733)	(6,419)	(12,499)	168	(12,331)
Gain on disposal non-current assets	0	0	0	0	32	32
Interest and Investment Income	0	0	0	0	(468)	(468)
Income from Council tax	0	0	0	0	(7,065)	(7,065)
Government Grants and contributions	(63,477)	(1,345)	(163)	(64,985)	(13,575)	(78,560)
<b>Total Income</b>	<b>(67,824)</b>	<b>(3,078)</b>	<b>(6,582)</b>	<b>(77,484)</b>	<b>(20,908)</b>	<b>(98,392)</b>
Employee expenses	5,282	4,752	4,756	14,790	(140)	14,650
Interest payments	0	0	0	0	275	275
Revenue expenditure funded from capital under statute	0	0	0	0	1,322	1,322
Depreciation and impairment	0	0	0	0	8,080	8,080
Support Services	(929)	(81)	993	(17)	0	(17)
Other service expenses	65,708	4,479	8,706	78,893	(417)	78,476
<b>Total operating expenses</b>	<b>70,061</b>	<b>9,150</b>	<b>14,455</b>	<b>93,666</b>	<b>9,120</b>	<b>102,786</b>
<b>Surplus or Deficit on provision of services</b>	<b>2,237</b>	<b>6,072</b>	<b>7,873</b>	<b>16,182</b>	<b>(11,788)</b>	<b>4,394</b>
Reconciliation of Expenditure Summaries to Comprehensive Income and Expenditure Cost of Services						£'000
Management Cost of Services						16,182
Depreciation and impairments						8,080
Add Revenue expenditure funded from capital under statute						1,322
Adjustment for pensions and accumulated absences						(139)
Finance lease payments						(223)
Interest of VAT refund re: Fleming claim						168
Funding of capital expenditure from revenue						(195)
Funding of capital expenditure						(109)
<b>Cost of services per Comprehensive Income and Expenditure</b>						<b>25,086</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 45 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS (cont.)

	Corporate Services	Regeneration	Environmental Services	Management Cost of Services	Corporate Items	Total
<b>Directorate Income and Expenditure</b>	£'000	£'000	£'000	£'000	£'000	£'000
<b>2012-13</b>						
Fees, Charges & Other Service Income	(4,720)	(1,535)	(6,121)	(12,376)	0	(12,376)
Gain on disposal non-current assets	0	0	0	0	1,570	1,570
Interest and Investment Income	0	0	0	0	(447)	(447)
Revenue expenditure funded from capital	0	0	0	0	(35)	(35)
Income from Council tax	0	0	0	0	(7,116)	(7,116)
Government Grants and contributions	(64,678)	(1,028)	(345)	(66,051)	(12,843)	(78,894)
<b>Total Income</b>	<b>(69,398)</b>	<b>(2,563)</b>	<b>(6,466)</b>	<b>(78,427)</b>	<b>(18,871)</b>	<b>(97,298)</b>
Employee expenses	4,848	4,836	4,740	14,424	(41)	14,383
Interest payments	0	0	0	0	796	796
Revenue expenditure funded from capital under statute	0	0	0	0	1,309	1,309
Depreciation and impairment	0	0	0	0	3,078	3,078
Support Services	(1,036)	(227)	1,263	0	0	0
Other service expenses	67,445	4,479	8,722	80,646	(253)	80,393
<b>Total operating expenses</b>	<b>71,257</b>	<b>9,088</b>	<b>14,725</b>	<b>95,070</b>	<b>4,889</b>	<b>99,959</b>
<b>Surplus or Deficit on provision of services</b>	<b>1,859</b>	<b>6,525</b>	<b>8,259</b>	<b>16,643</b>	<b>(13,982)</b>	<b>2,661</b>
Reconciliation of Expenditure Summaries to Comprehensive Income and Expenditure Cost of Services						<b>£'000</b>
Management Cost of Services						<b>16,643</b>
Depreciation and impairments						<b>3,078</b>
Add Revenue expenditure funded from capital under statute						<b>1,274</b>
Adjustment for pensions & accumulated absences						<b>(44)</b>
Finance lease payments						<b>(250)</b>
<b>Cost of services per Comprehensive Income and Expenditure</b>						<b>20,701</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 46 LEASES

#### 46.1 Finance leases – Council acting as lessee

The Council has acquired an administrative building under a finance lease. It has also entered into a contract for provision of services which involves the use of certain assets. The services include: Street Cleansing, Waste Collection and Ground Maintenance Contracts. Where the useful life of the assets are utilised for work for the Authority they are treated as Finance leases.

The asset acquired under these leases are carried as Property, Plant and Equipment in the Balance sheet under the following net amounts:

2011-12 £'000		2012-13 £'000
251	Other Land and Buildings	249
313	Vehicles, Plant, Furniture and Equipment	59
564		308

The Authority is committed to making minimum payments under these leases. These comprise of the settlement of the long term liability for the interest in the property acquired by the Authority and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

2011-12 £'000		2012-13 £'000
562	Finance lease liabilities (net present value of minimum lease payments):	331
244	current	86
318	non-current	245
797	Finance costs payable in future years	777
1,359		1,108

The minimum lease payments will be payable over the following periods:

2011-12 £'000		2012-13 £'000
251	Not later than one year	87
113	Later than one year and not later than five years	35
995	Later than five years	987
1,359		1,109

The Finance lease liability will be payable over the following periods:

2011-12 £'000		2012-13 £'000
231	Not later than one year	77
77	Later than one year and not later than five years	1
254	Later than five years	254
562		332

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, there are no such current rent reviews. £0 contingent rents were payable by the Authority.

The Authority has subleased the property included as Other land and Buildings held under the finance lease. The sublease is for the remaining term of the lease. The inclusion of break clauses in these subleases means they are considered to be an operating lease rather than a finance lease.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 46.2 Operating Leases

The Authority has Vehicles, plant and equipment acquired by entering into operating leases.

2011-12 £'000		2012-13 £'000
144	Not later than one year	125
86	Later than one year and not later than five years	76
0	Later than five years	0
<hr/> 230		<hr/> 201

The expenditure charged to the Services lines in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

2011-12 £'000		2012-13 £'000
191	Minimum lease payments	192
0	Contingent rents	0
<hr/> 191		<hr/> 192

None of the vehicles, plant and equipment acquired by entering into operating leases is subleased by the Authority.

### Authority as Lessor

#### Finance leases

There are no arrangements under which the council leases out its property and equipment to other parties under a finance leases.

#### Operating Leases

The Authority leases out property under operating leases for the following purposes:  
 for economic development purposes to provide suitable affordable accommodation for local businesses.  
 for the provision of community services, and leisure services

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

2011-12 £'000		2012-13 £'000
2,173	Not later than one year	2,288
5,399	Later than one year and not later than five years	5,154
48,020	Later than five years	46,936
<hr/> 55,592		<hr/> 54,378

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. In 2012/13 contingent rents of £50,883K were receivable by the Authority. In 2011/12 the figure was £ 65,149K

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. In 2012/13 the amount of rental income received was £3,624K including contingent rents of £975K by the Authority. In 2011/12 the amount received was £3,663K and contingent rents of £937K

# NOTES TO THE CORE FINANCIAL STATEMENTS

## **NOTE 47. EXCEPTIONAL ITEMS**

There is an exceptional item on the face of the Comprehensive Income and Expenditure Statement.

Following a review of non-current asset records, the Council has identified and written out £873,000 in balances that did not represent the value of assets owned by the Council. This charge is reflected in the "disposals" line of Note 14 (Property Plant and Equipment), and in the "Other Operating Expenditure" line of the Comprehensive Income and Expenditure Statement". It is not, however, a charge against the General Fund, and forms part of the adjustments between accounting and funding bases in the Movement in Reserves Statement.

## **NOTE 48. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED**

The Code of Practice on Local Council Accounting in the United Kingdom 2012/13 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2013, the following changes are not considered to have a significant impact on the Statement of Accounts as demonstrated below:

There have been several significant changes in relation IAS 19 Employee Benefits. IAS19 is changing for accounting years starting on or after 1 January 2013 and this will affect the budgeted pension expense for the next financial year. The key change affecting LGPS employers relates to the expected return on assets. Advance credit for anticipated outperformance of return seeking assets (such as equities) will no longer be permitted. The expected return on assets is currently credited to profit and loss, however from 2013 this is effectively replaced with an equivalent figure calculated using the discount rate (as opposed to that calculated using the Expected Return on Assets assumption).

The effect of the change to IAS19 on the Comprehensive Income and Expenditure Statement to 31 March 2013 will be an increase of £930,000.

## **NOTE 49. EVENTS AFTER THE REPORTING PERIOD**

The Statement of Accounts was authorised for issue by the Director of Finance on 30 June 2013. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2013, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### *Non-adjusting event*

The new arrangements for the retention of business rates come into effect on 1 April 2013, the Council will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list.

Previously, such amounts would not have been recognised as income by the authorities, but would have been transferred to DCLG

When authorities assume these liabilities on 1 April 2013, a provision will need to be recognised. The Council's estimated share of this liability is £240,000.

# COLLECTION FUND INCOME & EXPENDITURE ACCOUNT

2011-12 £'000	INCOME	2012-13 £'000
37,578	Income from Council Taxpayers	37,926
	Transfers from General Fund re Council Tax	
11,456	Council Tax Benefit awarded	11,494
	Sums recovered from Preceptors re previous year's Collection Fund deficit	
0	East Sussex County Council	0
0	East Sussex Fire & Rescue Authority	0
0	Sussex Police Authority	0
0	Hastings Borough Council	0
<b>49,034</b>	Total from Council Tax	<b>49,420</b>
<b>20,223</b>	Income collectable from Business Ratepayers - <i>Note 2</i>	<b>20,231</b>
<b>69,257</b>		<b>69,651</b>
	<b>EXPENDITURE</b>	
	Business Rate - <i>Note 2</i>	
20,099	Payment to National Pool	20,109
124	Cost of Collection	122
0	Prior year community charge	0
34,125	East Sussex County Council Precept on Collection Fund - <i>Note 3</i>	34,302
4,078	Sussex Police Authority Precept on Collection Fund - <i>Note 3</i>	4,099
2,412	East Sussex Fire & Rescue Authority Precept on Collection Fund - <i>Note 3</i>	2,424
6,948	Hastings Borough Council Demand on Collection Fund - <i>Note 3</i>	6,984
	Bad & Doubtful Debts	
551	Write offs of uncollectable Council Tax	697
125	Provision for uncollectable Council Tax-addition / (reduction) to the sum required	16
<b>68,462</b>		<b>68,753</b>
<b>(795)</b>	Movement on Fund Balance - (surplus) / deficit	<b>(898)</b>
	<b>FUND BALANCE - <i>Note 4</i></b>	
<b>(296)</b>	Balance brought forward	<b>(1,091)</b>
0	Paid during the year	296
<b>(795)</b>	(Surplus) / deficit for year	<b>(898)</b>
<b>(1,091)</b>	Balance - (surplus) / deficit carried forward	<b>(1,693)</b>

# COLLECTION FUND INCOME & EXPENDITURE ACCOUNT

## NOTE 1. GENERAL

These accounts represent the transactions of the Collection Fund (accounting separately for income relating to council tax, non-domestic rates and residual community charge) which is a statutory fund separate from the main accounts of the Council, although it is consolidated with the other accounts to form the Consolidated Balance Sheet. The account has been prepared on the accruals basis. The costs of administering collection are accounted for in the General Fund.

## NOTE 2. INCOME FROM BUSINESS RATES (NNDR)

Under the arrangements for uniform business rates, the Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate. The total amount, less certain reliefs and other deductions, is paid to a central pool (the NNDR Pool) managed by Central Government, which in turn pays back to authorities their share of the pool based on a standard amount per head of the local adult population. Under these arrangements the amounts included in these accounts can be analysed as follows :-

2011-12 £'000		2012-13 £'000
(24,289)	Non-Domestic rates billed at uniform business rate of 45.0p (2011-12 : 42.6p)	(25,616)
4,066	Less adjustments to charges, voids, reliefs and other non-collectable sums	5,385
(20,223)	Amount Collectable	(20,231)
124	Less allowance for the Cost of Collection	122
(20,099)	Net contribution to National Pool	(20,109)
£5,953,484	Redistribution from National Pool - credited to General Fund	
£57,789,858	Rateable Value of Business Premises at 31 March	£57,755,216
43.3p	NDR multiplier	
42.6p	NDR small business multiplier	45.8p
		45.0p

## NOTE 3. COUNCIL TAX BASE

Band & Value	Number of Properties	Relationship to Band D	Annual Amount
Band A - up to £40,000	14,412	6/9	£1,076.28
Band B - over £40,000 up to £52,000	11,905	7/9	£1,255.67
Band C - over £52,000 up to £68,000	7,320	8/9	£1,435.04
Band D - over £68,000 up to £88,000	5,515	-	£1,614.43
Band E - over £88,000 up to £120,000	2,163	11/9	£1,973.19
Band F - over £120,000 up to £160,000	778	13/9	£2,331.95
Band G - over £160,000 up to £320,000	182	15/9	£2,690.71
Band H - over £320,000	43	18/9	£3,228.86
	42,318		
Council Tax Base and amount originally expected for 2012-13			= 29,614
East Sussex County Council share			£34,301,896
Sussex Police Authority share			£4,099,170
East Sussex Fire & Rescue Authority share			£2,424,202
Hastings Borough Council share			£6,984,455
			£47,809,723

# COLLECTION FUND INCOME & EXPENDITURE ACCOUNT

## NOTE 4. COUNCIL TAX SURPLUSES & DEFICITS

In accordance with the accounting code of practice surpluses and deficits arising from the collection of Council Tax are to be apportioned between respective authorities on the basis of their precepts or demands on the Collection Fund.

The table below shows the respective balances on the collection fund and how they relate to each authority.

	2011-12 Council Tax	2012-13 Council Tax
	£'000	£'000
Balance brought forward :-		
East Sussex County Council	(213)	<b>(784)</b>
Sussex Police Authority	(25)	<b>(93)</b>
East Sussex Fire Authority	(15)	<b>(55)</b>
Hastings Borough Council	(43)	<b>(159)</b>
(Surplus) / Deficit	<u>(296)</u>	<u><b>(1,091)</b></u>
Movement on Fund Balance :-		
East Sussex County Council	(571)	<b>(431)</b>
Sussex Police Authority	(68)	<b>(52)</b>
East Sussex Fire Authority	(40)	<b>(31)</b>
Hastings Borough Council	(116)	<b>(88)</b>
(Surplus) / Deficit	<u>(795)</u>	<u><b>(602)</b></u>
Balance carried forward :-		
East Sussex County Council	(784)	<b>(1,215)</b>
Sussex Police Authority	(93)	<b>(145)</b>
East Sussex Fire Authority	(55)	<b>(86)</b>
Hastings Borough Council	(159)	<b>(247)</b>
(Surplus) / Deficit	<u>(1,091)</u>	<u><b>(1,693)</b></u>
Total of Council Tax	<u>(1,091)</u>	<u><b>(1,693)</b></u>

	Hastings Borough Council	East Sussex County Council	Sussex Police Authority Share	East Sussex Fire and Rescue
Council Tax Arrears	761,411	3,739,417	446,871	264,274
Impairment Allowance for doubtful debts	(687,824)	(3,378,018)	(403,682)	(238,733)
Council Tax overpayments	(107,002)	(525,507)	(62,800)	(37,139)
Council Tax prepayments	(69,909)	(343,335)	(41,029)	(24,264)
Collection Fund (surplus)/deficit	(247,355)	(1,214,801)	(145,173)	(85,853)
Collection Fund Adjustment Account	(247,376)			
(Owed to)/Owed From Preceptors		<u>(1,722,244)</u>	<u>(205,814)</u>	<u>(121,715)</u>

# GLOSSARY

## **ACCRUALS**

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

## **ACTUARIAL GAINS & LOSSES**

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or the actuarial assumptions have changed.

## **AMORTISATION**

The practice of reducing the value of assets to reflect their reduced worth over time.

## **BALANCE SHEET**

This is a statement that shows the Council's overall financial position for the year ended 31 March. It identifies what is owned by the Council, what it owes and what it is owed.

## **BUDGET**

The Council's policy expressed in financial terms for a specified period.

## **CAPITAL EXPENDITURE**

Expenditure on the provision and improvements of lasting assets such as land, buildings, vehicles and equipment. Also referred to as Capital Works.

## **CAPITAL RECEIPTS**

The proceeds from the sale of fixed assets.

## **COMMUNITY ASSETS**

Assets that the Council intends to hold in perpetuity, that have no determinable useful life, and that have restrictions on their disposal. Examples are parks and historic buildings.

## **CREDITORS**

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

## **CODE**

Standards issued by the accountancy bodies to prescribe approved accounting methods.

## **CONTINGENT**

An asset or liability can be contingent. This means that a condition which exists at the balance sheet date and where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

## **CORPORATE AND DEMOCRATIC CORE**

The corporate and democratic core comprises all

activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities is thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services.

## **CURRENT SERVICE COSTS (PENSIONS)**

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

## **CURTAILMENT**

Curtailments will show the cost of the early payment of pension benefits if any employee has been made redundant in the previous year.

## **DEBTORS**

Amounts owed to the Council but unpaid at the date of the balance sheet.

## **DEFINED BENEFIT SCHEME**

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually the scheme rules define the benefits independently of contributions payable, and the benefits are not directly related to the scheme investments. The scheme may be funded or unfunded.

## **DEPRECIATION**

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passing of time or obsolescence through technological or other changes.

## **EXCEPTIONAL ITEMS**

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 accounts.

## **EXTRAORDINARY ITEMS**

Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the Council's normal activities and which are not expected to recur.

## **FINANCIAL INSTRUMENTS**

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. In simple terms it covers both financial assets and financial liabilities such as trade debtors and trade creditors, to the more complex derivatives e.g. swaps and embedded derivatives.

# GLOSSARY

## **GENERAL FUND**

The main revenue account of the Council which contains the revenue income and expenditure of all services provided.

## **GOVERNMENT GRANTS**

Central Government contributions towards local authority expenditure: examples: Revenue Support grant, Housing subsidy and Housing & Council Tax Benefit subsidy & grants.

## **IMPAIRMENT**

If an asset's carrying value exceeds the amount that could be received through use or selling the asset, then the asset is impaired.

## **INFRASTRUCTURE ASSETS**

Property, Plant and Equipment that are inalienable, expenditure on which is recoverable only by continued use of the asset created. An example is the sea wall and promenade.

## **INVESTMENT PROPERTIES**

Property held solely to earn rentals or for capital appreciation or both.

## **NATIONAL BUSINESS RATE POOL**

Business rate payments go into a central pool managed by the Department for Communities & Local Government. Each charging authority receives from that pool a sum proportioned to the number of Council Taxpayers in its area.

## **PAST SERVICE COST**

Discretionary pension benefits awarded on early retirement are treated as past service costs. This includes added years and unreduced pension benefits awarded before the rule of 85 age.

## **PRECEPT**

The amount of money the County Council, Sussex Police and the Fire Authority have instructed the Borough Council to collect and pay over to it out of Council Tax receipts held in the Collection Fund.

## **PROJECTED UNIT METHOD**

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earning. An accrued benefits valuation method is a

## **PROJECTED UNIT METHOD (con't)**

valuation method in which the scheme liabilities at the valuation date relate to:-

(a) the benefits for pensioners and deferred pensioners and their dependants, allowing where appropriate for future increases, and

(b) the accrued benefits for members in service on the valuation date.

## **PROVISIONS**

Sums set aside for any liabilities or losses which are likely to be incurred, but uncertain as to the dates on which they will arise.

## **PROPERTY PLANT AND EQUIPMENT (PPE)**

Tangible assets that yield up benefit to the authority over more than one accounting period, eg. Land and Buildings.

## **PUBLIC WORKS LOAN BOARD (PWLB)**

A Government financed body which provides a source of long term borrowing for local authorities.

## **REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE**

Under statute some expenditure is allowed to be treated as capital for financing purposes, but does not result in the acquisition of a fixed asset for the Council. This expenditure is now referred to as "Revenue Expenditure Funded from Capital under Statute."

## **EARMARKED RESERVES**

Internal reserves set aside to finance future expenditure for purposes falling outside the definition of provisions.

## **REVENUE EXPENDITURE**

Day to day expenditure on the running of services. It includes staff costs, utility charges, rent and business rates, IT and communications and office expenses.

## **REVENUE SUPPORT GRANT**

A Government grant distributed to local authorities to augment income raised by the Council Tax. It is centrally determined on a needs basis.

## **SETTLEMENT (PENSION)**

Settlements will take account of outgoing bulk transfers and will show the difference between IAS 19 liability and the amount paid to settle the liability.

