

# Audit Committee Agenda

Thursday, 25 September 2014 at 6.00 pm

Town Hall, Queen's Square, Priory Meadow, Hastings, TN34 1QR

If you are attending the Town Hall for this meeting, please enter the building via the Queens Road entrance (opposite the cinema).

For further information, please contact Emily Horne on 01424 451719 or email [ehorne@hastings.gov.uk](mailto:ehorne@hastings.gov.uk)

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# Public Document Pack Agenda Item 3

## AUDIT COMMITTEE

26 JUNE 2014

Present: Councillors Beaver (Chair), Birch, Webb, Charman and Davies

### 1. APOLOGIES FOR ABSENCE

Absence was noted for Councillor Clark.

### 2. DECLARATIONS OF INTEREST

There were no declarations of interest made at this meeting.

### 3. MINUTES OF THE MEETING HELD ON 10 MARCH 2014

**RESOLVED – (unanimously) that the minutes of the meeting held on 10 March 2014 be approved and signed by the Chair as a true record.**

### 4. NOTIFICATION OF ANY ADDITIONAL URGENT ITEMS

None.

### 5. CORPORATE RISK REGISTER

The Director of Environmental Services submitted a report setting out the corporate risks facing Hastings Borough Council and provided assurance to the Committee that control arrangements are in place. Appended to the report was the Corporate Risk Register.

The report informed the committee of the changes during the year and listed the highest strategic level of risks that are the focus of the Council into the future.

Councillor Davies asked if the cuts and slump in economic finances were cancelling out regeneration. The Director of Environmental Services said there would always be a risk when dealing with world economics and when obtaining funding. The council would always look for new opportunities to support regeneration initiatives.

**RESOLVED – (unanimously) that the Audit Committee acknowledge the risks identified in the report.**

### 6. OPERATIONAL RISK REGISTER

The Director of Environmental Services presented his report to inform Members of the current operational risks identified for Hastings Borough Council and the measures put in place to mitigate those risks.

## AUDIT COMMITTEE

26 JUNE 2014

The report informed the committee of the changes during the year and listed the highest level of risks to individual services that are the focus of the Council into the future.

Councillor Davies queried the risks associated with staffing changes and asked what had been done to future proof professions and expertise. He said there was a risk of losing the capacity and skill base. The Director of Environmental Services said there were a number of mitigation measures in place, for example, succession planning, workforce analysis, team training and other POD initiatives.

Councillor Davies asked why several Environmental Health staff had been replaced by agency staff and why this had not been generated internally. The Director of Environmental Services explained that they were in fact not agency staff, but private contractors which were not as costly. This was done as the most cost effective way to achieve targets.

Councillor Webb commented on the high/high risk for fraud administration after the transfer of Hastings BC Investigation to DWP SFIS (Single Fraud Investigation Service). At this point in time there were still answers outstanding to key questions, for example, in regard to funding, time and resources for investigation of fraud cases below a certain threshold, and ongoing workload.

The Chief Auditor confirmed he had attended an SFIS start up meeting with DWP just prior to the committee meeting and more information would follow. A comprehensive update will be provided in due course to members.

Councillor Beaver queried the minimum threshold below which fraud would not be investigated. The Head of Finance clarified that each case was dealt with on a case by case basis and advised that a report will be produced as stipulated in the paragraph above.

Councillor Birch identified a few risks that were no longer applicable. He also commented that the Housing Services performance targets should be a low risk instead of a medium risk. Additionally he suggested the loss of key staff in different sections could be reported as a corporate view instead of by each department.

The Director of Environmental Services accepted the points and would deal with them accordingly.

Councillor Charman asked why the lease on St Mary in the Castle was a medium/high risk. The Director of Corporate Resources said at the time the report was put together the lease was not signed and the restaurant not opened, but since then the restaurant has opened.

**RESOLVED – (unanimously) that the Audit Committee acknowledge the risks identified in the report.**

### 7. ANNUAL TREASURY MANAGEMENT REPORT 2013/14

## AUDIT COMMITTEE

26 JUNE 2014

The Head of Finance presented his report to the Committee, to provide the opportunity to scrutinise the Treasury Management activities and performance of the last financial year. A similar report will be considered by Cabinet along with any recommendations made by the Audit Committee.

The report was set out in accordance with the Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. The Head of Finance highlighted the key points of the report and advised there will be a need to focus on interest rates which are potentially beginning to change after a long period of stability.

**RESOLVED – (unanimously) that the Audit Committee after considering the report had no comments to draw to the attention of Cabinet.**

### **8. AUDIT COMMITTEE REPORT 2013-14 TO COUNCIL**

The Chief Auditor presented his report on the annual review of the effectiveness of Internal Audit to Council. He drew to the Committee's attention that not as many audits were completed as in previous years. This had been because of the substantial problems on the housing benefits subsidy grant work. However, the IAS work was completed within timescales.

In addressing capacity to deliver services, Councillor Davies asked whether in a shrinking environment, there was concern about pressure on audit and other services.

Whilst there was less audit coverage than planned, this was because of the problems encountered on the housing benefit grant subsidy work. The Chief Auditor assured the committee that this year they will be monitoring the speed and progress on the housing benefit grant subsidy work very carefully to take early remedial action if needed.

**RESOLVED – (unanimously) that the Audit Committee approve the Audit Committee Report 2013-14 for presentation to Council.**

### **9. ANNUAL GOVERNANCE STATEMENT 2013-14**

The Chief Auditor submitted his report and Annual Governance Statement 2013-14 to the Committee. The purpose of the report was to provide assurance that the Council's governance framework was adequate and effective.

The Committee was asked to recommend that the Leader of the Council and the Director of Corporate Resources sign the Annual Governance Statement 2013-14 on behalf of the Council in accordance with the Accounts and Audit Regulations 2011. The Annual Governance Statement for 2013-14 was appended to the report.

**RESOLVED – (unanimously) that the Audit Committee recommends that the Leader and Director of Corporate Resources sign the Annual Governance Statement.**

## AUDIT COMMITTEE

26 JUNE 2014

### 10. CHIEF AUDITOR'S SUMMARY AUDIT & RISK REPORT

The Chief Auditor presented his report on the recent audit findings of the Payroll, Income and Main Accounting System internal audit reports.

The Chief Auditor explained that whilst the audit opinion for the income systems was adequate, it was close to being satisfactory. Importantly, the car park income had been reconciled as at 31/03/2014.

The Head of Finance accepts the report and to put it in context at the committee meeting there was £4,062 of income waiting to be reconciled against a volume of £245 million income received per annum. The difference being reconciled was mainly due to timing differences. The recommendations are being actioned with the assistance of internal audit.

Members commented on the income systems report and Councillor Birch requested the Chief Auditor bring back a report on the implementation of recommendations.

**RESOLVED – (unanimously) that the Audit Committee accepts the report and agrees the Chief Auditor brings back to the committee a follow up report on the recommendations made on income systems.**

(The Chair declared the meeting closed at. 7.00 pm)

**Agenda Item No:**

**Report to:** Audit Committee

**Date of Meeting:** 25 September 2014

**Report Title:** Final Accounts 2013-14

**Report By:** Peter Grace  
Head of Finance

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**Purpose of Report**

The Audit Committee are asked to approve the Statement of Accounts (2013-14) on behalf of the Council in accordance with the Accounts & Audit Regulations 2011.

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**Recommendation(s)**

1. The draft Statement of Accounts be approved and a copy signed by the Chair of the Audit Committee in accordance with the Accounts & Audit Regulations 2011.

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**Reasons for Recommendations**

Compliance with statutory requirements and good practice. The Council is accountable for the use of public money and continuously seeks to improve Value for Money.

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## Introduction

1. The Accounts & Audit Regulations 2011 require the Council to approve the Statement of Accounts by the 30 September each year. This Committee has delegated authority to approve the accounts on behalf of the Council. The audited Financial report including the Statement of Accounts is attached.
2. The Council's external auditors (BDO) have finished auditing the full accounts and the Auditors Report is contained within the statements. BDO are required to report on the audit and amendments from the draft Statement of Accounts and this report is elsewhere on the agenda.

## Statement of Accounts

3. The Statement of Accounts as defined in the regulations and CIPFA Code of Practice comprises:
  - Movement in Reserves
  - Comprehensive Income and Expenditure Statement
  - Balance Sheet
  - Cash Flow Statement
  - Notes to the Core Financial Statements
  - The Collection Fund Income and Expenditure Account
4. The Statement of Accounts, in common with those for all other local authorities, is compiled in line with International Financial Reporting Standards (IFRS).
5. The Statement of Accounts is contained within the financial report attached in Appendix A.

## The Accounting Statements

6. The Movement in Reserves 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 unusable reserves. 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.
7. The Comprehensive Income and Expenditure Statement 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.
8. The Balance Sheet shows the value 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. 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”. Statement of Total Recognised Gains and Losses brings together all the gains and losses of the Council for the year and shows the aggregate increase or decrease in its net worth.

9. The Cash Flow Statement 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. Cash flows arising from financing activity are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.
10. The Collection Fund Income and Expenditure Account showed a surplus for the year of £35,000 in respect of Council Tax. In respect of Non Domestic Rates there was a deficit on the fund of £871,000 – largely the result of rating appeals stretching as far back as 2005. The overall deficit for the year amounting to £836,000. There was a surplus of £1,693,000 carried forward from the previous year which when combined with the deficit for 2013/14 leaves an overall surplus on the fund of £857,000.
11. Further interpretation of the accounts highlighting key issues is contained within the explanatory foreword of the Statement of Accounts.

## Financial Position

12. The outturn position was cost of service expenditure of £16.878 million. 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.
13. The reconciliation between the cost of services in the Comprehensive Income and Expenditure Statement and the cost for taxation purposes can be found in note 38.

## Reserves

14. The Medium Term Financial Strategy identified the need for any underspend to be used as an opportunity to strengthen reserves. The net under spend in 2013/14 as reported to Cabinet on 1 September 2014 was some £900,000, however a very large rating appeal has necessitated a revision to the accounts, reducing the reported surplus by £243,000 (HBC’s share of the revised provision). The in-year surplus has been transferred to the General Reserve in order to meet expected shortfalls in income in future years.

## Pensions

15. An accounting standard (IAS19) requires Councils (and businesses) to disclose the deficits/surpluses in their pension funds on an annual basis and to include the deficit within the Balance sheet. This necessitates actuaries identifying the assets and liabilities of the respective institutions investing within the fund on a point in time basis i.e. what the value of Pension Fund investments were worth on 31 March. It should be noted that this is a snap shot of the pension fund on just one day and that equities and bond prices go up and down on a daily basis.
16. There has been a decline of the balance sheet since last year. This is principally because financial assumptions at 31 March 2014 are less favourable than they were at 31 March 2013. This has the effect of increasing liabilities. The overall effect is that the pension fund has moved from a deficit of £33 million to a deficit of £42 million.
17. East Sussex County Council administers the pension scheme. Full actuarial valuations are carried out on a three yearly basis (last carried out as at 31st March 2014) and Council contribution rates are determined at that time for a three year period.

## Financial Strategy

18. Over the next two financial years, 2015/16 and 2016/17, budget deficits have been identified amounting to £1.8m and £3.1m respectively. Given that funding reductions look set to continue for many years and given that major uncertainties remain in the world economy, the Council needs to identify further efficiencies, invest to save opportunities, and cut costs in order to further transform itself to a lower spending Council and to achieve a balanced budget in this very challenging environment.

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### Wards Affected

None

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### Area(s) Affected

None

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### Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	No
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No

Organisational Consequences	No
Local People's Views	No

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## Background Information

Appendix A - Statement of Accounts 2013-14

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## Officer to Contact

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# Financial Report

2013-2014

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# GENERAL INFORMATION

## PHYSICAL FEATURES

Hastings covers an area of **3,079 hectares**

The Council owns land amounting to approximately **996 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 2013-14 was : **61,180**

## COUNCIL TAX & BUSINESS RATING INFORMATION

Rateable value of business premises at 31 March 2014	<b>£57,779,768</b>
Net Borough Council Revenue Expenditure (excluding capital charges)	<b>£17,291,574</b>
Council Tax Base	<b>23,733</b>
Council Tax at Band D - includes all preceptors	<b>£1,641.31</b>

## EMPLOYEES

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

	NUMBER OF EMPLOYEES	
	2012-13	2013-14
Full time	279	<b>268</b>
Part time (full time equivalents)	75	<b>49</b>
Total	354	<b>317</b>

The cost of employment during the year was :-

	£'000	£'000
	2012-13	2013-14
Wages and Salaries	10,077	<b>8,932</b>
National Insurance	766	<b>673</b>
Pension Contributions	1,921	<b>1,744</b>
Total	12,764	<b>11,349</b>

# EXPLANATORY FOREWORD

## INTRODUCTION

The Council's accounts for the year of 2013-14 are set out on pages 26 to 93. 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 on page 85.

#### (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 new material assets have been acquired or new material liabilities incurred during the financial year.

## 4. Pension

The net long term pension liability stood at about £42m compared with £33m a year before. The prescribed method for measuring the liability in accounting terms relates to investment values as at 31 March each year, and discounts liabilities according to the low rates of interest currently prevailing. The wide fluctuations in values from year to year do therefore correspond with the longer term view of contribution rates required to maintain the Council's need to provide for pension payments over the longer

## 5. Revenue

The cost of services in 2013-14 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 2013-14:-

	2013-14 Estimate Budget £	2013-14 Revised Budget £	2013-14 Actual Outturn £	2013-14 Variance £
<b>Directorates</b>				
Corporate Resources	2,921,750	2,732,850	1,453,211	(1,279,639)
Environmental Services	8,073,220	8,425,190	7,436,390	(988,800)
Regeneration	6,077,210	5,247,860	5,274,568	26,708
Contingencies	400,000	176,350	0	(176,350)
<b>Direct Service Expenditure</b>	<b>17,472,180</b>	<b>16,582,250</b>	<b>14,164,169</b>	<b>(2,418,081)</b>
Net Interest (Earnings) / Payments	197,000	205,665	75,968	(129,697)
Other operating costs	496,000	502,631	579,653	77,022
Net Contribution to / (from) Reserves*	(1,039,045)	593,898	4,114,634	3,520,736
<b>Net Council Expenditure</b>	<b>17,126,135</b>	<b>17,884,444</b>	<b>18,934,424</b>	<b>1,049,980</b>
Less Government Grant	(11,479,178)	(12,237,487)	(13,287,467)	(1,049,980)
Collection Fund Surplus	(147,166)	(147,166)	(147,166)	0
<b>Amount to be met by Council Tax Payers</b>	<b>5,499,791</b>	<b>5,499,791</b>	<b>5,499,791</b>	<b>0</b>

There is an improvement of £1,913,805 in the net expenditure position compared to the revised budget. This figure includes £176,350 of contingency monies that were not required in the year

## EXPLANATORY FOREWORD

### 2013-14 Budget

The table below summarises planned net expenditure on services for 2014-15, compared to 2013-14, 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.

	2013-14 Revised Budget £	2014-15 Estimate Budget £	Change 2013-14 to 2014-15 £
<b>Directorates</b>			
Corporate Resources	2,732,850	3,022,270	289,420
Environmental Services	8,425,190	7,935,160	(490,030)
Regeneration	5,247,860	5,431,300	183,440
<b>Direct Service Expenditure</b>	16,405,900	16,388,730	(17,170)
Contingencies	176,350	400,000	223,650
Interest payable	205,665	180,530	(25,135)
Other operating costs	502,631	520,060	17,429
Net Contribution to / (from) Reserves	593,898	(767,757)	(1,361,655)
<b>Net Council Expenditure</b>	17,884,444	16,721,563	(1,162,881)
Less Government Grant :-			
Revenue Support Grant	(5,114,203)	(3,885,836)	1,228,367
Transitional Grant/Efficiency Support Grant	(1,218,153)	(974,522)	243,631
Business Rates Retained	(3,654,579)	(3,617,758)	36,821
Other general grants	(2,250,552)	(2,608,734)	(358,182)
Collection Fund Surplus	(147,166)	(37,280)	109,886
<b>Amount to be met by Council Tax Payers</b>	5,499,791	5,597,433	97,642

Following the Comprehensive Spending Review of 2010 the reductions in grant funding for Hastings BC over the four year period from 2010/11 to 2013/14 have been some 38% in cash terms (higher in real terms), once the effects of the loss of Area Based Grants are taken into account. The Settlement Funding Assessment for 2014/15 of £7,287,506 represents a £1,065,076 (12.7%) reduction in funding from the 2013/14 settlement. It is clear that continued funding reductions can be expected in the years ahead.

# 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 2014-15 budget has been set against an uncertain economic background. The Council's medium term financial strategy sets out its spending plans for the period 2014-15 to 2016-17. 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 Efficiency Support Grant has been further reduced and continues to present 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 2014-15 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 2013-14. Work in 2014-15 will look at the savings achieved in 2013-14 and identify further savings to produce a balanced budget for 2015-16.

## 7. Capital Expenditure

The Council spent £2.974 million on capital projects during 2013-14. Schemes included :-

	2013-14 Budget £'000	2013-14 Outturn £'000
Housing Renewal (including Disabled Facilities Grants)	1,537	1,382
Coastal Space Regeneration project	-	-
Factory Refurbishments	571	425
Seafront Improvements	50	41
Conservation and Regeneration schemes	594	298
Leisure Centre	185	206
Playground / Skate Park	163	150
Bins for Joint Waste Contract		278
Other Schemes	407	194
<b>Total</b>	<b>3,507</b>	<b>2,974</b>

This capital expenditure was financed as shown below:-

	£'000
Borrowing	0
Proceeds from the sale of assets	657
Grants	1,507
Reserves	810
<b>Total financing</b>	<b>2,974</b>

## EXPLANATORY FOREWORD

The Council is planning to spend £6.632 million on capital projects during 2014-15. Significant schemes include :-

	2014-15 Budget £'000
Housing Renewal (including Disabled Facilities Grants)	1,221
Coastal Space Regeneration project	3,620
Seafront Improvements	54
Hastings Pier	250
Conservation and Regeneration schemes	427
CCTV	360
Castle Interpretation	225
Country Park Interpretative Centre	250
Other Schemes	225
<b>Total</b>	<b>6,632</b>

This capital expenditure will be financed as shown below:-

	£'000
Borrowing	3,620
Proceeds from the sale of assets	1,338
Grants	1,250
Reserves/revenue	424
<b>Total financing</b>	<b>6,632</b>

### 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 £16.372m.

### 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 2014 is £18.982 million compared with £15.822 million at 31st March 2013.

# EXPLANATORY FOREWORD

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

Following a review of non-current asset records, the Council has identified and written out £32,000 in balances that did not represent the value of assets owned by the Council. This charge is reflected in the "disposals" line of Note 12 (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 £0.8m for prior year appeals (as at 31 March 2014). 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 £0.32m. 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

2012-13					2013-14			
EXPEND.	INCOME	NET			REVISED	2013-14 ACTUAL		
£	£	£			ESTIMATE	EXPEND.	INCOME	NET
					£	£	£	£
<u>CORPORATE RESOURCES</u>								
153,178	0	153,178	Director Corporate resources	189,190	190,309	0	190,309	
684,533	(10,500)	674,033	Corp. Policy, Partnerships &	670,650	669,769	1	669,770	
323,108	0	323,108	Perform.	352,980	349,241	0	349,241	
454,897	(40,681)	414,216	Estates Service	399,030	452,844	(70,782)	382,062	
516,750	(68,690)	448,060	Legal Services	296,610	342,165	(45,805)	296,360	
786,991	672	787,662	Audit & Investigations Division	789,520	764,066	(120)	763,946	
2,567,499	(67,781)	2,499,718	Accountancy & Exchequer	2,717,690	2,504,337	(11,625)	2,492,713	
775,709	(3,577)	772,132	Services	743,380	714,672	(1,992)	712,680	
1,299,277	(494,255)	805,023	Revenues Division	994,350	1,254,054	(291,826)	962,228	
27,454	(8,750)	18,704	Personnel & Organisational	0	0	0	0	
161,435	(1,266)	160,170	Development	197,460	170,964	(3,144)	167,820	
703,800	(100)	703,699	Contact Centre	719,940	576,944	(11,439)	565,505	
121,235	0	121,235	Admin. Buildings - Renaissance	114,290	100,163	0	100,163	
85,778	0	85,778	House	77,900	74,259	0	74,259	
1,037,654	0	1,037,654	Admin. Bldgs - Town Hall	1,007,130	1,069,281	0	1,069,281	
(8,981,258)	0	(8,981,258)	Admin. Build. Aquila House					
718,040	(694,928)	23,113	Admin. Buildings - General					
486,087	(5,400)	480,687	Expenses					
178,861	0	178,861	Admin. Bldgs - Corp. Archive,					
66,254,442	(64,966,151)	1,288,291	Castleham					
962,359	(377,455)	584,904	Corporate Expenses					
47,779	(349,018)	(301,239)	Less recharges to other accounts	(9,260,520)	(8,946,247)	0	(8,946,247)	
290,936	(1,377,093)	(1,086,156)	Non-recharged costs	9,600	286,823	(436,732)	(149,909)	
218,406	(1,449,261)	(1,230,855)	Corporate Management	513,200	525,857	0	525,857	
125,969	(5,223)	120,746	Non Distributed Corporate					
(216,597)	(4,573)	(221,171)	Expenses	182,540	182,690	0	182,690	
108,651	(168)	108,483	Benefits payments and Admin	1,645,340	54,553,042	(53,413,543)	1,139,498	
127,660	(1,774)	125,887	Tax Collection Costs	678,330	937,140	(437,354)	499,786	
1,351,123	(73)	1,351,050	Employment Areas	(282,510)	52,728	(348,543)	(295,815)	
327,493	(92,779)	234,713	Factory Units	(1,057,170)	271,103	(1,430,244)	(1,159,141)	
33,699	0	33,699	Farms and Other Properties	(931,670)	378,677	(1,391,822)	(1,013,145)	
15,475	(382)	15,093	St Mary in the Castle	74,050	88,138	380	88,518	
24,312	0	24,312	Other Income/ Exp.	34,650	19,002	(109,173)	(90,171)	
117,179	(48,371)	68,808	Corporate Personnel Expenses	102,600	99,538	(2,245)	97,293	
519,993	(519,989)	4	Registration of Electors	107,400	114,881	(28,869)	86,012	
58,827	0	58,827	Cost of Democracy	1,363,510	1,235,989	42	1,236,031	
704	0	704	Election Expenses	127,280	199,827	(112,235)	87,593	
71,751,397	(69,892,637)	1,858,760	Local Strategic Partnership	33,470	38,291	0	38,291	
			Sustainable Development	26,300	19,659	(436)	19,223	
			Public Consultation	40,550	38,588	0	38,588	
			Future Cities	26,380	49,407	(4,420)	44,987	
			Foreshore Trust	30	352,411	(350,205)	2,207	
			Hastings Pier - Closure	12,500	78,269	0	78,269	
			Property searches	0	0	0	0	
				2,706,380	59,522,060	(58,065,400)	1,456,661	

## EXPENDITURE SUMMARY

2012-13			2013-14		2013-14 ACTUAL		
EXPEND.	INCOME	NET	REVISED	EXPEND.	INCOME	NET	
£	£	£	ESTIMATE	£	£	£	
			£				
			<b>SERVICES :</b>				
			<b>REGENERATION</b>				
161,796	(7,190)	154,606	137,130	150,961	(19,505)	131,456	
978,828	(273)	978,554	894,980	920,118	(2,042)	918,076	
1,130,018	(10,689)	1,119,329	981,470	1,017,052	(27,360)	989,692	
1,595,650	(5,256)	1,590,394	855,760	864,577	(2,627)	861,950	
561,491	0	561,491	733,010	771,576	(542)	771,034	
125,284	0	125,284	131,870	112,323	0	112,323	
188,414	0	188,414	232,680	245,134	0	245,134	
(4,747,549)	0	(4,747,549)	(4,166,280)	(3,983,030)	0	(3,983,030)	
(6,068)	(23,408)	(29,477)	(199,380)	98,711	(52,076)	46,635	
464,330	(51,591)	412,739	448,210	471,354	(13,003)	458,351	
490,077	(72)	490,005	343,600	334,466	(1,038)	333,427	
104,035	(17,000)	87,035	63,870	68,674	(5,601)	63,073	
245,293	(157,968)	87,325	166,860	178,064	(17,467)	160,598	
0	0	0	0	17,714	(17,714)	0	
171,590	(99,524)	72,067	95,950	131,499	(94,360)	37,139	
59,150	0	59,150	92,860	103,189	0	103,189	
0	0	0	0	16,258	0	16,258	
48,606	(7,000)	41,606	40,020	70,651	(22,615)	48,036	
86,063	0	86,063	5,000	14,881	0	14,881	
73,700	0	73,700	64,000	28,560	0	28,560	
75,935	(3,987)	71,949	83,010	88,449	(4,847)	83,602	
31,204	0	31,204	16,000	19,396	(500)	18,896	
99,485	(65,476)	34,009	85,290	98,153	(38,778)	59,375	
51,969	2,099	54,069	14,370	19,364	0	19,364	
0	0	0	0	141,423	7,967	149,390	
70,952	0	70,952	59,840	87,664	(7,464)	80,200	
571,022	0	571,022	398,570	372,981	(28,377)	344,604	
64,327	0	64,327	95,850	108,761	0	108,761	
16,015	0	16,015	21,040	21,292	(4,000)	17,292	
102,491	1,264	103,755	56,350	42,946	0	42,946	
963,504	(227,374)	736,130	523,380	880,087	(411,096)	468,991	
225,566	(205,574)	19,993	0	387,816	(242,016)	145,800	
83,663	(6,897)	76,766	59,490	56,592	0	56,592	
612,694	(149,511)	463,183	517,805	657,178	(205,687)	451,492	
0	0	0	115,475	120,336	0	120,336	
13,124	0	13,124	0	(246)	0	(246)	
793,702	(1,015)	792,687	515,010	428,213	(8,560)	419,653	
0	0	0	0	160,032	(143,984)	16,049	
75,942	(6,250)	69,692	22,650	53,894	(24,000)	29,894	
93,299	(64,385)	28,914	88,070	91,413	(177,439)	(86,026)	
180,421	(105,533)	74,887	65,580	63,490	(3,975)	59,514	
20,456	0	20,456	85,000	20,949	0	20,949	
455,577	(10,883)	444,694	350,700	469,396	(11,261)	458,135	
14,765	0	14,765	0	120	0	120	
169,330	(61,917)	107,413	39,690	234,361	(133,786)	100,575	
69,330	(21,243)	48,087	61,370	78,557	(34,386)	44,172	
501,630	(500,714)	916	1,850	7,348	0	7,348	
251,698	(86,244)	165,454	198,500	238,088	(88,413)	149,675	
351,756	(20,205)	331,550	234,930	234,005	(18,766)	215,239	
70,160	(11,072)	59,088	96,940	86,288	(31,494)	54,794	
27,324	(11,211)	16,113	21,250	21,340	0	21,340	
289,767	(59,463)	230,304	166,810	190,526	(26,136)	164,390	
8,533	0	8,533	6,730	7,608	0	7,608	
83,148	0	83,148	72,580	56,764	0	56,764	
7,307	(7,307)	0	0	239	(2,648)	(2,409)	
85,825	(1,773)	84,052	68,940	63,063	(116)	62,947	
15,476	(15,343)	133	(4,000)	6,391	(13,354)	(6,963)	
8,284,172	(1,996,576)	6,287,596	5,260,060	7,148,316	(1,876,989)	5,271,327	

## EXPENDITURE SUMMARY

2012-13			2013-14		2013-14 ACTUAL		
EXPEND.	INCOME	NET	SERVICES :	REVISED ESTIMATE	EXPEND.	INCOME	NET
£	£	£	ENVIRONMENTAL SERVICES	£	£	£	£
1,414,307	(1,102)	1,413,205	Environmental Services admin	933,040	901,481	(75)	901,406
47,009	0	47,009	Emergency Call Out Service	0	0	0	0
377,623	(40)	377,583	Waste Management Team	0	0	0	0
0	0	0	Waste and Parking Team	1,486,170	1,469,854	(19,379)	1,450,475
1,031,153	(120)	1,031,033	Amenities & Resorts admin	899,190	894,482	(23,808)	870,674
72,760	(33)	72,727	Highways Services admin.	0	0	0	0
208,524	0	208,524	Leisure Services admin.	226,610	224,514	0	224,514
(3,150,081)	0	(3,150,081)	Less recharges to other accounts	(3,518,510)	(3,460,106)	0	(3,460,106)
1,294	(1,294)	0	Non-recharged costs	26,500	30,225	(43,262)	(13,037)
209,575	(705)	208,870	Food Safety/Infectious Diseases	174,440	154,048	(915)	153,133
220,257	0	220,257	Health & Safety	193,920	184,746	0	184,746
379,492	(4,012)	375,480	Environmental Protection	296,670	270,836	(3,368)	267,468
86,673	(11,502)	75,171	Pest Control	99,020	96,697	(11,638)	85,060
122,501	(159,101)	(36,600)	Local Licence Fees	(32,730)	115,882	(180,351)	(64,469)
134,524	(83,517)	51,007	Liquor Licensing	49,420	135,322	(84,582)	50,740
14,475	(29,153)	(14,678)	Gambling Licensing	(16,690)	18,390	(29,377)	(10,987)
22,263	0	22,263	Tobacco Control	4,000	4,273	0	4,273
31,942	(575)	31,367	Stray Dog Contract	33,810	36,535	(3,075)	33,460
38,806	(4,877)	33,928	Emergency Planning	37,020	34,020	0	34,020
309,795	(71,705)	238,090	Safer Hastings Partnership	172,140	302,188	(221,787)	80,401
113,013	(88,592)	24,421	Bulverhythe Depot	(56,490)	35,080	(84,962)	(49,882)
1,207,580	(1,833,560)	(625,980)	Car Parking - Off Street	(617,850)	1,394,458	(1,968,784)	(574,327)
36,766	(480)	36,286	DVLA Powers	24,570	24,550	0	24,550
36,253	(386)	35,867	Abandoned Vehicles	20,460	20,120	0	20,120
1,098,930	(1,222,063)	(123,133)	Car Parking - On Street	0	0	0	0
91,019	(5,120)	85,899	Closed Circuit Television	418,560	417,993	0	417,993
76,227	(82,227)	(6,000)	ESCC Highways Management	0	14,317	(16,380)	(2,064)
40,873	0	40,873	Public Realm	149,680	94,987	0	94,987
10,058	0	10,058	Transport Policy	0	0	0	0
2,023,955	(287,886)	1,736,069	Waste Collection	1,468,260	1,615,448	(297,188)	1,318,260
1,418,300	(17,760)	1,400,540	Street Cleansing	1,357,460	1,364,075	(19,080)	1,344,995
179,046	(204,314)	(25,268)	Greenwaste	55,200	260,476	(211,485)	48,991
599,978	(6,405)	593,573	Environmental Enforcement Team	509,760	496,970	0	496,970
47,131	0	47,131	Together Action	40,330	38,504	0	38,504
52,299	0	52,299	Watercourses	34,610	34,278	0	34,278
606,791	(970,166)	(363,375)	Cemetery & Crematorium	(408,030)	588,226	(1,043,985)	(455,759)
27,736	0	27,736	Travellers Costs	30,080	29,285	0	29,285
84,687	(678)	84,008	Decorative Lighting	105,180	86,678	0	86,678
31,578	0	31,578	Town Centre	32,880	33,069	0	33,069
124,139	(12,351)	111,788	Allotments	72,060	86,606	(17,244)	69,362
81,140	0	81,140	Ecology	97,400	77,440	(25,289)	52,150
157,819	(100)	157,719	Arboriculture	162,240	178,601	(16,434)	162,166
1,922,596	(235,774)	1,686,822	Parks & Gardens	1,622,650	1,713,376	(318,878)	1,394,498
195,172	(29,228)	165,945	Hastings Country Park	190,320	227,458	(44,541)	182,917
29,320	0	29,320	Combe Valley Country Park	30,780	50,540	(20,766)	29,774
66,128	(70,448)	(4,320)	Countryside Stewardship	62,850	72,390	(53,919)	18,471
48,025	0	48,025	Coastal Protection	29,910	24,886	0	24,886
8,943	0	8,943	Navigational Aids	11,310	5,648	0	5,648
9,745	0	9,745	Env. Schemes Net Huts	3,350	3,366	0	3,366
252,655	(319,592)	(66,937)	Cliff Railways	(26,100)	283,735	(328,160)	(44,424)
20,690	(86,501)	(65,811)	Castle & Caves	(30,710)	40,485	(99,762)	(59,277)
76,297	(168,292)	(91,996)	Chalets	(109,400)	43,472	(162,632)	(119,160)
644,104	0	644,104	White Rock Theatre	607,420	587,250	0	587,250
180,566	(40,942)	139,624	Seafront	155,990	158,041	(34,840)	123,201
466,544	(38,332)	428,213	Museums and Art Gallery	427,220	460,468	(58,564)	401,904
79,044	(55,322)	23,721	Sports Management	37,420	96,741	(48,994)	47,747
23,452	0	23,452	Highways Shelters and Seats	69,980	37,954	0	37,954
38,325	0	38,325	Naming & Numbering Streets	17,760	12,175	0	12,175
37,278	(100)	37,178	Falaise Fitness Centre	22,620	22,769	(100)	22,669
449,191	(30,524)	418,667	Public Conveniences	431,850	430,595	0	430,595
93,950	(22,366)	71,584	Sports Centres	50,680	70,206	(22,394)	47,811
17,000	0	17,000	William Parker Athletics Track	5,000	5,000	0	5,000
73,817	0	73,817	Sports Development	71,120	72,139	(613)	71,527
45,981	(71,984)	(26,003)	Street Games	4,970	64,063	(55,850)	8,213
12,454	(5,029)	7,426	British Heart Foundation Project	0	0	0	0
147,112	(77,355)	69,757	Active Hastings	80,690	122,682	(88,875)	33,807
121,412	(23,252)	98,160	Play Development	122,610	134,907	(11,456)	123,451
39,745	(8,800)	30,945	Us Girls	0	29,307	(17,103)	12,204
9,993	(500)	9,493	Primary Care Trust Play Grant	4,000	0	0	0
56,553	(50)	56,503	Play Pathfinder	38,000	31,324	0	31,324
116,859	(120,042)	(3,183)	Active Women	20,520	121,481	(112,528)	8,953
35,240	(35,000)	240	Boyne Road Playground	0	1,588	(3,025)	(1,437)
15,035,109	(6,537,964)	8,497,145		8,486,690	13,198,368	(5,762,186)	7,436,182

## EXPENDITURE SUMMARY

2012-13 ACTUAL				2013-14 REVISED ESTIMATE	2013-14 ACTUAL		
EXPEND. £	INCOME £	NET £	<b>SERVICES :</b>	£	EXPEND. £	INCOME £	NET £
95,070,678	(78,427,177)	16,643,501	<b>DIRECT SERVICE EXPENDITURE</b>	16,453,130	79,868,744	(65,704,575)	14,164,170
<b>2012-13</b>							
			<b>SERVICE MEASURES</b>				<b>2013-14</b>
Numbers of :-							
59,112			Museum visitors				66,166
155,514			East Hill Cliff Railway users				134,494
207,548			West Hill Cliff Railway users				203,352
42,770			Hastings Castle visitors				35,796
24			Public Conveniences				23
96			Burials				124
80,737			Grave spaces				80,861
1,260			Cremations				1,316
17,848			Kilometres of Street Swept per annum				17,848
2.87 million			Dustbins Emptied (Bin Equivalents)				3.01 million
7,788			Recycling tonnage				7,797
667			Planning Applications				703
3			Conservation Area Projects				2
634			Building Regulation Applications				346
1,134			Local Land Charges (full searches only)				1,330
2,105			Car Parking Spaces (Off-Street)				2,105
898,336			Vehicles Parked (Off Street)				940,699
23,531			Penalty Charge Notices issued				22,011
151			Untaxed & Abandoned Vehicles removed				96
2,154			Licences Issued				2,472
572			Food Hygiene Inspections				504
198			Health & Safety Inspections				85
64,400			Local Electorate				63,958
98			Number of Factory Units				99
£1,346,536			Rental Income from Factory Units				£ 1,320,824

## Hastings Borough Council

### Annual Governance Statement 2013/2014

#### **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" (2012 Edition).
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 2014, 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 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 of Environmental Services 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 Audit Committee perform an annual rigorous review of the Corporate and Operational Risk Registers and also when new emerging risks arise.
- 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**

- There have been no significant changes to service provision that have impacted on the governance arrangements at Hastings Borough Council since the last Annual Governance Statement was published.

### **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)'**

8. 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)'**

9. The role of the Chief Auditor at Hastings Borough Council complies with the CIPFA statement. This is fully met except that the Chief Auditor has some responsibility for oversight of Housing Benefit and Council Tax Investigations. The independence is enhanced through the Chief Auditor's job description and also by overview of the Section 151 Officer.

### **Review of effectiveness**

10. 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.
11. 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.

12. The Council's constitution 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

13. 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.
14. 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 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.
15. 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
16. From the work undertaken by Hastings Audit in 2013/14 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.
17. The Council’s management arrangements for securing data quality were reviewed by audit and found to be effective.

### **Significant governance issues**

18. The Council follows the CIPFA/SOLACE guidance entitled ‘Delivering Good Governance in Local Government (Guidance Note for English Authorities)’. There is 1 new issue to report and an update to the emerging risk reported last year.
19. Essential repairs are needed to Aquila House which is the council’s main operational building. The landlord is co-ordinating the refurbishment of the building commencing mid 2014. Consequently, this will involve office moves and other disruption which could impact on service performance.
20. In the last Annual Governance Statement, it was reported that there was a significant emerging risk relating to the reduction in Government grant funding. A balanced budget for 2014/15 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.
21. This year has again, been a period of change and development. There have been continuing financial pressures. 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 2014.

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 2014 and its income and expenditure for the year ended 31st March 2014.



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

Robert Cooke  
Chair of the Audit Committee

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## MOVEMENT IN RESERVES STATEMENT

2012-13	Restated General Fund Balance £'000	Earmarked Reserves £'000	Capital Receipts reserve £'000	Capital grants unapplied £'000	Restated Total usable reserves £'000	Unusable Reserves £'000	Restated Total Authority Reserves £'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)	3,591	0	0	0	3,591	0	3,591
Other Comprehensive Income and Expenditure	0	0	0	0	0	(9,994)	(9,994)
<b>Total Comprehensive Income and Expenditure</b>	<b>3,591</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,591</b>	<b>(9,994)</b>	<b>(6,403)</b>
Adjustments between accounting and funding basis under regulation - note 7	(4,569)	0	4	213	(4,352)	4,352	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>

## MOVEMENT IN RESERVES STATEMENT

2013-14	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 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>
<u>Movement in Reserves in 2013-14</u>							
Surplus (deficit) on the provision of services (accounting basis)	(1,494)	0	0	0	(1,494)	0	(1,494)
Other Comprehensive Income and Expenditure	0	0	0	0	0	7,151	7,151
<b>Total Comprehensive Income and Expenditure</b>	<b>(1,494)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(1,494)</b>	<b>7,151</b>	<b>5,657</b>
Adjustments between accounting and funding basis under regulation - note 7	(1,730)	0	0	(643)	(2,373)	2,373	0
<b>Net increase/decrease before transfers to Earmarked reserves</b>	<b>(3,224)</b>	<b>0</b>	<b>0</b>	<b>(643)</b>	<b>(3,867)</b>	<b>9,524</b>	<b>5,657</b>
Transfers to/from Earmarked reserves - note 8	3,224	(3,224)	0	0	0	0	0
<b>(Increase)/Decrease in Year</b>	<b>0</b>	<b>(3,224)</b>	<b>0</b>	<b>(643)</b>	<b>(3,867)</b>	<b>9,524</b>	<b>5,657</b>
<b>Balance at 31 March 2014</b>	<b>(500)</b>	<b>(19,046)</b>	<b>0</b>	<b>(992)</b>	<b>(20,538)</b>	<b>(44,364)</b>	<b>(64,902)</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 and unusable reserves is given in note 22.</p>							

# COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

RESTATED				2013-14		
2012-13				2013-14		
GROSS EXPEND. £'000	INCOME £'000	NET EXPEND. £'000	SERVICES	GROSS EXPEND. £'000	INCOME £'000	NET EXPEND. £'000
8,257	(2,176)	6,081	Cultural and Related Services	7,605	(2,123)	5,482
7,787	(2,033)	5,754	Environmental and Regulatory Services	7,501	(2,268)	5,233
6,192	(4,227)	1,965	Planning Services	4,272	(3,726)	546
2,482	(3,162)	(680)	Highways, Roads & Transport Services	1,688	(2,024)	(336)
69,882	(65,460)	4,422	Housing Services	57,016	(54,172)	2,844
2,045	(1,269)	776	Central Services to the Public	2,356	(1,254)	1,102
2,046	(60)	1,986	Corporate & Democratic Core Expenses	2,064	(90)	1,974
466	(69)	397	Non Distributed Costs	79	(46)	33
0	0	0	Planning Services Exceptional item	0	0	0
0	0	0	Corporate & Democratic Core Expenses - Exceptional Item	0	0	0
<b>99,157</b>	<b>(78,456)</b>	<b>20,701</b>	<b>Cost of Services</b>	<b>82,581</b>	<b>(65,703)</b>	<b>16,878</b>
	1,570	1,570	Other Operating Expenditure - Note 9	497	0	497
1726	(447)	1,279	Financing and Investment Income and Expenditure - Note 10	2057	(268)	1,789
	(19,959)	(19,959)	Taxation and non-specific grant income - Note 11		(20,658)	(20,658)
<b>100,883</b>	<b>(97,292)</b>	<b>3,591</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>85,135</b>	<b>(86,629)</b>	<b>(1,494)</b>
		(13,968)	(Surplus) or deficit on revaluation of non-current assets.			(1,138)
		0	Impairment losses on non-current assets charged to the revaluation reserve			2
		3,974	Actuarial (gains)/losses on pension assets/liabilities			8,287
		<b>(9,994)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>7,151</b>
		<b>(6,403)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>5,657</b>

# BALANCE SHEET

2012-13		2013-14
£'000		£'000
86,178	Property, Plant and Equipment - <i>Note 12</i>	85,956
1,145	Investment Properties - <i>Note 13</i>	939
79	Intangible Assets - <i>Note 14</i>	56
12,617	Heritage Assets - <i>Note 16</i>	13,248
2,059	Long Term Debtors - <i>Note 17</i>	2,067
102,078	<b>LONG TERM ASSETS</b>	102,266
94	Inventories	127
943	Assets Held for Sale - <i>Note 15</i>	765
4,980	Short Term Debtors - <i>Note 17</i>	4,015
10,000	Short Term Investments	10,054
7,644	Cash and Cash Equivalents - <i>Note 18</i>	9,274
23,661	<b>CURRENT ASSETS</b>	24,235
(7,001)	Short Term Creditors - <i>Note 19</i>	(5,915)
(934)	Grants Received in advance - <i>Note 43</i>	0
(2,065)	Short Term Borrowing- <i>Note 20</i>	(65)
(96)	Provisions - <i>Note 21</i>	(754)
(10,096)	<b>CURRENT LIABILITIES</b>	(6,734)
(11,500)	Long Term Borrowing	(11,500)
(1,190)	Long Term Creditors - <i>Note 22</i>	(1,235)
(32,393)	Other Long Term Liabilities	(42,127)
(45,083)	<b>LONG TERM LIABILITIES</b>	(54,862)
70,560	<b>NET ASSETS</b>	64,905
70,560		64,905

## BALANCE SHEET (Cont.)

2012-13 £'000		2013-14 £'000
(500)	General Fund Balance	(500)
0	Usable Capital Receipts Reserve-( <i>movement in reserves</i> )	0
(349)	Capital Grants Unapplied -( <i>movement in reserves</i> )	(992)
(15,822)	Earmarked Reserves - <i>Note 8</i>	(19,045)
(16,671)	<b>Usable reserves</b>	(20,537)
(36,503)	Revaluation Reserve - <i>Note 22</i>	(37,216)
(12)	Deferred Capital Receipts Reserve - <i>Note 22</i>	(9)
(49,517)	Capital Adjustment Account - <i>Note 22</i>	(49,382)
(224)	Financial Instruments Adjustment Account - <i>Note 22</i>	(172)
(247)	Collection Fund Adjustment Account Balance - <i>Note 22</i>	98
222	Accumulated Absences Account - <i>Note 22</i>	186
32,393	Pensions Reserve - <i>Note 22</i>	42,127
(53,888)	<b>Unusable Reserves</b>	(44,368)
(70,559)	<b>Total Reserves</b>	(64,905)

# CASH FLOW STATEMENT

2012-13 £'000		2013-14 £'000
(7,210)	Taxation	(14,111)
(76,272)	Grants and Contributions - Note 27	(64,343)
(11,219)	Sales of goods and rendering of services	(11,486)
(348)	Interest received	(213)
(36)	other receipts from operating activities	(374)
<u>(95,085)</u>	<b>Cash inflows generated from operating</b>	<u>(90,527)</u>
11,569	Cash paid to and on behalf of employees	10,076
64,457	Housing benefit payments	52,806
0	NNDR Tariff payments	5,016
16,286	Cash paid to suppliers of goods and services	15,778
413	Interest paid	418
3,728	Other operating cash payments	3,003
<u>96,453</u>	<b>Cash outflows generated from operating activities</b>	<u>87,097</u>
<u>1,368</u>	<b>Net cashflows from operating activities</b>	<u>(3,430)</u>
(406)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(653)
804	Purchase of property, plant and equipment, investment property and intangible assets	2,459
10,000	Purchase of short-term and long-term investments	0
1,000	Other payments for investing activities	0
0	Proceeds from the sale of short-term and long-term investments	0
(883)	Other receipts from investing activities	(1,217)
<u>10,515</u>	<b>Net cashflows from investing activities</b>	<u>589</u>
(3,000)	Cash receipts from short term and long term borrowing.	(17,600)
0	Repayments of short term and long term borrowing	19,600
910	Changes in National Non-Domestic Rates balances held for Central Government	(386)
(513)	Changes in Council tax balances held for preceptors	(403)
<u>(2,603)</u>	<b>Net cashflows from financing activities</b>	<u>1,211</u>
9,280	<b>Net (Increase) / decrease in cash</b>	<b>(1,630)</b>

## CASH FLOW STATEMENT (Cont.)

Details of the cash balances are shown below:

	<b>1st April 2013</b> <b>£'000</b>	<b>2013-14</b> <b>£'000</b>	<b>31st March 2014</b> <b>£'000</b>
Cash and bank balances	210	(151)	<b>59</b>
Money held in interest-bearing call accounts	7,434	1,781	<b>9,215</b>
Total Cash and Cash Equivalents	<u>7,644</u>	<u>1,630</u>	<b><u>9,274</u></b>

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

### 1.1 Change to IAS 19 Employee Benefits relating to pensions

Several changes to accounting standard IAS 19 Employment Benefits have been adopted into the Code of Practice for 2013/14. The new accounting policies are set out in 2.9 below. There is no impact on the net liability as shown in the Balance Sheet, but the change affects the different elements of the movement in the liability during the year. The elements that are affected are

- The interest cost and the expected return on assets, which are replaced by a net return on the liability,
- Actuarial gains and losses, which are sub-divided into elements representing re-measurements of the net liability

Within the comparative period in the Comprehensive Income and Expenditure Statement the impact is to increase the Deficit on the Provision of Services by £1,447,000. The re-measurement of the defined benefit liability reduces by the same amount, leaving Total Comprehensive Income and Expenditure unchanged.

The corresponding figures in the Movement in Reserves Statement are changed by the same amounts, and the changes also result in restatements of prior year comparative figures in notes:

- 7 Adjustments between accounting and funding basis
- 12 Financing and Investment Income and Expenditure
- 27 Unusable Reserves
- 33 Defined Benefit Pension Scheme
- 42 Reconciliation between the surplus / deficit on the provision of services and the cash flows from operating activities
- 45 Amounts reported for resource allocation

### 1.2 Business Rates Retention Scheme

New arrangements came into effect from 1 April 2013 for the collection and distribution of non-domestic rates, under which only 50% of the net rates collectable, rather than 100%, is passed to the Government, while 10% is now passed to East Sussex County Council and to the Fire Authority. The remaining 40% is now retained by this Council, although new Tariff arrangements mean that the Council has not obtained a corresponding increase in resources. These changes have resulted in a change to accounting policy, under which the Council's share of the year end balances for debtors, etc, are now recognised in the balance sheet. The new arrangements are set out in the final paragraph of 2.2 below. As these arrangements only took effect from 1 April 2013 it has not been necessary to restate the figures for 2012/13.

### 1.3 Council Tax Benefits

New national arrangements have also been introduced for the collection of council tax, particularly the replacement of the former Government-funded council tax benefit scheme by a set of discounts. This change is reflected in the reductions in both gross expenditure and gross income between 2012/13 and 2013/14.

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

The Code of Practice requires that the Authority discloses information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2014 for 2013/14). Disclosure requirements are expected to be included in a subsequent edition of the Code. The following standards have been updated:

- IFRS 13 Fair Value Measurement (May 2011)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 Separate Financial Statements (as amended in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)
- IAS 32 Financial Instruments: Presentation
- Annual Improvements to IFRSs 2009–2011 Cycle.

It is not expected that any of these updates will have any material impact on this Council's accounting statements, or that the changes, when adopted in the Code of Practice, will require any restatements of the 2013/14 Statement of Accounts.

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

### 2.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2013-14 financial year and its position at the end of 31 March 2014, 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 2013-14, and the Service Reporting Code of Practice 2013-14, supported by International Financial Reporting Standards. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets and certain financial liabilities.

## 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.
- Accruals for income are offset by allowances for the impairment of debt where it is determined that recovery is unlikely, although the Council continues to attempt to recover sums legally due. This policy applies to contractual debt as well as to statutory debt for Council Tax, Non-Domestic Rates and overpayment of Housing Benefit.

The Council collects income from Council Tax payers, but only part of the income relates to this Council, the balance being collected on behalf of other major precepting authorities. The amounts of debtors, adjustments for doubtful debts, and income in advance that relate to the precepting authorities are shown as a single net debtor or 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.

Up until 31 March 2013 the Council collected income from payers of Non-Domestic Rates entirely on behalf of the Government. All balances relating to this function were therefore held as a single Short term Debtor or Creditor. From 2013/14 the Council retains 40% of the amount collected, the remainder being on behalf of the Government, County Council and the Fire Authority. As the collection of tax on behalf of others is categorised as an agency service, the Council does not 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 and for outstanding appeals, income in advance and overpayments related to the other parties. The element of the Collection Fund due to the other parties is split between payments due to be made in the following financial year, which are held as Short

Term Creditors (debtors in the case of a deficit), and any other amounts, due in succeeding financial years, which are shown as Long Term Creditors or 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 and other capital expenditure

The Surplus or Deficit on the Provision of Services is debited or credited 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.
- Any revenue costs which are met from capital resources as Revenue Expenditure Financed from Capital under Statute (REFCUS – see 2.24 below)

The Council is not required to raise Council Tax to fund these charges, and they are therefore reversed through appropriations from the Capital Adjustment Account to the General Fund. However, the Council is required to make an annual contribution from revenue resources to the Capital Adjustment Account to reduce its overall borrowing requirement. This is termed the Minimum Revenue Provision (MRP).

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) rose 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 Capital Financing Requirement 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.

### 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.

Provisions may sometimes relate to income, where the Council has collected income in a previous financial year and has a quantifiable liability to repay some or all of it. In the particular case of the provision for losses arising from rating appeals, the whole of the provision is included in the Collection Fund Statement, but only the Council's 40% share of the liability is included in the Balance Sheet.

Apart from this particular case, 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.

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. This accrual relating to leave entitlements is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that the cost of 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 at the earlier of the dates on which the council can no longer withdraw the offer of benefits, or when it recognises the costs of a restructuring that involves the payment of termination benefits.

#### *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:
  - Service cost, comprising:
    - 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.

- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. Past service costs include the cost of curtailments, which are normally linked to an event giving rise to a post employment benefit. Past service costs are debited to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement
- net interest on the defined liability – the change to the net pension liability that arises from the passage of time during the year. This is debited to the 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 present value of the net pensions liability, resulting from:
  - experience adjustments (the differences between the previous actuarial assumptions and what has actually occurred).
  - the effects of changes in actuarial assumptions
- benefits paid, which reduce plan assets, but correspondingly reduce its liabilities, and are therefore not reflected in 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, chargeable to the General Fund, but 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 any 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.

#### 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 if 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 include loans taken out with the Public Works Loan Board, which come within the category of "Other Financial Liabilities".

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

For 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. 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. Gains or losses are spread 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. Most of the Council’s financial assets 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. As at 31 March 2014 the Council also had a single deposit for £5m, which could be traded before its due date and therefore came within the category of “financial assets available for sale”. The accounting Code determines that such assets are carried out fair value (their market value) on the balance sheet, with the gain or loss to date being shown in a corresponding unusable reserve. As this deposit is due to be held only until September 2014, with no intention of disposing of it before then, and as the impact on the balance sheet is immaterial, this asset has been accounted for as if it was a loan or receivable financial asset.

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”.
- Note re above - could be omitted as there appear not to be any 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 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.

#### 2.15 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 receipts 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 Expenditure and Income, along with all grants and contributions receivable towards investment in non-current assets. As these capital grants and contributions are not legally credited 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. However the Council does not consider that reliable cost or valuation information can be obtained for the castle and caves. This is because of the historic nature of the assets and lack of comparable market values. Consequently the Authority does not recognise the value of these Heritage assets on the Balance Sheet.

Where possible, 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.

### Valuation

The Museum collections and civic regalia 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.

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 2.22

### 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.

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.

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 calculated amounts for amortisation and impairment are charged to the Cost of Services in the Comprehensive Income and Expenditure Account,.

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.

#### 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.

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

Where the council uses or occupies an asset held under a finance lease, the asset is recognised as such in the appropriate line in the balance sheet, subject to the de minimis limit noted in 2.22 below. The value recognised is the fair value, or (if lower) the present value of the minimum lease payments. This value is offset on the balance sheet by a creditor or long term liability for the leasing charge.

As these assets are included as part of the Council's property plant and equipment balance, they are subsequently accounted for, in relation to disposal, depreciation, impairment, etc, as set out below in 2.22

Minimum lease payments are apportioned between interest payable as the finance charge and the reduction of the outstanding liability. The finance charge is calculated to produce a constant periodic rate of interest on the remaining balance of the liability.

##### Operating Leases

Lease payments for operating leases are recognised as an expense on a straight-line basis over the lease term, unless they can be otherwise apportioned in line with benefits received.

#### (b) The Authority as Lessor

##### Finance Leases

Where the council acts as lessor for an asset held under a finance lease, the relevant asset is written out of the balance sheet as a disposal, and accounted for in line with Accounting Policy 2.18 below. At the start of the lease a receivable (long term debtor or short term debtor) is recognised as at an amount equal to the net investment in the lease. The lease

payment receivable is apportioned between the repayment of principle and interest, the interest being calculated to produce a constant periodic rate of interest on the remaining balance of the liability.

## Operating Leases

Income from operating leases is recognised on a straight-line basis over the lease term, unless they can be otherwise apportioned in line with the benefits provided

### 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 2013-14 (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 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. Asset values are also reviewed each year to ensure that the balance sheet values are not materially misstated as a result of changes in asset values during the 5-year rolling programme. 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 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 in its existing use 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 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*

Each year a number of fixed assets are revalued as part of the Councils' rolling programme of revaluation by the Chartered Surveyors Wilks Head and Eve (WH&E). These revaluations may result 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.

#### 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 non-current assets 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, where repayment conditions are not present or no longer apply, they 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.
- 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 were 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 the General Fund or from the Capital Receipts and Capital Grants Unapplied reserves, and receives debits to offset depreciation and other charges relating to capital which are not chargeable against the General Fund. The account contains revaluation gains accumulated on non-current assets 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 and Non-Domestic Rates in the Comprehensive Income and Expenditure Statement as they fall due from payers, compared with the statutory arrangements for paying across amounts from the Collection Fund to the General Fund.

#### 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 32 (nature and extent of risk arising from financial instruments), and note 37 (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 material uncertainty is the liability for future pension costs, which stood at about £42m at 31 March 2014. 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 £11,933,000
- an increase of 1 year in life expectancies for pensioners would increase the liability by £4,003,000.
- A 0.5% increase in the salary rate would increase the liability by £2,700,000
- A 0.5% increase in pensions would increase the liability by £9,130,000

All these assumptions are listed in Note 28, 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.

#### 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:

- 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 2014 and will be considered for approval by the Audit Committee on 25<sup>th</sup> September 2014. 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 2014, 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**

2013/14

There are no material items of income or expense.

## 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.

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
Revaluation gains on PPE and non current assets held for sale					
Revaluation losses on Property plant and Equipment					
Movements in the market value of Investment Properties	7				(7)
Amortisation of intangible assets	(22)				22
Movement in Donated Assets Account					
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
Reversal of capital repayments of finance leases					
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)		0
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
<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)		0		51
<i>Adjustments primarily involving the Pensions Reserve</i>					
Difference between accounting and statutory pension costs	(1,256)				1,256
<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
	(4,569)	0	4	213	4,352

## 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.

2013-14	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	(1,836)				1,836
Movements in the market value of Investment Properties	(206)				206
Amortisation of intangible assets	(23)				23
Revenue expenditure funded from capital under statute	(894)				894
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					0
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					0
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</i>					
Statutory provision for the financing of capital investment	580				(580)
<i>Adjustment primarily involving the Capital Grants Unapplied Account:</i>					
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	2,151			(2,151)	0
Application of grants to capital financing transferred to the Capital Adjustment Account				1,508	(1,508)
<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	(497)		(657)		1,154
Use of the Capital Receipts Reserve to finance new capital expenditure			657		(657)
<i>Adjustments primarily involving the Deferred Capital Receipts Reserve</i>					
Transfer from Deferred Capital Receipts reserve upon receipt of cash					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	(1,447)				1,447
<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	(346)				346
<i>Insertion of items not debited or credited to the General Fund</i>					
Capital expenditure charged against the general fund					0
<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	809				(809)
	(1,730)	0	0	(643)	2,373

## 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 2012 £'000	Movement £'000	Balance at 31 March 2013 £'000	Movement £'000	Balance at 31 March 2014 £'000
Capital Reserve	(2,904)	0	(2,904)	1,276	(1,628)
General Reserve	(3,097)	(1,678)	(4,775)	(2,393)	(7,168)
Area Based Grant Unapplied Reserve	(1,154)	281	(873)	851	(22)
Renewal and Repairs Reserve	(1,888)	187	(1,701)	(152)	(1,853)
Risk Management Reserve	(271)	(102)	(373)	(1)	(374)
Information Technology Reserve	(134)	(4)	(138)	(93)	(231)
Section 106 Reserve	(565)	90	(475)	14	(461)
Government Grants Reserve	(810)	41	(769)	117	(652)
VAT reserve	(675)	60	(615)	91	(524)
On-Street Car Parking Surplus Reserve	(219)	(69)	(288)	99	(189)
Interest Equalisation Reserve	(207)	207	0		0
Concessionary Travel Reserve	(167)	167	0		0
Monuments in perpetuity	(57)	5	(52)	1	(51)
Ore Valley Reserve	(305)	0	(305)	3	(302)
Mortgage Reserve	(5)	(23)	(28)	(32)	(60)
Transition Reserve	(722)	0	(722)	(1,500)	(2,222)
Redundancy Reserve	(769)	0	(769)		(769)
Community Safety Reserve	(350)	0	(350)		(350)
Economic Development Reserve	(545)	0	(545)	18	(527)
Land Charges Claim	0	(140)	(140)		(140)
Resilience and Stability Reserve	0		0	(600)	(600)
Coastal Communities Reserve	0		0	(340)	(340)
Safer Hastings Partnership Reserve	0		0	(66)	(66)
Parks and Gardens Reserve	0		0	(10)	(10)
Bathing Water Reserve	0		0	(63)	(63)
First World War Reserve	0		0	(17)	(17)
Invest to save and efficiency Reserve	0		0	(426)	(426)
<b>Total</b>	<b>(14,844)</b>	<b>(978)</b>	<b>(15,822)</b>	<b>(3,223)</b>	<b>(19,045)</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 top 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.
- (xxi) Resilience and Stability Reserve- To cushion the impact of fluctuations in business rates income and costs of Council tax reduction scheme
- (xxii) Safer Hastings Partnership - is specifically earmarked to reduce crime, disorder and anti-social behaviour in neighbourhoods and on the streets.
- (xxiii) Parks and Gardens Special Maint Project - is for specific Grounds Maintenance Improvement Projects and developing landscape improvements.
- (xxiv) Bathing Water Project was funded by the Environment Agency to improve the quality of the bathing water in the local area.
- (xxv) First World War Project - A five year project to research locally and commemorate the first world war through outreach to the community and exhibitions.
- (xxvi) Coastal Communities Reserve - The Coastal Communities Fund (CCF) aims to encourage the economic development of UK coastal communities by awarding funding to create sustainable economic growth and jobs.
- (xxvii) Invest to save Reserve - To provide future funding for projects which will delivery savings but require upfront funding

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 9. OTHER OPERATING EXPENDITURE

2012-13 £'000	2013-14 £'000
Amounts of non-current assets written off on assets held 525 for sale	1,150
1,045 (Gains) & Losses on Disposal of non-current assets	<b>(653)</b>
<u>1,570</u> (Gains) & Losses on Disposal of non-current assets	<u><b>497</b></u>

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

- \* Various parcel of land no longer required
- \* 18 Fairlight place
- \* Farm barn
- \* Property including Pound Lane
- \* 4 Southwater Road

### NOTE 10. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

RESTATED 2012-13 £'000	Expenditure:	EXPEND. £'000	IAS 19 £'000	INCOME £'000	2013-14 £'000
426	Interest payable and similar charges	428	0	0	<b>428</b>
1,300	Pensions interest cost and expected return on pension assets	0	1,456	0	<b>1,456</b>
(355)	Interest receivable and similar income	0	0	(268)	<b>(268)</b>
(92)	Income and expenditure in relation to investment properties and changes in their fair value	235	0	(62)	<b>173</b>
0	Other investment income	0	0	0	<b>0</b>
<u>1,279</u>		<u>663</u>	<u>1,456</u>	<u>(330)</u>	<u><b>1,789</b></u>

### NOTE 11. TAXATION AND NON-SPECIFIC GRANT INCOME AND EXPENDITURE

2012-13 £'000	Income	2013-14 £'000
(7,116)	Council Tax Income	<b>(5,650)</b>
(6,879)	Non domestic rates	<b>(3,044)</b>
(133)	Revenue Support Grant	<b>(5,044)</b>
(5,034)	Non-ringfenced government grants	<b>(4,769)</b>
(797)	Capital grants and contributions	<b>(2,151)</b>
<u>(19,959)</u>		<u><b>(20,658)</b></u>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## **NOTE 12 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.

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 2013. An impairment review was carried out to review any impairments to the 31st March 2014.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## NOTE 12. 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 2014 the Council was contractually committed to the payment of £84k under its capital programme of which £11k will be recoverable from the Foreshore Trust, compared to £157k at 31 March 2013.

	Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infrastructur e £'000	Community £'000	Surplus £'000	Assets Under Construction £'000	Total £'000
<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 1 April 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>
<b>Balance at 31 March 2014:</b>							
Gross carrying amount	66,560	4,876	13,910	12,862	949	0	<b>99,157</b>
Cumulative depreciation & impairment	(2,960)	(3,219)	(6,714)	(289)	(19)	0	<b>(13,201)</b>
<b>Total</b>	<b>63,600</b>	<b>1,657</b>	<b>7,196</b>	<b>12,573</b>	<b>930</b>	<b>0</b>	<b>85,956</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 12. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Movements in operational assets during the years 2012-13 and 2013-14 :-

	Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Infrastructure £'000	Community £'000	Surplus £'000	Assets Under Construction £'000	Total £'000
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	(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>
Balance at 1 April 2013	63,911	1,730	7,591	12,412	534	0	<b>86,178</b>
Additions	694	235	88	162	0	0	<b>1,179</b>
Revaluations	450	0	0	0	0	0	<b>450</b>
Impairment losses and downward revaluations	(107)	(17)	0	0	0	0	<b>(124)</b>
Impairment loss reversals	0	0	0	0	0	0	<b>0</b>
Depreciation	(936)	(291)	(483)	0	(1)	0	<b>(1,711)</b>
Disposals	(32)	0	0	0	0	0	<b>(32)</b>
Reclassifications	(380)	0	0	0	396	0	<b>16</b>
<b>Balance at 31 March 2014</b>	<b>63,600</b>	<b>1,657</b>	<b>7,196</b>	<b>12,574</b>	<b>929</b>	<b>0</b>	<b>85,956</b>
Carried at historical cost	2,371	947	7,196	12,422	20	0	<b>22,956</b>
valued at fair value as at:							
31 March 2014	4,246	218	0	0	396	0	<b>4,860</b>
31 March 2013	18,339	421	0	114	0	0	<b>18,874</b>
31 March 2012	12,515	71	0	0	0	0	<b>12,586</b>
31 March 2011	6,453	0	0	0	0	0	<b>6,453</b>
31 March 2010	19,676	0	0	38	513	0	<b>20,227</b>
<b>Total Cost or Valuation</b>	<b>63,600</b>	<b>1,657</b>	<b>7,196</b>	<b>12,574</b>	<b>929</b>	<b>0</b>	<b>85,956</b>

### NOTE 13. INVESTMENT PROPERTIES

2012-13	2013-14
£'000	£'000
85 Rental income from investment property	62
0 Direct operating expenses arising from investment property	(29)
7 Net gains/losses from fair value adjustments	(206)
<u>92 Total</u>	<u>(173)</u>
2012-13	2013-14
£'000	£'000
1,138 Balance at start of the year	1,145
7 Net gains/losses from fair value adjustments	(206)
<u>1,145 Balance at end of the year</u>	<u>939</u>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## NOTE 14. INTANGIBLE ASSETS

As set out in the accounting policies (Note 1), the Council accounts for its software as intangible assets. The annual movements in the balance sheet figures for intangible assets are shown below:

Amortisation of intangible assets is generally calculated over a five year life. Software costs, other than those acquired in the year, which have been fully amortised but legacy systems are still in use and that current software licenses are below capitalisation limits.

2012-13				2013-14				
Gross £'000	Amortised £'000	Impaired £'000	Net Total £'000	Gross £'000	Amortised £'000	Impaired £'000	Net Total £'000	
				Balance				
1,669	(1,567)	0	<b>102</b>	1 April	112	(33)	0	<b>79</b>
				Written down for				
0	(23)	0	<b>(23)</b>	the year:	0	(23)	0	<b>(23)</b>
<b>0</b>	<b>(23)</b>	<b>0</b>	<b>(23)</b>		0	(23)	0	<b>(23)</b>
				Added				
0	0	0	<b>0</b>	during year	0	0	0	<b>0</b>
				Disposed				
(1,557)	1557	0	<b>0</b>	during year	0	0	0	<b>0</b>
				Balance at				
112	(33)	0	<b>79</b>	31 March	112	(56)	0	<b>56</b>

The intangible assets above are not internally generated

The amortisation was reported in the following service lines 2013/14 Central Service £23K (2013/13 Central Services £23K)

## NOTE 15. ASSETS HELD FOR SALE

2012-13 £'000		2013-14 £'000
810	Balance outstanding at start of year	943
<i>Assets newly classified as held for sale:</i>		
732	Property, Plant and Equipment	1,280
0	Heritage Intangible	55
<i>Other assets/liabilities in disposal groups</i>		
(172)	Revaluation losses	0
0	Revaluation gains	0
<i>Impairment losses and downward revaluations</i>		
(354)		0
<i>Assets declassified as held for sale:</i>		
505	Property, Plant and Equipment	(396)
<i>Heritage Intangible</i>		
<i>Other assets/liabilities in disposal groups</i>		
(578)	Assets sold	(1,117)
<u>943</u>	Balance at end of the year	<u>765</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 16. 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.

Changes of Valuations of Heritage assets was advised by Gorringes Fine Arts Auctioneers and Valuers of 15 North Street Lewes East Sussex, BN7 2PD.

2010-11	2011-12	2012-13		2013-14
£'000	£'000	£'000		£'000
0	5,818	5,400	Previously disclosed	12,617
0	0	0	Additions	0
5,827	0	0	Reclassifications	(55)
(9)	0	0	Accumulated depreciation	0
0	0	7,217	Revaluations	686
0	(418)	0	Impairment losses	0
<u>5,818</u>	<u>5,400</u>	<u>12,617</u>	Restated Balance at end of the year	<u>13,248</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

2012-13		2012-13
	<i>Museum and Art Collection</i>	
300	Turner Painting of Old Town	315
1572	Art Collection - General	1,650
6,298	Art Collection - other	6,613
	<i>Ceramics and Glass, Porcelain Work and Figurines</i>	
770	Ceramics Glass & Porcelain	809
	<i>Miscellaneous including Silver, Pewter, Books and manuscripts</i>	
3,355	Misc. - Silver Books manuscripts etc.	3,523
	<i>Machinery, Equipment and other Artefacts</i>	
139	Machinery, Equipment & other	146
	<i>Civic Regalia - Includes the Mayoral chains and other regalia of office</i>	
183	Civic Regalia	192
<u>12,617</u>		<u>13,248</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 17. DEBTORS

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

2012-13 £'000	AMOUNTS FALLING DUE WITHIN ONE YEAR:	2013-14 £'000
2,433	Other trade debtors	1,608
645	Trade Accounts receivable*	642
997	Related parties	893
459	Prepayments	312
446	Other	560
<u>4,980</u>	<b>TOTAL</b>	<u>4,015</u>
	<b>AMOUNTS FALLING DUE GREATER THAN ONE YEAR:</b>	
<u>2,059</u>		<u>2,067</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 Council has made a provision for impairment of £244,000, for doubtful debts in this category, compared to (£319,000 as at 31st March 2013).

2012-13 £'000	AMOUNTS FALLING DUE WITHIN ONE YEAR:	2013-14 £'000
1,510	Central government bodies	350
289	Other Local Authorities & Public Bodies	5
153	Public corporations	0
3,028	All other bodies	3,660
0	NHS	0
<u>4,980</u>	<b>TOTAL</b>	<u>4,015</u>
	<b>AMOUNTS FALLING DUE GREATER THAN ONE YEAR:</b>	
<u>2,059</u>	All other bodies**	<u>2,067</u>

### NOTE 18. CASH AND CASH EQUIVALENTS

2012-13 £'000	AMOUNTS FALLING DUE WITHIN ONE YEAR:	2013-14 £'000
4	Cash held by the Council	4
206	Bank current accounts	97
7,434	Short term deposits with building societies/banks	9,173
<u>7,644</u>		<u>9,274</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 19. CREDITORS

2012-13 £'000	<b>AMOUNTS FALLING DUE WITHIN ONE YEAR:</b>	2013-14 £'000
510	Central government bodies	715
2,607	Other Local Authorities	276
0	NHS	0
29	Public Corporations	0
3,855	All other bodies	4,924
<u>7,001</u>	<b>Total</b>	<u>5,915</u>
<b>LONG TERM CREDITORS:</b>		
292	Other entities and individuals	293
898	Other Local Authorities	942
<u>1,190</u>	<b>Total</b>	<u>1,235</u>

### NOTE 20. SHORT TERM BORROWING

2012-13 £'000	<b>AMOUNTS FALLING DUE WITHIN ONE YEAR:</b>	2013-14 £'000
2,000	Short term loans	0
65	Interest payable within 1 year	65
<u>2,065</u>	<b>Total</b>	<u>65</u>

### NOTE 21. PROVISIONS

The Council made provisions in 2013-14 for the legal fees relating to the Closure of the Pier, Land Charges Claims and the appeals relating to NNDR. All provisions, when made are expected to be paid within the year.

	Balance at 1 April 2013 £'000	Additional Provisions made Year £'000	Amounts used in Year £'000	Unused amounts reversed Year £'000	<b>Balance at 31 March 2014 £'000</b>
Pier Closure Legal Costs Provision	0	(50)			50
Land Charges APPS Claim Provision	0	(110)			110
MMI provision	74		66	6	2
Hillcrest Sports Centre provision (i)	10		16	(6)	0
Support for athletics track (ii)	12				12
NNDR provision for appeals - HBC element	0	(580)			580
	<u>96</u>	<u>(740)</u>	<u>82</u>	<u>0</u>	<u>754</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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 22 UNUSABLE RESERVES - RESTATED

	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			3,974					3,974
Total Other Comprehensive	0	(13,968)	3,974	0	0	0	0	(9,994)
<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			1,256					1,256
<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
Capital expenditure financed from revenue				(284)				(284)
Financing of capital expenditure directly from reserves								0
Revenue expenditure financed from grants and contributions				(1,771)				(1,771)
Capital expenditure financed from unapplied grants				(340)				(340)
Capital expenditure financed from capital receipts				(409)				(409)
<b>Other adjustments</b>								
Depreciation charged to Revaluation		340						340
Adjustments between accounting and funding basis under regulation	0	340	1,256	2,790	51	3	(88)	4,352
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)

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 22 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 2013	(13)	(36,502)	32,393	(49,513)	(223)	216	(248)	(53,890)
(Gain) or Loss on revaluation of assets		(1,138)						(1,138)
Actuarial (gains)/losses on pension			8,287					8,287
Total Other Comprehensive Expenditure and Income	0	(1,138)	8,287	0	0	0	0	7,149
<b>Reversal of items debited or credited to Comprehensive Income and Expenditure Statement</b>								
Write down Intangible Assets				23				23
Depreciation and impairment of non-current assets (per segmental analysis)				1,836				1,836
Movements in the market value of Investment Properties				206				206
Gain or (Loss) on sale of non-current assets	4	81		1,069				1,154
Gain or (Loss) on sale of non-current assets held for sale				0				0
Difference between accounting and statutory finance costs					51			51
Difference between accounting and statutory employee benefit						(30)		(30)
Difference between accounting and statutory credit for Council Tax							(3)	(3)
Difference between accounting and statutory credit for Non-Domestic Rates							349	349
Revenue Expenditure financed from Capital under Statute				894				894
Difference between accounting and statutory pension costs			1,447					1,447
<b>Insertion of items not debited or credited to Comprehensive Income and Expenditure Statement:</b>								
Statutory provision for the financing of capital investment				(580)				(580)
Repayment of Council Mortgages								0
Capital expenditure financed from revenue				(809)				(809)
Revenue expenditure financed from grants and contributions				(1,508)				(1,508)
Capital expenditure financed from capital receipts				(657)				(657)
<b>Other adjustments</b>								<b>0</b>
Prior period adjustment								
Depreciation charged to Revaluation Reserve *		343		(343)				0
Adjustments between accounting and funding basis under regulation	4	424	1,447	131	51	(30)	346	2,373
Increase / Decrease in Year	4	(714)	9,734	131	51	(30)	346	9,522
Balance at 31 March 2014	(9)	(37,216)	42,127	(49,382)	(172)	186	98	(44,368)

\* The additional depreciation £343K (2013-14) and £340K (2012-13) 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 23. AGENCY SERVICES

The Council is responsible for the collection of National Non Domestic Rates, which it collects and distributes as appropriate. 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:

2012-13 £'000	2012-13 £'000		2013-14 £'000	2013-14 £'000
		Council Tax collection		
34,302		East Sussex County Council	27,760	
2,424		East Sussex Fire and Rescue Service	3,316	
4,099		Sussex Police Authority	1,962	
	40,825	Total agency Council Tax collection		33,038
		Non-Domestic Rates collection		
0	-	East Sussex County Council	1,820	
0		East Sussex Fire and Rescue Service	208	
20,231	20,231	Government	10,138	12,166
	61,056	Total Agency Income		45,204

### NOTE 24. 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.

2012-13 £'000		2013-14 £'000
61	Fees payable to BDO LLP with regard to external audit services carried out	64
26	Fees payable to BDO LLP for the certification of grant claims and returns	22
0	Fees payable in respect of other services provided	7
	87	93

### NOTE 25. 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 all been determined however a provision has been made for those currently received by the Council. A Contingent liability of £22,000 has been made in order to allow for any claims where reliable estimates cannot be reasonably made.

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. There remains a risk that the costs could increase over time, the remaining potential liability has been estimated at £374,000.

### NOTE 26. 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 27 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.

2012-13			2013-14		
Grants £'000	Contribs. £'000	Total £'000	Grants £'000	Contribs. £'000	Total £'000
(64,590)	0	(64,590)	(53,059)	0	(53,059)
0	(277)	(277)	0	(655)	(655)
(35)	0	(35)	0	0	0
(1,175)	0	(1,175)	(1,022)	0	(1,022)
<hr/>			<hr/>		
(65,800)	(277)	(66,077)	<b>(54,081)</b>	<b>(655)</b>	<b>(54,736)</b>
<hr/>			<hr/>		
(133)	0	(133)	(5,044)		(5,044)
(6,879)	0	(6,879)	0		0
(84)	0	(84)	(155)		(155)
(1,212)	0	(1,212)	(1,055)		(1,055)
(385)	0	(385)	(504)		(504)
(175)	0	(175)	(70)		(70)
(761)	0	(761)	(652)		(652)
(2,342)	0	(2,342)	0		0
0	0	0	(1,218)	0	(1,218)
0	0	0	(505)	0	(505)
0	0	0	(480)	0	(480)
(66)	(731)	(797)		(2,151)	(2,151)
(75)	0	(75)	(131)		(131)
<hr/>			<hr/>		
(12,112)	(731)	(12,843)	<b>(9,813)</b>	<b>(2,151)</b>	<b>(11,964)</b>
<hr/>			<hr/>		
(77,912)	(1,008)	(78,920)	(63,894)	(2,806)	(66,700)
<hr/>			<hr/>		
2,648	0	2,648	(512)	0	(512)
<hr/>			<hr/>		
(75,264)	(1,008)	(76,272)	<b>(64,406)</b>	<b>(2,806)</b>	<b>(67,212)</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 28. DEFINED BENEFIT PENSION SCHEMES

As part 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

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):

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 28. DEFINED BENEFIT PENSION SCHEMES (cont'd)

RESTATED 2012-13 £'000		2013-14 £'000
	<b>Reconciliation of Fair Value of Employer Assets (scheme Assets):</b>	
85,501	Value of Assets at 1 April	94,485
4,058	Interest income on plan assets	4,187
592	Contributions by Members	529
2,149	Contributions by the Employer	1,911
8,324	Return on assets excluding amounts recognised in Other Comprehensive Income	(4,574)
(1,455)	Settlements	
(4,684)	Benefits Paid	(5,227)
94,485		91,311
	<b>Reconciliation of Defined Benefit Obligation (scheme Liabilities):</b>	
		2013-14 £'000
(112,664)	Value of Liabilities at 1 April	(126,878)
(1,712)	Current Service Cost	(1,872)
(5,358)	Interest Cost	(5,643)
(592)	Contribution by Members	(529)
	Actuarial Gains and (Losses):	
0	Change in demographic assumptions	(1,397)
(12,439)	Change in financial assumptions	(3,136)
141	Other experience gains and (losses)	820
1,343	Settlements	0
(27)	Past Service Gains and (Losses)	0
(254)	(Losses) and Gains on Curtailments	(30)
4,684	Benefits Paid	5,227
(126,878)		(133,438)
(32,393)	Asset/Liability at 31st March	(42,127)

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 28. DEFINED BENEFIT PENSION SCHEMES (cont'd)

#### Annual Contribution to fund

The estimated contribution for 2014-15 is £1,825,000 compared with the actual contribution of £1,735,000 for 2013-14.

#### Plan Assets

The plan's assets consist of the following categories, showing the value of assets and the percentage of the total.

Asset Category	31 03 2014				31 03 2013			
	Quoted Prices in Active Markets £(000s)	Prices not quoted in Active markets £(000s)	Total £(000s)	%	Quoted Prices in Active Markets £(000s)	Prices not quoted in Active markets £(000s)	Total £(000s)	%
<b>Equity</b>								
Consumer	4,448	0	4,448	5%	3,141	0	3,141	3%
Manufacturing	2,261	0	2,261	2%	1,275	0	1,275	1%
Energy and	2,380	0	2,380	3%	2,064	0	2,064	2%
Financial	5,010	0	5,010	5%	4,753	8	4,761	5%
Health and Care	2,701	0	2,701	3%	2,221	0	2,221	2%
Information	2,463	0	2,463	3%	2,096	0	2,096	2%
Other	1,300	149	1,449	2%	1,712	0	1,712	2%
<b>Debt Securities:</b>								
Corporate Bonds	0	0	0	0%	0	0	0	0%
Corporate	0	0	0	0%	0	0	0	0%
UK Government	0	1,284	1,284	1%	0	1,420	1,420	2%
Other	0	1,212	1,212	1%	0	1,185	1,185	1%
<b>Private Equity:</b>								
All	0	7,183	7,183	8%	0	8,079	8,079	9%
<b>Real Estate:</b>								
UK Property	505	7,723	8,227	9%	934	6,810	7,744	8%
Overseas	0	0	0	0%	0	0	0	0%
<b>Investment</b>								
Equities	108	43,390	43,498	49%	189	49,428	49,617	53%
Bonds	3,470	2,457	5,927	6%	1,886	4,442	6,329	7%
Hedge Funds	180	0	180	0%	0	52	52	0%
Commodities	269	0	269	0%	484	0	484	1%
Infrastructure	0	0	0	0%	0	0	0	0%
Other	0	0	0	0%	0	0	0	0%
<b>Derivatives:</b>								
Inflation	0	0	0	0%	0	0	0	0%
Interest rate	0	0	0	0%	0	0	0	0%
Foreign	0	52	52	0%	0	(45)	(45)	0%
Other	0	0	0	0%	0	0	0	0%
<b>Cash and cash</b>								
All	0	2,766	2,766	3%	0	2,348	2,348	2%
<b>Totals</b>	<b>25,095</b>	<b>66,216</b>	<b>91,311</b>	<b>100%</b>	<b>20,757</b>	<b>73,728</b>	<b>94,485</b>	<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.

#### 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:

2012-13		2013-14
	Mortality assumptions:	
	Longevity at 65 for current pensioners	
21.3	Men	<b>22.2</b>
23.4	Women	<b>24.4</b>
	Longevity at 65 for future pensioners:	
23.3	Men	<b>24.2</b>
25.7	Women	<b>26.7</b>
2.8%	Rate of inflation	<b>2.8%</b>
5.1%	Rate of increase in salaries	<b>4.4%</b>
2.8%	Rate of increase in pensions	<b>2.8%</b>
4.5%	Rate for discounting scheme liabilities	<b>4.5%</b>
	Take-up of option to convert annual pension into retirement lump sum pre April 2008	<b>50%</b>
50%		
	Take-up of option to convert annual pension into retirement lump sum post April 2008	<b>75%</b>
75%		

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 29. 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.

2012-13 £'000		2013-14 £'000
16,523	Opening Capital Financing Requirement 1 April	16,945
	<i>Capital Investment</i>	
608	Property, Plant and Equipment	1,180
0	Investment Properties	0
0	Intangible Assets	0
731	Assets Held for Sale	900
1,000	Long Term Debtors	
	Revenue Expenditure Funded from Capital under Statute	894
	<i>Sources of finance</i>	
(409)	Capital receipts	(657)
(1,807)	Government grants and other contributions	(1,507)
(283)	Sums set aside from revenue and reserves	(810)
0	Direct revenue contributions	0
(727)	MRP	(573)
16,945	Closing Capital Financing Requirement 31 March	16,372
	 Explanations of movements in year:	
422	Increase/(decrease) in underlying need to borrow	(573)
422	Increase/(decrease) in Capital Financing Requirement	(573)

### NOTE 30. CONSTRUCTION CONTRACTS

At 31 March 2014 the Council had no construction contracts in progress.

### NOTE 31. MEMBERS ALLOWANCES

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

2012-13 £'000		2013-14 £'000
272	Members Allowances	262
6	Conferences, Training and Travelling Expenses	3
278		265
32	Number of Councillors	32
£ 8,688	Average sum per Councillor	£ 8,275

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 32 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 19/02/2013 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2013-14 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 32 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 2013-14 was approved by Full Council on 19/02/13 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 £19.9m 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 2014 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-13	31-Mar-13	31-Mar-13	31-Mar-14	31-Mar-14	31-Mar-14
Trade debtors *	964	(318)	646	642	(199)	443
<b>Total</b>	<b>964</b>	<b>(318)</b>	<b>646</b>	<b>642</b>	<b>(199)</b>	<b>443</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 32 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-13		31-Mar-14
£000s		£000s
620	Less than three months	370
344	More than three months	272
<u>964</u>	<u>Total</u>	<u>642</u>

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 2013 and 31 March 2014 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-13		31-Mar-14
£000s		£000s
15,000	Less than 1 year	19,850
2000	Less than 5 years greater than 1 year	2,000
<u>17,000</u>	<u>Total</u>	<u>21,850</u>

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

	Actual 31 March 2013	Actual 31 March 2014
	£000s	£000s
Less than 1 year	2,065	0
Between 1 and 5 years	2,000	4,000
Between 5 and 10 years	2,000	0
More than 10 years	7,500	7,500
<b>Total</b>	<b>13,565</b>	<b>11,500</b>

#### 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 32 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	<u>(235)</u>
Impact on Surplus or Deficit on the Provision of Services	<u><u>(215)</u></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 33 FINANCIAL INSTRUMENTS

#### Year end balances compared to fair value

As noted under the heading of "Accounting Policies (Note 2.13), most of the Council's investments come within the category of "loans and receivables" - financial assets that have fixed or determinable payments, and are not quoted in an active market. As explained in accounting policy 2.13 the single asset in the category of "assets available for sale" as at 31 March 2014 has also been accounted for as if it was a loan or receivable.

31 March 2013			31 March 2014	
Book Value £000s	Fair Value £000s		Book Value £000s	Fair Value £000s
10,000	10,257	Bank deposits:		
-	-	Loans and Receivables	5,054	5,054
		Assets available for sale	5,000	4,999
		Less accrued interest	(54)	
<u>10,000</u>	<u>10,257</u>	<b>Short term Investments</b>	<u>10,000</u>	<u>10,053</u>
646	646	Trade accounts receivable	642	642
<u>646</u>	<u>646</u>	<b>Short Term Debtors</b>	<u>642</u>	<u>642</u>
<u>7,644</u>	<u>7,658</u>	Cash and Cash Equivalents	<u>9,274</u>	<u>9,324</u>
<u>18,290</u>	<u>18,561</u>	<b>Total Financial Assets</b>	<u>19,916</u>	<u>20,019</u>

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

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 33 FINANCIAL INSTRUMENTS (cont.)

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

31 March 2013			31 March 2014	
Book Value	Fair Value		Book Value	Fair Value
£000s	£000s		£000s	£000s
(11,500)	(12,595)	Public Works Loan board	(11,500)	(13,214)
(255)	(255)	Long Term Creditors	(254)	(254)
<u>(11,755)</u>	<u>(12,850)</u>	<b>Long Term Liabilities</b>	<u>(11,754)</u>	<u>(13,468)</u>
(2,065)	(2,002)	Short Term Loans	(65)	
65		Adjust for interest on long term loans	65	
(4,697)	(4,697)	Short Term Creditors	(1,787)	(1,787)
<u>(6,697)</u>	<u>(6,699)</u>	<b>Short Term Liabilities</b>	<u>(1,787)</u>	<u>(1,787)</u>
<u>(18,452)</u>	<u>(19,549)</u>	<b>Total Financial Liabilities</b>	<u>(13,541)</u>	<u>(15,255)</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:

2012-13		2013-14
£'000		£'000
	<b>Interest receivable</b>	
(350)	Interest from loans and receivables	(268)
(5)	Other interest receivable	0
<u>(355)</u>	<b>Total Interest receivable</b>	<u>(268)</u>
	<b>Interest payable</b>	
391	Interest on long term borrowing	408
35	Other interest payable and similar charges	20
<u>426</u>	<b>Total Interest payable</b>	<u>428</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 34. 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 27 (grants and contributions), 17 (debtors) and 19 (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 28. 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. £383,930 was paid to Hastings and St Leonards Foreshore Charitable Trust of which some members are Trustees. Grants totalling £59,000 (see below) were paid to voluntary organisations in which five members had an interest. The relevant members did not take part in any discussion or decision relating to the grants. 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.

	2013-14 £'000
<b>Grant to voluntary organisations</b>	
Bridge Community Enterprise Ltd	3
Hastings & Rother Credit Union Limited	3
Hastings Week Committee	2
In 2 Play	2
Hastings Trust	0
Let's Do Business	23
Ten Sixty Six Enterprise	24
Amicus Horizon	2
Total	59

#### 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 34. RELATED PARTY TRANSACTIONS (Cont.)

The Financial statements of the Trust at the 1st April 2013 showed

	£,000	£,000
Fixed assets		483
Current assets	2,170	
Creditors	(666)	
Net current assets		1,504
Total Funds		<u>1,987</u>

During the year 2012-13 the Trust accrued net income resulting from the activities recorded in the Council's accounts. The net results of the Trust was made up of income of £1,078K and expenditure of £ 694k, giving a net figure of £384k within the Council's own Accounts (net figure in 2012-13 was £360k).

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

### Local Space

Hastings Borough Council and Local Space Housing Association were 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 provided, upfront, £2million for the regeneration project. 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. During 2013/14 the unused balance has been repaid to Local Space.

The Council is now working with Amicus Horizon to deliver a similar scheme.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 35. 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 2013-14, incurring liabilities of £83,248 (£671,109 in 2012-13). 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	
	2012-2013	2013-2014	2012-2013	2013-2014	2012-2013	2013-2014	£	£
£0 - 20,000	5	0	9	7	14	7	154,511	56,836
£20,001 - 40,000	1	0	3	1	4	1	103,310	26,412
£40,001 - 60,000	2	0	0	0	2	0	81,259	0
£60,001 - 80,000	1	0	2	0	3	0	211,990	0
£80,001 - 100,000	0	0	0	0	0	0	0	0
£100,001 - 150,000	0	0	1	0	1	0	120,039	0
	<b>9</b>	<b>0</b>	<b>15</b>	<b>8</b>	<b>24</b>	<b>8</b>	<b>671,109</b>	<b>83,248</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 36 RECONCILIATION BETWEEN THE SURPLUS/DEFICIT ON THE PROVISION OF SERVICES AND THE CASH FLOWS FROM OPERATING ACTIVITIES

RESTATED 2012-13 £'000		2013-14 £'000
2,661	<b>(Surplus) or deficit on the provision of services</b>	<b>(1,494)</b>
(1,946)	Depreciation of Non Current Assets	<b>(1,711)</b>
(1,111)	Impairment of Non Current Assets	<b>(125)</b>
(23)	Amortisation of Intangible Fixed Assets	<b>(23)</b>
(326)	Pension Fund adjustments	<b>(1,447)</b>
7	Movements in the market value of Investment Properties	<b>(206)</b>
(525)	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>(1,150)</b>
(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	
	Increase/(Decrease) in Long Term Debtors	<b>8</b>
	Increase/(Decrease) in Short Term Investments	<b>54</b>
	Increase/(Decrease) in Long Term Creditors	<b>(1)</b>
9	Increase/(Decrease) in Stocks	<b>32</b>
1,571	Increase/(Decrease) in Short Term Debtors	<b>178</b>
1,215	(Increase)/Decrease in Short Term Creditors	<b>308</b>
	(Increase)/Decrease in Provisions	<b>(657)</b>
406	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	<b>653</b>
883	Capital Grant & Contribution	<b>2,151</b>
	Other non-cash movement*	
<u>1,370</u>	<b>Net cash flows from Operating Activities</b>	<u><b>(3,430)</b></u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 37. 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: 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>
<b>Financial Year: 2013-14</b>							
Head of Paid Service and Director of Corporate Resources	86,163	0	192	0	4,858	20,968	<b>112,181</b>
Head of Corporate Services and Monitoring Officer	64,304	0	0	0	4,858	14,661	<b>83,823</b>
Head of Finance and Section 151 Officer	75,369	0	0	0	0	16,385	<b>91,754</b>
Director of Regeneration	77,499	0	0	0	4,858	17,670	<b>100,027</b>
Director of Environmental Services	82,350	0	192	0	4,858	18,602	<b>106,003</b>
<b>Total</b>	<b>385,685</b>	<b>0</b>	<b>384</b>	<b>0</b>	<b>19,432</b>	<b>88,286</b>	<b>493,788</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 37. 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 :-

Page 95	2012-13		2013-14
	5	£50,000 - 54,999	2
	3	£55,000 - 59,999	4
	5	£60,000 - 64,999	7
	4	£65,000 - 69,999	2
	1	£70,000 - 74,999	0
	2	£75,000 - 79,999	1
	0	£80,000 - 84,999	1
	1	£85,000 - 89,999	1
	0	£90,000 - £94,999	1
	0	£95,000 - £99,999	0
	0	£100,000 - £104,999	0
	0	£105,000- £109,999	0
	<hr/> 21		<hr/> <b>19</b> <hr/>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 38 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

	Corporate Services	Regeneration	Environmental Services	Management Cost of Services	Corporate Items	Total
<b>Directorate Income and Expenditure 2012-13</b>	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges & Other Service Income	(4,720)	(1,535)	(6,121)	(12,376)	0	<b>(12,376)</b>
Gain on disposal non-current assets	0	0	0	0	1,570	<b>1,570</b>
Interest and Investment Income	0	0	0	0	(447)	<b>(447)</b>
Revenue expenditure funded from capital	0	0	0	0	(35)	<b>(35)</b>
Income from Council tax	0	0	0	0	(7,116)	<b>(7,116)</b>
Government Grants and contributions	(64,678)	(1,028)	(345)	(66,051)	(12,843)	<b>(78,894)</b>
<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)	<b>14,383</b>
Interest payments	0	0	0	0	796	<b>796</b>
Revenue expenditure funded from capital under statute	0	0	0	0	1,309	<b>1,309</b>
Depreciation and impairment	0	0	0	0	3,078	<b>3,078</b>
Support Services	(1,036)	(227)	1,263	0	0	<b>0</b>
Other service expenses	67,445	4,479	8,722	80,646	677	<b>81,323</b>
<b>Total operating expenses</b>	<b>71,257</b>	<b>9,088</b>	<b>14,725</b>	<b>95,070</b>	<b>5,819</b>	<b>100,889</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>(13,052)</b>	<b>3,591</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 38 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS (cont.)

	Corporate Services	Regeneration	Environmental Services	Management Cost of Services	Corporate Items	Total
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Directorate Income and Expenditure 2013-14</b>						
Fees, Charges & Other Service Income	(4,885)	(1,410)	(5,327)	(11,622)	(62)	<b>(11,684)</b>
Gain on disposal non-current assets	0	0	0	0	497	<b>497</b>
Interest and Investment Income	0	0	0	0	(268)	<b>(268)</b>
Taxation	0	0	0	0	(8,060)	<b>(8,060)</b>
Government Grants and contributions	(53,181)	(465)	(436)	(54,082)	(17,613)	<b>(71,695)</b>
<b>Total Income</b>	<b>(58,066)</b>	<b>(1,875)</b>	<b>(5,763)</b>	<b>(65,704)</b>	<b>(25,506)</b>	<b>(91,210)</b>
Employee expenses	4,917	3,877	3,781	12,575	1,417	<b>13,992</b>
Interest payments	0	0	0	0	428	<b>428</b>
Revenue expenditure funded from capital under statute	0	0	0	0	894	<b>894</b>
Change in value, Investment Properties	0	0	0	0	206	<b>206</b>
Depreciation and impairment	0	0	0	0	1,859	<b>1,859</b>
Support Services	(1,736)	521	1,215	0	0	<b>0</b>
Other service expenses	56,338	2,751	8,280	67,369	4,968	<b>72,337</b>
<b>Total operating expenses</b>	<b>59,519</b>	<b>7,149</b>	<b>13,276</b>	<b>79,944</b>	<b>9,772</b>	<b>89,716</b>
<b>Surplus or Deficit on provision of services</b>	<b>1,453</b>	<b>5,274</b>	<b>7,513</b>	<b>14,240</b>	<b>(15,734)</b>	<b>(1,494)</b>
Reconciliation of Expenditure Summaries to Comprehensive Income and Expenditure Cost of Services						
Management Cost of Services						<b>£'000</b> <b>14,240</b>
Add Depreciation and impairments						<b>1,859</b>
Add Revenue expenditure funded from capital under statute						<b>894</b>
Deduct: adjustment for pensions and accumulated absences						<b>(39)</b>
Deduct: MRP relating to finance leases						<b>(76)</b>
<b>Cost of services per Comprehensive Income and Expenditure</b>						<b>16,878</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## NOTE 39 LEASES

### 39.1 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 included the Street Cleansing and Waste Collection Contract, which was replaced by a new contract in 2013-14. 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:

2012-2013		2013-2014
£'000		£'000
249	Other Land and Buildings	247
59	Vehicles, Plant, Furniture and Equipment	0
308		247

The Authority is committed to making minimum payments under these leases comprising 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:

2012-2013		2013-2014
£'000		£'000
331	Finance lease liabilities (net present value of minimum lease payments):	254
86	current	9
245	non-current	245
777	Finance costs payable in future years	767
1,439		1,275

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

2012-2013		2013-2014
£'000		£'000
87	Not later than one year	9
35	Later than one year and not later than five years	35
986	Later than five years	977
1,108		1,021

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

2012-2013		2013-2014
£'000		£'000
77	Not later than one year	0
1	Later than one year and not later than five years	1
254	Later than five years	254
332		255

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 this subleases means the subleases is considered to be an operating lease rather than a finance lease.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### 39.2 Operating Leases

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

2012-2013		2013-2014
£'000		£'000
125	Not later than one year	89
76	Later than one year and not later than five years	58
0	Later than five years	0
<u>201</u>		<u>147</u>

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

2012-2013		2010-2011
£'000		£'000
192	Minimum lease payments	119
0	Contingent rents	0
<u>192</u>		<u>119</u>

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:

2012 - 2013		2013 - 2014
£'000		£'000
2,288	Not later than one year	1,976
5,154	Later than one year and not later than five years	4,584
46,936	Later than five years	45,516
<u>54,378</u>		<u>52,076</u>

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 2013/14 contingent rents £56,875 were receivable by the Authority. In 2012/13 the figure was £50,883

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 2013/14 the amount of rental income received was £3,604k including contingent rents of £968k by the Authority. In 2012/13 the amount received was £3,624K and contingent rents of £975k

# NOTES TO THE CORE FINANCIAL STATEMENTS

## NOTE 40. EXCEPTIONAL ITEMS

There are no exceptional items in this financial year

## NOTE 41. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice requires that the Authority discloses information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2014 for 2013/14). Disclosure requirements are expected to be included in a subsequent edition of the Code.

IFRS 13 Fair Value Measurement (May 2011)

IFRS 10 Consolidated Financial Statements

IFRS 11 Joint Arrangements

IFRS 12 Disclosure of Interests in Other Entities

IAS 27 Separate Financial Statements (as amended in 2011)

IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)

IAS 32 Financial Instruments: Presentation

Annual Improvements to IFRSs 2009 – 2011 Cycle.

It is anticipated that details of the disclosures required for most of these changes will be included in the Code of Practice issued for 2014/15

## NOTE 42. EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Director of Finance on xx September 2014. 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 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

# COLLECTION FUND INCOME & EXPENDITURE ACCOUNT

2012-13 £'000		2013-14 £'000
	<b><u>Council Tax</u></b>	
	<b>INCOME</b>	
(37,926)	Income from Council Taxpayers	(39,437)
	Transfers from General Fund re Council Tax	
(11,494)	Council Tax Benefit awarded	0
<u>(49,420)</u>	Total	<u>(39,437)</u>
	<b>EXPENDITURE</b>	
	Precepts and demands on Collection Fund (Note 3)	
34,302	East Sussex County Council	27,010
4,099	Sussex Police Authority	3,228
2,424	East Sussex Fire Authority	1,909
6,984	Hastings Borough Council	5,500
	Apportionments of previous year surplus (Note 3)	
213	East Sussex County Council	723
25	Sussex Police Authority	86
15	East Sussex Fire Authority	51
43	Hastings Borough Council	147
	Bad & Doubtful Debts	
697	Write offs of uncollectable income	26
16	Provision for uncollectable income-addition / (reduction)	722
<u>48,818</u>		<u>39,402</u>
<u>(602)</u>	Movement on Fund Balance - (surplus) / deficit	<u>(35)</u>
	<b>FUND BALANCE - Note 4</b>	
(1,091)	Balance brought forward	(1,693)
(602)	(Surplus) / deficit for year	(35)
<u>(1,693)</u>	Balance - (surplus) / deficit carried forward	<u>(1,728)</u>
	<b><u>Non-Domestic Rates</u></b>	
	<b>INCOME</b>	
(21,143)	Income from Ratepayers	(21,741)
0	Transitional Protection payments	4
<u>(21,143)</u>	Total	<u>(21,737)</u>

## COLLECTION FUND INCOME & EXPENDITURE ACCOUNT (Cont)

<b>EXPENDITURE</b>		
	Precepts and demands on Collection Fund (Note 3)	
0	Government	10,510
0	East Sussex County Council	1,892
0	East Sussex Fire Authority	210
0	Hastings Borough Council	8,408
	Bad & Doubtful Debts	
818	Write offs of uncollectable income	20
94	Provision for uncollectable income-addition / (reduction)	(7)
	Impairments resulting from appeals	
	Write offs	0
	Provision for uncollectable income-addition / (reduction)	1,452
20,109	Payments to National Pool	0
122	Transfer to General Fund - Cost of Collection Allowance	123
<hr/>		<hr/>
21,143		22,608
<hr/>		<hr/>
0	Movement on Fund Balance - (surplus) / deficit	871
<hr/>		<hr/>
	<b>FUND BALANCE - Note 4</b>	
0	Balance brought forward	0
0	(Surplus) / deficit for year	871
<hr/>		<hr/>
0	Balance - (surplus) / deficit carried forward	871
<hr/>		<hr/>
	<b>COLLECTION FUND BALANCE - Note 4</b>	
(1,091)	Balances brought forward	(1,693)
(602)	(Surplus) / deficit for year	836
<hr/>		<hr/>
(1,693)	Balance - (surplus) / deficit carried forward	(857)
<hr/>		<hr/>

# COLLECTION FUND INCOME & EXPENDITURE ACCOUNT (Cont)

## 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, offset by a cost of collection allowance for rate collection, retained before allocating the net income between the precepting authorities.

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

The figures for 2012/13 in the Collection Fund statement reflect the previous arrangements for this tax, whereas the 2013/14 figures represent the new business rates retention scheme. The Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate.

Before 1 April 2013 the total amount, less certain reliefs and other deductions, was previously paid to a central pool, managed by the government, which in turn paid back to authorities their share of the pool, based on a standard amount per head of the local adult population.

Under the new arrangements 50% of the amount collected is paid to central government, 9% to the County Council, and 1% to the Fire Authority, while this council retains 40%. The amount retained is transferred to the General Fund, but this is offset by a tariff paid to central government.

The NDR multiplier for 2013/14 was 46.2p, compared to 45.8p for 2012/13, and the rateable value of business premises at 31 March 2014 was £57,779,768, compared to £57,755,216 at 31 March 2013.

## NOTE 3. COUNCIL TAX BASE

Band & Value	Number of Properties	Relationship to Band D	Annual Amount
Band A - up to £40,000	14,072	6/9	£1,076.28
Band B - over £40,000 up to £52,000	11,788	7/9	£1,255.67
Band C - over £52,000 up to £68,000	7,257	8/9	£1,435.04
Band D - over £68,000 up to £88,000	5,736	-	£1,614.43
Band E - over £88,000 up to £120,000	1,843	11/9	£1,973.19
Band F - over £120,000 up to £160,000	770	13/9	£2,331.95
Band G - over £160,000 up to £320,000	196	15/9	£2,690.71
Band H - over £320,000	23	18/9	£3,228.86
	41,685		
Council Tax Base and amount originally expected for 2013-14			= 23,319
	East Sussex County Council share		£27,010,397
	Sussex Police share		£3,227,816
	East Sussex Fire Authority share		£1,908,893
	Hastings Borough Council share		£5,499,791
			£37,646,897

# COLLECTION FUND INCOME & EXPENDITURE ACCOUNT (Cont)

## 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.

	2012-13	2013-14
	£'000	£'000
Balance brought 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>
 Movement on Fund Balance :-		
East Sussex County Council	(431)	<b>(27)</b>
Sussex Police Authority	(52)	<b>(3)</b>
East Sussex Fire Authority	(31)	<b>(2)</b>
Hastings Borough Council	(88)	<b>(3)</b>
(Surplus) / Deficit	<u>(602)</u>	<u><b>(35)</b></u>
 Balance carried forward :-		
East Sussex County Council	(1,215)	<b>(1,242)</b>
Sussex Police Authority	(145)	<b>(148)</b>
East Sussex Fire Authority	(86)	<b>(88)</b>
Hastings Borough Council	(247)	<b>(250)</b>
(Surplus) / Deficit	<u>(1,693)</u>	<u><b>(1,728)</b></u>
 Total of Council Tax	<u>(1,693)</u>	<u><b>(1,728)</b></u>

## COLLECTION FUND INCOME & EXPENDITURE ACCOUNT (Cont)

	Hastings Borough Council	East Sussex County Council	Sussex Police Authority	East Sussex Fire Authority
<b>Apportionment of balances:</b>				
<b>1: Council Tax</b>				
Arrears	865,996	4,336,008	518,272	306,142
Impairment Allowance for doubtful debts	(780,238)	(3,906,620)	(466,948)	(275,826)
Overpayments	(120,737)	(604,530)	(72,258)	(42,683)
Prepayments	(97,856)	(489,959)	(58,564)	(34,593)
(Surplus)/deficit	(250,026)	(1,242,259)	(148,442)	(87,737)
Collection Fund Adjustment Account	(250,026)			
<b>(Owed to)/Owed From Preceptors</b>		<b>(1,907,360)</b>	<b>(227,940)</b>	<b>(134,697)</b>
	Hastings Borough Council	East Sussex County Council	Governmen t	East Sussex Fire Authority
<b>2: Non-Domestic Rates</b>				
Arrears	489,126	110,054	611,408	12,228
Impairment Allowance for doubtful debts	(293,073)	(65,941)	(670,341)	(7,327)
Impairment allowance for appeals	(580,466)	(135,929)	(421,832)	(9,437)
Overpayments	(106,034)	(23,858)	(132,542)	(2,651)
Prepayments	(104,311)	(23,469)	(130,389)	(2,608)
(Surplus)/deficit	348,268	22,685	435,584	3,632
Collection Fund Adjustment Account	(348,268)			
		<b>(116,458)</b>	<b>(308,112)</b>	<b>(6,163)</b>

# 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.

## **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.

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**Agenda Item No:**

**Report to:** Audit Committee

**Date of Meeting:** 25 September 2014

**Report Title:** BDO Annual Governance Report 2013/14

**Report By:** Peter Grace  
Head of Finance

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## **Purpose of Report**

To consider the matters raised by the Council's external auditors (BDO) in respect of their Governance Report . This includes the audit opinion of the Council's 2013/14 accounts, and their value for money assessment of the Council.

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## **Recommendation(s)**

- 1. That the audit report and action plan be noted.**

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## **Reasons for Recommendations**

The Council's external auditors are required to submit a report to the Council's Audit Committee on any matters that are identified during their audit.

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## Audit and Inspection

1. The report provides details of matters arising from the audit carried by the external auditors, who are expected to give an unqualified opinion on the Council's accounts.
2. The attached report summarises the principal matters arising from the audit carried out by BDO along with other areas that they are required to give an opinion on. The issues raised have been discussed with the Chief Finance Officer and other appropriate Officers. Auditing standards require the external auditors to report to those charged with governance certain matters before giving an opinion on the accounts.
3. In addition the auditors give their opinion on the Use of Resources (Value for Money) that the Council provides in the provision of its services.

4. Financial and Risk Management Implications:

The action plan addresses the issues raised in the Governance report; these have no material implications for the Council.

5. The BDO Manager, Stuart Frith is expected to attend the Committee and present the report.

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### Wards Affected

None

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### Area(s) Affected

None

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### Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No

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## Background Information

Appendix A: Final report to the Audit Committee - Audit for the year ended 31 March 2014

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## Officer to Contact

Peter Grace  
pgrace@hastings.gov.uk  
Telephone: 01424 451503

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# HASTINGS BOROUGH COUNCIL

FINAL REPORT TO THE AUDIT COMMITTEE

Audit for the year ended 31 March 2014

September 2014

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# OVERVIEW

## Significant audit findings

This summary covers the significant findings from our audit of Hastings Borough Council ('Council') for the year ended 31 March 2014. However, you should read the entirety of this report, as there may be other matters raised that you consider important. We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

AREA OF AUDIT	SUMMARY
Financial statements	<p>We have substantially completed our work, although there are a number of outstanding items to be received and/or completed at the time of drafting this report. Further detail on the status of our work is set out on the following page. Our final audit materiality is £1,652,000 (see appendix III) and we have reported all non-trivial unadjusted audit differences greater than £33,000.</p> <p><b>Material disclosure amendment</b></p> <p>The Council did not fully follow the Cipfa Code of Practice when disclosing for the tariff payment of £5 million made to the Government from the total amount of Non-Domestic Rates collected in the year. The amount was excluded from gross expenditure and gross income (both were understated) in the Comprehensive income and Expenditure Statement (CIES). Net expenditure was not affected. The amendment did not affect the surplus on provision of services or the deficit on the collection fund reported. Related disclosure notes were amended.</p> <p><b>Unadjusted misstatement</b></p> <p>There are two unadjusted audit differences identified by our audit work which would increase the draft surplus on the provision of services in the CIES by £39,000 to £1.533 million (from £1.494 million):</p> <ul style="list-style-type: none"><li>• The Council continues to overstate depreciation because it does not apply depreciation to fixed asset components. The amount involved as at 31 March 2014 is not material. The effect on the financial statements is to overstate the net cost of services as at 31 March 2014 by £39,000, the accumulated impact including the difference we reported in prior years means the value of Property, Plant and Equipment on the balance sheet as at 31 March 2014 is understated by £123,000.</li><li>• The valuation of assets held at Depreciated Replacement Cost as at 31 March 2013 (prior year) had not been valued by the external valuer in line with the Code Requirements. The impact is to understate the value of assets by £405,000. As a consequence, the balance at 31 March 2014 is also understated.</li></ul> <p>Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2014.</p>
Control environment	We did not identify any significant deficiencies in internal controls during the course of our audit.
Governance reporting	We are satisfied that the annual governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).
Whole of Government Accounts (WGA)	The Council's WGA is below the threshold for full assurance review. However, we are required to review the consistency of property, plant and equipment and pension balances included in the WGA data collection tool with those recognised in the statement of accounts. This work is currently in progress.
Use of resources	We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014. We anticipate issuing an unqualified value for money conclusion.

# OVERVIEW

## Audit status and timetable to completion

We set out below the current status of the audit and our timetable to completion.

### AUDIT STATUS

We have substantially completed our audit work in respect of the financial statements and use of resources for the year ended 31 March 2014. The following matters are outstanding at the date of this report.

We will update you on their current status at the Audit Committee.

- Confirmation the final amendments required have been made within the financial statements, including:
  - Revisions to the Pensions scheme disclosures (note 28)
  - Revisions to the financial instruments disclosures (note 32)
  - Amendments to the related party disclosures (note 34)
- Clearance of outstanding queries arising from the audit, in particular work on the Council's year end Debtors
- Final review of our audit work at engagement partner level, and clearance of any review points arising
- Subsequent events review
- Management representation letter, as attached in Appendix VI, to be approved and signed.
- Completion of our review of the WGA submission

### TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

ACTIVITY	DATE
Audit Committee meeting	25 September 2014
Signing of financial statements	30 September 2014
Submission of WGA assurance report	3 October 2014

# INDEPENDENCE

## Integrity, objectivity and independence and appropriate safeguards

Under Audit Commission Standing Guidance and Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to bear on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that audit engagement partners are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the audit engagement partner and the audit staff. We have considered such matters in the context of our audit for the year ended 31 March 2014.

FEES AND NON AUDIT SERVICES		OTHER RELATIONSHIPS	LONG ASSOCIATION THREATS
A summary of fees for audit and non-audit services for the period from 1 April 2013 to date is set out below:		We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council.	The Audit Commission’s Standing Guidance requires that the audit engagement partner should not act for more than five years and the audit manager for 10 years.
	£		
Audit fees	60,990		<b>Key audit staff</b> <span style="float: right;"><b>Years involved</b></span>
Certification fees	(1) 11,792		<hr/>
<b>TOTAL FEES</b>	<b>72,782</b>		<hr/>
(1) Work remains on going on the housing benefit subsidy return and the fee shown above is current scale fee.			<hr/>

Key audit staff	Years involved
Robert Grant - Audit engagement partner (1)	7
Stuart Frith - Audit Manager	4

(1) The Audit Commission approved the extension of Robert Grant’s appointment to seven years.

### INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

We have not identified any potential threats to our independence as auditors.

# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

The audit scope is determined by the Audit Commission's Code of Audit Practice for local government (2010), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. This requires that we form an opinion on whether:

**1** The financial statements give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended.

**2** The financial statements have been prepared properly in accordance with statutory requirements and proper practices have been observed in their compilation.

**3** The financial statements have been prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.

**4** The information given in the statement of accounts and explanatory foreword is consistent with the financial statements.

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**5** The annual governance statement is not inconsistent with our knowledge and complies with relevant guidance.

**6** The Whole of Government Accounts return is consistent with the audited financial statements and that it is properly prepared.

**7** The audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

# FINANCIAL STATEMENTS

## Key audit and accounting matters

### SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2013/14 Audit Plan issued in February 2014. We have since undertaken a more detailed assessment of risk following our review of the draft financial statements, and we have <not included any additional significant risks / new risks identified>.

We report below our findings of the work designed to address these significant risks, our review of significant accounting estimates and management judgements, and any other relevant audit and accounting issues arising.

**Key:** ■ Significant risk/issue    ■ Significant accounting estimates and management judgements    ■ Other relevant audit and accounting

### SIGNIFICANT AUDIT RISK AREAS

RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION
<b>MANAGEMENT OVERRIDE OF CONTROLS</b> Page 19	<p>ISA (UK&amp;I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>	<p>We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for evidence of possible bias.</p>	<p>As highlighted below, journals processed in the year were not always supported by full documentation. However, no issues arose from our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. Our work on accounting estimates has not identified any evidence of bias.</p>
<b>REVENUE RECOGNITION</b>	<p>Auditing standards presume that there are risks of fraud and error in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the Council stated accounting policies or from an inappropriate use of estimates in calculating revenue.</p>	<p>We substantively tested a sample of income streams to supporting documentation to confirm that income had been accurately recorded and earned in the year.</p> <p>We substantively tested an extended sample of receipts either side of the year end to ensure that income was complete and accounted for in the correct period.</p> <p>Audit procedures have been carried out to review an extensive sample of grants and other contributions to ensure that they have been recognised correctly in the financial statements or deferred where applicable.</p>	<p>No issues have been identified from our testing of income streams and year end transactions for the recognition of revenue in the relevant financial year.</p>

# FINANCIAL STATEMENTS

## Key audit and accounting matters (continued)

SIGNIFICANT AUDIT RISK AREAS				
RISK	RELATED CONTROLS / RESPONSE TO RISK	WORK PERFORMED	CONCLUSION	
<b>JOINT WASTE PARTNERSHIP TRANSACTIONS</b>  Page 120	As a participant Authority in the East Sussex Joint Waste Partnership, Hastings needs to ensure it has appropriately accounted for both its share of the cost of the new waste collection bins purchased by the lead Authority and any other assets identified for inclusion in the financial statements. The value of transactions is significant, and failure to account for these appropriately could result in a material misstatement in the financial statements.	We reviewed and discussed the proposed accounting treatment for transactions involving the Partnership against the requirements of the Code of Practice and ensure appropriate disclosures have been included within the financial statements.	We have confirmed that the Council has included appropriate information in respect of the new contract and associated transactions within the financial statements.	
SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS				
	WORK PERFORMED	CONCLUSION		
<b>PENSION LIABILITY</b>	<p>The Audit Commission has obtained an independent review of all local government pension scheme actuaries, which includes an assessment of their independence, objectivity and experience, and also the reasonableness of the assumptions used in the calculation of the scheme liabilities. We have reviewed this and checked that the assumptions used for the Council's scheme liabilities are within reasonable levels.</p> <p>We have also sought assurances from the auditor of the pension fund over the information on membership data and scheme assets provided to the actuary.</p>	<p>The net pension liability of the Council comprises its share of the market value of assets held in the East Sussex County Pension Fund, administered by East Sussex County Council, and the estimated future liability to pay pensions for its current, deferred and retired members of the pension scheme. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation.</p> <p>Management has agreed the assumptions made by the actuary to support the estimate and these are disclosed in the financial statements. We have requested written representations from the Council to confirm that the assumptions applied by the actuary are reasonable and consistent with its knowledge of the business of the Council.</p> <p>We are satisfied that the actuary is suitably independent of the Council, objective and experienced in undertaking this work. Our review of the assumptions applied in estimating the pension liability suggest that these are generally not significantly different from those being applied by the actuaries of other local authorities.</p> <p>We obtained a letter of assurance from the auditor of the pension fund regarding controls over the submission of data from the pension fund to the actuary.</p>		

# FINANCIAL STATEMENTS

## Key audit and accounting matters (continued)

SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS		
	WORK PERFORMED	CONCLUSION
<b>VALUATION OF LAND AND BUILDINGS</b> Page 121	<p>Year end audit procedures have included review of the property valuations the Council has requested in the year, and confirmation that appropriate amendments and disclosures on the movements have been made in the financial statements.</p> <p>The review has included consideration of the basis for the valuation and, in particular where the basis is the Depreciated Replacement Cost (DRC), whether the valuations obtained accord with the required 'Instant Build' basis as set out in the Code.</p>	<p><b>Depreciated replacement cost (DRC) valuations</b></p> <p>The Code specifies the use of an instant build approach for valuing specialised assets on a DRC basis and the CIPFA Property Handbook (2012) explains that this method means that finance costs relating to site acquisition and building construction should be excluded from the valuation. During the audit it was noted that prior year DRC valuations by the valuer were not carried out on an 'instant build' approach and therefore incorrectly included finance charges, although current year valuations were completed correctly.</p> <p>Revised valuations on an instant build approach were requested from the valuer for all assets revalued in 2012/13 and this indicated that the value of other land and building was understated by £405,000 at 31 March 2013. The total understatement of property, plant and equipment and associated reserves (revaluation reserve and capital adjustment account) of £405,000 at 31 March 2013 is not material and therefore no prior period adjustment is required to restate the 2012/13 comparatives in the current year financial statements.</p> <p>We have included the amount as an unadjusted error within Appendix II.</p>
	<p>The 2013/14 financial statements record, for the first time, the revised accounting and associated disclosure requirements in respect of the collection and use of National Non Domestic Rates (NNDR).</p> <p>We have reviewed the disclosures made within the Collection Fund for completeness, including assessment of the provision for the outcome of the ongoing and future appeals over the rateable values for individual properties.</p>	<p>The Council has included appropriate disclosure of the provision for NNDR appeals balance and associated provision in the Collection Fund.</p> <p>Review of the data supporting the calculation of the appeals provision, and review of information that has become available since the year end, has identified a significant appeal determined by the Valuation Office. The reduction in the rateable value is significant and utilises a significant amount of the provision calculated by management as at 31 March 2014.</p> <p>In order to ensure the remaining provision remains appropriate, based on the Council's assessment of the likely success of individual appeals, the Council has amended the financial statements to include a specific additional provision (£250,000) to reflect the impact of the successful appeal. The Chief Financial Officer concludes there are no other significant influences affecting the provision. We are satisfied the provision is materially correct.</p>

# FINANCIAL STATEMENTS

## Key audit and accounting matters (continued)

### OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

	WORK PERFORMED	CONCLUSION
<p>DEPRECIATION ON COMPONENT ASSETS</p> <p>Page 122</p>	<p>We have reviewed the Council's compliance with the Code in respect of the identification of significant components of material property, plant and equipment assets, and the subsequent assessment of an appropriate useful life and charging of relevant depreciation in accordance with the Council's policies.</p>	<p>We have previously reported the Council concluded that a number of properties fell within the Code's definition to be componentised and appropriate valuations were obtained. The Council has reviewed the amount of depreciation involved and has chosen not to charge services based on its componentisation policy because the value is immaterial.</p> <p>As a consequence, we have estimated the amount of depreciation charged to services for the Council's buildings in the 2013/14 financial year is overstated by £39,000. In previous years, we estimated the additional depreciation charge as £84,000. Depreciation on the Council's fixed assets is therefore overstated on the balance sheet as at 31 March 2014 by £123,000. The amount should be reversed through the Movement in Reserves Statement and there is no impact on the Council's useable reserves. We have included the amount as an estimation error at Appendix II.</p>
<p>IAS19 RESTATEMENT</p>	<p>We reviewed the financial statements for the current and prior year to ensure the new accounting requirements of IAS19 (Employee Benefits) were met.</p>	<p>We have reviewed the adjustments completed by the Council in response to the changed requirements and are satisfied that the appropriate amendments have been made to the financial statements.</p>
<p>COLLECTION FUND</p>	<p>Our testing of the collection fund identified that the Council had disclosed the business rate tariff payment made to the Government correctly as a cost in the Comprehensive Income and Expenditure Statement (CIES). The disclosure of income and expenditure on the face of the CIES was misstated by £5.016 million.</p>	<p>The Council amended the CIES and the associated disclosure notes to correct the £5.016 million overstatement. We are satisfied the financial statements are materially correct for this transaction.</p>

# FINANCIAL STATEMENTS

## Key audit and accounting matters (continued)

### OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES

	WORK PERFORMED	CONCLUSION
ACCOUNTS DISCLOSURES Page 123	<p>As part of our work on the financial statements we complete a detailed review of the accounts disclosures made, specifically considering whether the disclosures in the financial statements are in line with the code of practice and accounting standards.</p>	<p>As a result of this review, as well as discussions arising from the audit, we have identified a number of amendments and these have been reflected within the revised financial statements.</p> <ul style="list-style-type: none"><li>• Revision to the note setting out adjustments between accounting basis and funding basis (note 7) to ensure amounts were correctly disclosed</li><li>• Additional disclosure in respect of the Council's Compulsory Purchase of Hastings Pier (Note 12)</li><li>• Removal of a negative provision from the accounts (note 21)</li><li>• Adjustment of disclosures in respect of the transactions on the Collection Fund Adjustment Account (note 22)</li><li>• Inclusion of additional required disclosures on the charges made to the CIES, analysis of scheme plan assets and actuarial assumptions in respect of the Council's pension liabilities (note 28)</li><li>• Update to the disclosures of financial instruments to ensure consistency of items (note 33)</li><li>• Additional disclosures in respect of related party transactions to ensure completeness (note 34)</li><li>• Adjustment to the note detailing amounts reported for resource allocation decisions to agree to amounts within the CIES (note 38)</li></ul>

### FINANCIAL STATEMENTS OPINION

Subject to satisfactory completion of the outstanding work, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2014.

# CONTROL ENVIRONMENT

## Significant deficiencies and other observations

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you. We did not identify any significant deficiencies in internal controls as a result of our audit work.

As the purpose of the audit is for us to express an opinion on the financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control. We only restate weaknesses already reported by internal audit where we consider these to be significant deficiencies.

**Key:** ■ Significant deficiency in internal control      ■ Other deficiency in internal control      ■ Other observations

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
<b>Page 124</b> <b>PURCHASE ORDERS</b>	<p>As in 2012/13, testing of controls in relation to the purchase order system identified an instance where purchase orders were requisitioned and then authorised by the same individual. This occurred where the individual was temporarily acting up to a higher grade and was assigned enhanced authorisation privileges.</p> <p>Management confirmed the software supplier had not adequately addressed the weakness and that it was likely the instance identified by our sample was not isolated.</p> <p>Internal Audit carried out a review and obtained a report from the purchase order system confirming the number and value of transactions affected by the weakness in control. We reviewed Internal Audit's work and are satisfied the value of transactions involved is trivial. No evidence of fraud was found.</p>	<p>If purchase orders are placed and authorised by the same individual, the Council may incur unnecessary expenditure and the risk of fraud may increase.</p>	<p>The Council should ensure its stated procedures, to ensure all purchase orders are independently authorised, are consistently followed.</p>

# CONTROL ENVIRONMENT

## Significant deficiencies and other observations (continued)

AREA	OBSERVATION	IMPLICATION	RECOMMENDATION
JOURNAL PROCESSING	<p>Testing of the processes surrounding the preparation, processing and authorisation of journals identified the following issues:</p> <ul style="list-style-type: none"> <li>two instance where no supporting evidence was attached to a journal</li> <li>four instances where Agresso emails generated automatically to confirm authorisation were not available.</li> </ul>	<p>If the processing of journals is not supported by appropriate supporting evidence of the need and subsequent authorisation, the Council may make inappropriate entries within the financial statements.</p>	<p>The Council should ensure implements appropriate procedures to ensure journals are supported by appropriate evidence.</p>
HOUSING BENEFIT RECONCILIATION	<p>The quarterly reconciliation of the Housing Benefit payments made, as recorded within the benefits system, had not been reconciled to the general ledger throughout the year.</p>	<p>Failure to complete regular reconciliations may not enable the prompt identification and resolution of errors.</p>	<p>The Council should ensure it develops and implements updated procedures for the completion of Housing Benefit reconciliations.</p>

We made the observations reported to you above during the course of our normal audit work. Management responses to our recommendations are included in appendix IV.

# GOVERNANCE REPORTING

## Governance matters and quality of reporting

### FINANCIAL STATEMENTS PREPARATION

The draft financial statements, within the statement of accounts, were prepared and provided to us for audit on 30 June 2014.

As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit. Audit working papers were provided to us on the first day of the audit, and as necessary as work was undertaken on the audit.

### CONCLUSIONS AND AUDIT ISSUES

Although we received a copy of the financial statements in line with the Government's timetable, a number of amendments were made to these accounts in the days immediately after preparation and signature by the Chief Finance officer.

We have reviewed these amendments and note that they resulted in changes to the following figures within the core financial statements:

- Total comprehensive income (and expenditure) increased from £5.543 million to £5.477 million
- Total useable reserves increased from £19.865 million to £20.454 million
- Total Authority reserves increased from £64.472 million to £65.082 million

We are satisfied these amendments and associated changes to the supporting notes to the accounts are appropriate.

### ANNUAL GOVERNANCE STATEMENT

We are required to review the draft annual governance statement and to be satisfied that it is not inconsistent or misleading with other information we are aware of from our audit of the financial statements, the evidence provided in the Councils review of effectiveness and our knowledge of the Council.

### CONCLUSIONS AND AUDIT ISSUES

We are satisfied that the annual governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).

### STATEMENT OF ACCOUNTS

We are required to read all the financial and non-financial information in the explanatory foreword to the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.

### CONCLUSIONS AND AUDIT ISSUES

We are satisfied that the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

# WHOLE OF GOVERNMENT ACCOUNTS

## Consistency of the Data Collection Tool

### SCOPE OF THE REVIEW OF THE DATA COLLECTION TOOL

We are required to perform tests with regard to the WGA return prepared by the Council for use by the Department of Communities and Local Government for the consolidation of the local government accounts, and by HM Treasury at Whole of Government Accounts level.

This work requires checking the consistency of the WGA return with the audited financial statements, and reviewing the consistency of income and expenditure transactions and receivables and payable balances with other government bodies.

### CONCLUSION AND AUDIT ISSUES

The Council's WGA is below the threshold for full assurance review. However, we are required to review the consistency of property, plant and equipment and pension balances included in the WGA data collection tool with those recognised in the statement of accounts. This work is currently in progress.

### ASSURANCE STATEMENT

We are still completing our work.

# USE OF RESOURCES

## Scope of the review

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources (value for money).

### AUDIT COMMISSION SPECIFIED CRITERIA

Our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance to auditors.

This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience. The focus of the criteria is that the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The focus of the criteria is that the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We draw sources of assurance relating to their value for money responsibilities from:

- the Council's system of internal control as reported on in its annual governance statement
- the results of the work of the Commission, other inspectorates and review agencies
- any work mandated by the Commission
- any other locally determined risk-based value for money work that auditors consider necessary to discharge their responsibilities.

### FOCUS OF REVIEW

We have reviewed the Council's arrangements against risk indicators and key issues facing the sector including the Government's spending review, funding over the medium term, risks arising from welfare reform, and risks from the localisation of business rates.

In our audit plan we reported the follow significant risks to the Council:

- Identification of further efficiency savings to underpin delivery of the Council's Medium Term Financial Strategy.

We also review the Council's relative performance against the VfM Profile Tool and Financial Ratios Analysis Tool produced by the Audit Commission, issues arising from VfM Briefings provided by the Audit Commission, and the key assumptions in the Medium Term Financial Strategy.

# USE OF RESOURCES

## Financial resilience

The financial resilience criterion has three aspects: financial governance, financial planning and financial control.

### FINANCIAL RESILIENCE

Through the work of both the Cabinet and the Senior Management Team the Council continues to have strong leadership on financial matters, with stakeholders (including staff) being able to contribute to the development of financial plans.

The Council's annual budget preparation and medium term financial planning processes ensure Hastings' priority areas for service improvement and delivery are reflected in financial plans, and consider the known and forecast impact of resource changes in the short to medium term. The Council continued to manage its resources effectively throughout the year, with the level of expenditure on services being £2.418 million less than the revised budget amount.

The achievement of efficiency plans and the receipt of transitional funding from the Government in prior years enabled the Council to increase the level of earmarked reserves by £3.223 million to £19.045 million as at 31 March 2014. The General Fund balance continues to be maintained at the benchmark level of £500,000. The Council keeps the level of all reserves under review as part of the medium term planning process to ensure a balanced financial position is maintained and to underpin achievement of the published priorities for Hastings.

The Council continues to consider the scope for the further savings required in the light of the known financial settlements and its assessment of the anticipated future funding reductions. The financial position is balanced in the period to 31 March 2015, and includes the planned use of £0.822 million of its earmarked reserves (in line with the Council's approach for the gradual use of transitional funding). However, significant resource gaps of £5.172 million have been identified over the remaining two years covered by the MTFs (as approved by Cabinet in November 2013).

Cabinet continues to consider options for reshaping service delivery and action to be taken to address the shortfall, principally through the implementation of the financial planning and efficiency programme. However, pressure will be placed on the Council's general and earmarked reserves and there remains little room for manoeuvre should any demand-led expenditure pressures arise during the financial year.

### AUDIT ISSUES AND IMPACT ON CONCLUSION

Significant resource gaps have been identified over the 2015/16 to 2016/17 period (£5.2 million), resulting in further pressure being placed on the Council's general and earmarked reserves. Ensuring financial balance over the medium term planning horizon will continue to require strong action by the Council.

# USE OF RESOURCES

## Challenging economy, efficiency and effectiveness

The economy, efficiency and effectiveness criterion has two aspects: prioritising resources and improving efficiency and productivity.

### CHALLENGING ECONOMY EFFICIENCY AND EFFECTIVENESS

### AUDIT ISSUES AND IMPACT ON CONCLUSION

The Council continues to have an effective programme of value for money service reviews (the 'PIER' methodology) which aims to review costs and service plans, while considering the impact of financial decisions on the Council's priorities. The process continues enables the integration of the service and financial planning approach and provides evidence the Council considers the impact of its expenditure plans on future service performance.

No areas of concern

The 'PIER' process continues to identify changes to the provision of services across Hastings, with further major changes to initial customer contact arrangements for service users being developed and due to be implemented in 2014/15. The rationalisation of office accommodation and the letting of spare capacity within the Council Offices, and the development of more flexible working arrangements for staff to facilitate these opportunities continued throughout the year. Reduced costs secured from the delivery of PIER review outcomes and the planned reductions in expenditure, are reflected in financial budgets and the MTFP. The delivery against operational service plans, including the planned efficiency savings, are monitored through regular reports to Cabinet and Scrutiny Committees.

The Council is continuing to review the way it works with partners and other local authorities to ensure a more strategic approach to service delivery. The Joint Waste Management Partnership with three other Councils in East Sussex has secured a joint waste collection service involving a joint procurement to maximise savings available to all authorities involved. Contracts are commencing in line with the agreed timetable at each local authority and in Hastings, the new service arrangements commenced in July 2013.

The Council continues to work with partners to achieve economic regeneration and development in the St Leonards area. The Council is now working towards a regeneration project (known as 'Coastal Space') with a local Housing Association over the medium to longer term. The partnership is assisting the Council in working towards its priorities for improving access to affordable housing and the economic regeneration of the area.

#### *Performance towards corporate priorities*

The Council has continued to report positive performance against the majority of corporate plan areas in 2013/14 with the majority of targets (67) being delivered and the associated performance measures being met or exceeded. Where performance has not met expectations, the Council investigates the reasons and takes the corrective action necessary to improve performance. As at 31 March 2014, the Council Plan targets and performance indicators shown overleaf were not fully achieved at the year-end:

CORPORATE PLAN TARGET	2013/14 'RAG' RATING	PERFORMANCE
Ensuring all local businesses where the Council is the enforcement agency for food hygiene and health and safety enforcement, meet hygiene and health and safety requirements for staff and customers	Amber	86% of the programmed food hygiene inspections were completed Percentage of broadly compliant premises is 93% (slight improvement on prior year - backlog of inspections due to be cleared).
Work with partners to bring forward viable plans for the future development and maintenance of the former Millennium Community sites at Ore Valley.,	Amber	Hastings & Bexhill Renaissance Limited Board approval has been granted to market Phase 4 of the Ore Valley site and suitable agents are being appointed.
Complete the Townscape Heritage Initiative for the conservation and repair of specific buildings in the Central St. Leonards Renewal Area	Amber	Anticipated that all outstanding grant works will complete towards the end of 2014
Provide a comprehensive communications service for the Council (internal and external)	Amber	Visits increased by 1.9%
Web visits and page views increased by 10% year on year, increase number of twitter followers by 50%		'Hits' increased by 4%
Consolidate all operational staff into Aquila House	Amber	Most operational staff were relocated

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PERFORMANCE INDICATOR		
Improved street and environmental cleanliness (levels of litter)	Not Met	Actual = 7% Target = 4%
Number of private sector dwellings (units) brought in line with the current statutory standard,	Not Met	Actual = 134 Target = 200
% major residential & commercial planning applications determined within 13 weeks or as agreed with the applicant within the set periods or as agreed with the applicant	Not Met	Actual = 67.6% Target = 70%
% minor residential & commercial planning applications determined within 8 weeks or as agreed with the applicant	Not Met	Actual = 80.3% Target = 85%
Net number of new homes built	Not Met	Actual = 133 Target = 200

## USE OF RESOURCES CONCLUSION

We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014. We anticipate issuing an unqualified value for money conclusion.

# APPENDICES

# APPENDIX I: DEFINITIONS

TERM	MEANING
<b>The Council</b>	Hastings Borough Council
<b>Management</b>	<p>The person(s) responsible for achieving the objectives of the Council and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for:</p> <ul style="list-style-type: none"> <li>the financial statements (including designing, implementing, and maintaining effective internal control over financial reporting)</li> <li>putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them.</li> </ul>
<b>Those charged with governance</b>	<p>The person(s) with responsibility for assurance and the Council’s arrangements for governance, managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance. This includes overseeing the financial reporting process.</p> <p>Those charged with governance for the Council are the Audit Committee.</p>
<b>ISAs (UK &amp; Ireland)</b>	International Standards on Auditing (UK & Ireland)
<b>IAS</b>	International Accounting Standards
<b>IFRS</b>	International Financial Reporting Standards as adopted by the European Union
<b>Materiality</b>	The size or nature of a misstatement that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable user of the financial statements would have been changed or influenced as a result of the misstatement.
<b>Code</b>	Code of Practice on Local Authority Accounting in the United Kingdom issued by CIPFA / LASAAC
<b>SeRCOP</b>	Service Reporting Code of Practice for Local Authorities issued by CIPFA / LASAAC
<b>CIES</b>	Comprehensive Income and Expenditure Statement

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IAS

## APPENDIX II: AUDIT DIFFERENCES

We are required to bring to your attention audit differences identified during the audit, except for those that are clearly trivial, that the Audit Committee is required to consider. This includes: audit differences that have been corrected by management; and those that remain uncorrected along with the effect that they have individually, or in aggregate, on the opinion in the auditor's report.

### CORRECTED AUDIT DIFFERENCES

There were no differences that have been corrected in the revised draft financial statements that affect the reported surplus for the year. However, a number of amendments to classifications have been made, as detailed in the 'Key Audit and Accounting Matters' section of this report.

### UNADJUSTED AUDIT DIFFERENCES

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There are two unadjusted audit differences identified by our audit work which would increase the draft surplus on the provision of services in the CIES by £39,000 to £1.533 million (from £1.494 million):

- The Council continues to overstate depreciation based on its decision not apply depreciation to fixed asset components. The amount involved as at 31 March 2014 is not material. The effect on the financial statements is to overstate the net cost of services as at 31 March 2014 by £39,000, the accumulated impact including the difference we reported in prior years means the value of Property, Plant and Equipment on the balance sheet as at 31 March 2014 is understated by £123,000.
- The valuation of assets held at Depreciated Replacement Cost as at 31 March 2013 (prior year) had not been valued by the external valuer in line with the Code Requirements. The impact is to understate the value of assets by £405,000. As a consequence, the balance at 31 March 2014 is also understated.

A schedule of uncorrected audit differences is included on the following pages, with misstatements recorded as factual misstatements, judgemental / estimation misstatements, or projected misstatements. We request that you correct these misstatements. Deliberate misstatement of known issues is not acceptable and identified misstatements should, where practicable, be corrected even if not material.

Management has stated that it considers these identified misstatements to be immaterial in the context of the financial statements taken as a whole.

We have also separately reported the impact of brought forward prior year uncorrected misstatements and their impact on the current year performance. These amounts remain misstatements with regard to reporting in year financial performance, but are not misstatements at the year end and cannot be corrected as these relate to previous years. Overall, the impact of prior year misstatements on current year performance have no impact on the reported underlying surplus for the current year.

## APPENDIX II: AUDIT DIFFERENCES

### Unadjusted audit differences

UNADJUSTED AUDIT DIFFERENCES	£'000	INCOME AND EXPENDITURE		BALANCE SHEET	
		Dr £'000	(Cr) £'000	Dr £'000	(Cr) £'000
CIES (surplus) or deficit on the provision of services before adjustments	5,657				
Dr PPE				84	
Cr Capital Adjustment Account					(84)
<i>Impact of the prior year error - Estimated depreciation in respect of non componentised material assets</i>					
Dr PPE				39	
Cr CIES - Net cost of services	(39)		(39)		
<i>Estimated depreciation in respect of non componentised material assets.</i>					
Dr PPE				405	
Cr Revaluation reserve					(405)
<i>Impact of adjustment to prior year asset valuations to ensure completed on 'Instant Build' basis in line with the requirements of the code.</i>					
<b>TOTAL UNADJUSTED AUDIT DIFFERENCES</b>	<b>(3)9</b>	-	(39)	528	(489)
CIES (surplus) or deficit on the provision of services after adjustments	5,618				

#### UNADJUSTED DISCLOSURE MATTERS

There are no unadjusted disclosure matters.

## APPENDIX III: MATERIALITY

In carrying out our work we determine and apply a level of materiality. Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole, or individual elements of the financial statements as appropriate. Consequently, the audit cannot be relied upon to identify all risks or potential or actual misstatements. Materiality may relate to both quantitative and qualitative matters, and for quantitative considerations the numerical level materiality is assessed at may be different for different information in the financial statements. Nevertheless, within this context, we provide an indication of the quantitative levels used for planning purposes. Materiality is re-assessed every year in the context of authoritative audit practice.

### MATERIALITY

Planning materiality	£1,652,000
Final materiality	£1,652,000
Nearly trivial threshold	£33,000

Planning materiality of £1,652,000 was based on 2% of gross expenditure, using forecast outturn from <insert>.

We have no reason to revise our final materiality level.

# APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
<b>CONTROL ENVIRONMENT</b>				
<b>Purchase Order Authorisation</b>				
<p>As in 2012/13, testing of controls in relation to the purchase order system identified an instance where a purchase order was requisitioned and authorised by the same individual. This occurred where the individual was temporarily acting up to a higher grade and was assigned enhanced authorisation privileges.</p>	<p>The Council should ensure its stated procedures, to ensure all purchase orders are separately requisitioned and authorised, are consistently followed.</p>			
<b>Journal processing</b>				
<p>Testing of the processes surrounding the preparation, processing and authorisation of journals identified the following issues:</p> <ul style="list-style-type: none"> <li>two instance where no supporting evidence was attached to a journal</li> <li>four instances where Agresso emails generated automatically to confirm authorisation were not available.</li> </ul>	<p>The Council should ensure it implements appropriate procedures to ensure journals are supported by appropriate documentation.</p>			
<b>Benefit reconciliations</b>				
<p>The quarterly reconciliation of the Housing Benefit payments made, as recorded within the benefits system, had not been reconciled to the details recorded within the general ledger throughout the year.</p>	<p>The Council should ensure it implements procedures for the completion of Housing Benefit reconciliations.</p>			

CONCLUSIONS FROM WORK	RECOMMENDATIONS	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
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**USE OF RESOURCES**

**Financial Resilience**

Significant resource gaps have been identified over the 2015/16 to 2016/17 period (£5.2 million), resulting in further pressure being placed on the Council's general and earmarked reserves..

The Council needs should continue to take the necessary steps to ensure financial balance in the medium term.

## APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

COMMUNICATION REQUIRED	HOW ADDRESSED
Accounting practices, accounting policies, estimates and judgements and financial statement disclosures (ISA 260)	Financial statements section of this report
Significant difficulties encountered during the audit (ISA 260)	No issues
Significant matters discussed or subject to correspondence with management (ISA 260)	No issues
The final draft of the representation letter (ISA 260)	Appendix VI
Independence (ISA 260)	Independence section of this report
Fraud and illegal acts (ISA 240)	No issues
Non compliance with laws and regulations (ISA 250)	No issues
Significant deficiencies in internal control (ISA 265)	Control environment section of this report
Misstatements, whether or not corrected by the entity (ISA 450)	Appendix II
Significant matters in connection with related parties (ISA 550)	No issues
Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570)	No issues
Expected modifications to our audit report or inclusions of emphasis of matter / other matter (ISA 705 / 706)	No issues
Material inconsistencies with other information in documents containing audited financial information (ISA 720)	No issues
Objections from the public or exercise of statutory powers under the Audit Commission Act 1998	No issues

# APPENDIX VI: DRAFT REPRESENTATION LETTER

TO TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP  
55 Baker Street  
London  
W1U 7EU

XX September 2014

Dear Sirs

## Financial statements of Hastings Borough Council for the year ended 31 March 2014

We confirm that the following representations given to you in connection with your audit of the Council's financial statements (the 'financial statements') for the year ended 31 March 2014 are made to the best of our knowledge and belief, and after having made appropriate enquiries of other officers and members of the Council.

The Chief Finance Officer has fulfilled his responsibilities for the preparation and presentation of the financial statements as set out in the Accounts and Audit Regulations 2011 and Statement of responsibilities of auditors and of audited bodies local government (March 2010) issued by the Audit Commission, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2014 and of its income and expenditure and cash flows for the year then ended in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and for making accurate representations to you.

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2011, to make arrangements for the proper administration of the Council's financial affairs, to conduct a review at least once in a year of the effectiveness of the system of internal control and approve the annual governance statement, to approve the Statement of Accounts (which include the financial statements), and for making accurate representations to you.

We have provided you with unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence. In addition, all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and other meetings have been made available to you.

In relation to those laws and regulations which provide the legal framework within which the Council's business is conducted and which are central to our ability to conduct our business, we have disclosed to you all instances of possible non-compliance of which we are aware and all actual or contingent consequences arising from such instances of non-compliance.

There have been no events since the balance sheet date which either require changes to be made to the figures included in the financial statements or to be disclosed by way of a note. Should any material events of this type occur, we will advise you accordingly.

We are responsible for adopting sound accounting policies, designing, implementing and maintaining internal control, to, among other things, help assure the preparation of the financial statements in conformity with generally accepted accounting principles and preventing and detecting fraud and error.

We attach a schedule showing accounting adjustments that you have proposed, which we acknowledge that you request we correct, together with the reasons why we have not recorded these proposed adjustments in the financial statements. In our opinion, the effects of not recording such identified financial statement misstatements are, both individually and in the aggregate, immaterial to the financial statements.

We have disclosed to you the identity of all related parties and all the related party relationships and transactions of which we are aware. We have appropriately accounted for and disclosed such relationships and transactions in accordance with the applicable financial reporting framework.

We have no plans or intentions that may materially affect the carrying value and where relevant, the fair value measurement, or classification of assets or liabilities reflected in the financial statements.

We confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable. In particular:

Pension fund assumptions - We confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with my knowledge of the business:

Rate of inflation	2.8%
Rate of increase in salaries	4.6%
Rate of increase in pensions	2.8%
Rate for discounting scheme liabilities	4.3%
Take up option to convert the annual pension	50%

Carrying value of land and buildings - We are satisfied that the carrying value of land and buildings is materially consistent with the fair value at 31 March 2014, and that no adjustment is required either to those assets that were revalued in previous years.

Fair value measurements and disclosures - We confirm that the significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable. Specifically, the judgements in assessing the fair value of the outstanding loans are reasonable and in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Effect of componentisation - We confirm that we have reviewed the possible impact of componentisation on the annual depreciation charge and do not consider the additional depreciation charge from completing to be materially different. We have therefore decided not apply componentisation principles to the relevant assets in the accounts.

We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.

After making appropriate enquiries of other members of the Council and other officers regarding disclosure of information to you as auditors, we confirm that so far as we are aware, there is no relevant audit information needed by you in connection with preparing your audit report of which you are unaware.

We confirm that the financial statements are free of material misstatements, including omissions.

Yours faithfully

Peter Grace  
Chief Finance Officer >

[date]

Councillor M Beaver  
Chair of the Audit Committee

Signed on behalf of the Audit Committee

[date]

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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**Agenda Item No:**

**Report to:** Audit Committee

**Date of Meeting:** 25 September 2014

**Report Title:** Transfer of Housing Benefit Investigations to the Department for Work and Pensions Single Fraud Investigations Service (SFIS)

**Report By:** Peter Grace  
Head of Finance

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**Purpose of Report**

To inform the committee of the actions planned following the transfer of Hastings BC Investigators to SFIS.

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**Recommendation(s)**

- 1. That the report be accepted.**

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**Reasons for Recommendations**

The Chancellor of the Exchequer announced in his autumn statement on 5 December 2013 the formation of a single fraud investigation service, covering the totality of welfare benefit fraud. The announcement confirmed that SFIS will be launched in the Department for Work and Pensions (DWP) as a single organisation and Hastings BC has been given a transfer date of 1 November 2014.

The arrangements and capacity to prevent and detect fraud against council monies is a significant governance aspect.

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## Introduction

1. The responsibility for investigating Housing Benefit fraud is to transfer from local authorities to SFIS in entirety by 31 March 2016. Hastings Borough Council is to transfer over on 1 November 2014.
2. The purpose of SFIS will be to investigate Universal Credit fraud when it is introduced. Universal Credit is a new single monthly payment for people in or out of work, which merges together some of the benefits and tax credits that are paid now. Universal Credit will replace:  
  
Income-based Jobseeker's Allowance  
Income-related Employment and Support Allowance  
Income Support  
Child Tax Credit  
Working Tax Credit  
Housing Benefit
3. Notably, SFIS have made it clear that Council Tax Reduction fraud is not in their remit.

## Risk Management

4. The Council has divided the risks associated with the transfer into 2 sets. The first set of risks relate to the change management programme of transferring the Investigation staff across together with work in progress. The risk management action plan relating to these risks is given at appendix A. The other set of risks relate to the council after the transfer has taken place. These are given at appendix B.
5. The key issues facing the Council once the Investigators have transferred are:
  - (1) Dealing with a significant volume of enquiries - needing to protect the Council's reputation especially in the absence of guaranteed or sustainable funding.
  - (2) Preventing, detecting and deterring Council Tax Reduction fraud.

## Change Management Programme involving the transfer from Hastings BC of staff and work in progress across to SFIS

6. All Investigations staff have been consulted. A case migration workshop has been held to set out the procedure for a safe and secure transfer of work in progress across to SFIS and a Service Provision meeting to agree a protocol between the council and SFIS post 1 November 2014 is arranged for 30 September 2014.
7. The transfer is being conducted in line with Cabinet Office Statement of Practice (COSoP) guidelines. This is the legal platform to enable the transfer by way of a Legislative Transfer Scheme as provided for by Section 38 of the Employment Relations Act 1999. Section 38 provides the Secretary of State with legislative

power (through regulations laid in Parliament) to transfer employees in scope via a Statutory Staff Transfer Scheme.

8. Whilst under COSoP, Transfer of Undertakings Protection of Employment (Tupe) does not apply, DWP have agreed that the transfer nationally will be "tupe-like".
9. The contractual terms for the Investigations staff transferring are as good as they are currently on.
10. Whilst there is still to be a discussion on Service Provision, the preparations of getting files in good order to transfer across and the staff transfer arrangements are progressing well and no significant problems are anticipated.

## **Risks to the Council after the Investigators have transferred to SFIS on 1 November 2014**

### **Current situation for Hastings BC with responsibility for investigating Housing Benefit Fraud**

11. Hastings Borough Council Investigators investigate Housing and Council Tax Benefit Fraud. In 2013/14 the service:

Handled about 500 telephone calls and emails from the public reporting fraud to their local authorities

Carried out around 500 risk assessments following these referrals

Looked at 3,070 National Fraud Initiative matches

Investigated 334 fraud cases

Responded to about 400 enquiries from other agencies

Assisted the Police with about 1,000 investigations

Applied 24 sanctions for Rother DC and 22 sanctions for Hastings BC

12. In Hastings BC alone, 22 cases of Council Tax Benefit fraud were detected with a combined value of £21,002. The lowest value of Council Tax element identified for recovery was £62 and the highest amount was £9,767. The majority of other fraud payments were around £300.
13. This is a considerably lower figure than was identified as Housing Benefit fraud and whilst it was generally speaking, a by-product from the investigation of Housing Benefit fraud, it would take a similar level of effort to investigate it as for 22 Housing Benefit fraud cases if it were to be investigated separately. This is to say that there would have to be 22 Interviews under caution arranged, 22 enquiries with employers to ascertain salary paid and hours worked etc.

## **Anticipated situation for Hastings BC with responsibility for investigating Council Tax Reduction Fraud only**

14. The anticipated workload left for Hastings BC to discharge without the Housing Benefit and Council Tax Benefit Investigations team is as follows:

Around 350 telephone calls and emails from the public

About 1,700 National Fraud Initiative matches every 2 years

About 100 enquiries from other agencies including the DWP

Around 600 enquiries from the Police

About 20 cases of Council Tax Reduction Fraud to be dealt with

### **Specific Risks to Hastings BC post 1 November 2014**

15. The workload identified in paragraph 14 is a considerable amount of work for absorption by existing council services.
16. The Council does not have anyone who is sufficiently qualified to carry out Police and Criminal Evidence (PACE) compliant taped interviews for Interviews Under Caution or that is Criminal Procedures Investigation Act (CPIA) (1996) compliant. This would be essential if the Council wants to issue formal cautions or administrative penalties or exceptionally, prosecute for Council Tax Reduction fraud.

### **Risk Mitigation solution choices available**

17. Hastings BC was named in a bid across all East Sussex councils for monies from the Department for Communities and Local Government (DCLG) who have set aside £16.7m nationally to combat fraud. If this bid is successful, we would gain access to a shared resource but not shared resources to undertake investigations or liaison work with DWP or the Police. The expertise to investigate to CPIA standard would be there but the governance arrangements are not known and it is likely we would have to contribute for cases we ask to be investigated.
18. A second bid (Capacity Grid) has been submitted by a consortium of 13 councils including Hastings BC for funding that will enable systems for better intelligence data. If this bid is successful, it would inform us of investigations worth undertaking.
19. Retain an Investigator. This would cost £33,609 in salary alone. This is difficult to justify against a level of Council Tax Reduction fraud of around 22 cases worth £21,000 p.a. although the Investigator could greatly assist with dealing with the National Fraud Initiative matches.

20. Investigate buying in the service from Rother DC. Rother DC are retaining a Fraud Assistant. However, the Fraud Assistant is not qualified and therefore unable to do PACE interviews or has Authorised Officer Powers, for example, to obtain bank statements and so this doesn't provide a complete solution. Discussions with Rother have commenced to identify an enhanced solution.
21. Arrange for a member of the Council Tax team to be trained up sufficiently to conduct investigations into Council Tax Reduction abuse. This would be likely to take around 12 months to achieve and impact upon that individual's workload.
22. Absorb the residual workload and deal with any Council Tax Reduction as "Compliance". This is similar to the way we deal with Single Person Discount overpayments. The money is recovered but the person doesn't face any further action or formal sanction.
23. Whilst SFIS have made it clear that Council Tax Reduction fraud is the responsibility of the local authority to investigate because it is not a welfare benefit, it is believed that they are re-considering their position on this. It is probable that SFIS will provide local authorities with good referrals for suspected Council Tax Reduction fraud. An option is to wait for this and then implement it alongside the strategy described in paragraph 22 as the main source of reliable referrals.

## Economic/Financial Implications

24. Despite the transfer taking place part way through the 2014/15 financial year, there has been no reduction to the Housing Benefit Administration Grant. There will be a budget saving of about £26k in Investigators' salaries for 2014/15.
25. The Housing Benefit Grant will be substantially reduced in future years. The percentage reduction is still being decided by the DWP, LGA and DCLG.
26. The DWP will provide some 'New Burdens' funding to offset some of the cost of appointing a single point of contact for queries. The amount has yet to be announced although it is expected to be small.
27. The DWP is considering passing back any Administration Penalties as a result of SFIS investigations into Housing Benefit Fraud. This is of the order of £5k per annum.
28. In summary, the estimated additional costs are as follows:

	14/15 (£000's)	15/16 (£000's)	16/17 (£000's)	17/18 (£000's)
Fraud team savings	(43)	(104)	(104)	(104)
Less recharge to Rother DC	17	42	42	42
Estimated Grant loss	0	66	83	83
<b>Net cost/(saving)</b>	<b>(26)</b>	<b>4</b>	<b>21</b>	<b>21</b>

29. There is likely to be an additional cost of dealing with the remaining workload that won't be fully covered by the 'New Burdens' funding.

## Recommended Solutions

30. Hastings BC has a zero tolerance approach to all attempted fraud against it.

31. The recommended solutions as part of a revised Benefit Fraud Strategy are:

- (i) Review resources once the outcome of the 2 bids is known.
- (ii) Continue discussions with Rother DC, clarify resource requirements, and identify which aspects of the residual workload can be absorbed internally.

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## Wards Affected

None

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## Area(s) Affected

None

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## Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	No

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## Background Information

Appendix A - Risk Register (prior to transfer)  
Appendix B - Risk Register (post transfer)

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## Officer to Contact

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**OPERATIONAL RISK REGISTER**  
September 2014

## Corporate Resources Directorate

Service: **AUDIT, INVESTIGATIONS AND PROCUREMENT**

	Service	Potential Risk	Risk Rating (Likelihood / Impact)	Potential Impact	Responsibility for controls	Steps to mitigate risk, time frame for implementation and latest position
1	Investigations	Risk of poor transitional arrangements in the lead up period to the transfer of Hastings BC Investigations staff to the Department for Work & Pensions Single Fraud Investigation Service (DWP SFIS) on 1 November 2014	Medium / Low	<ul style="list-style-type: none"> <li>- Reputation undermined</li> <li>- Low staff morale of those directly affected</li> <li>- 'Tupe-like' employment issues</li> <li>- Slippage</li> <li>- Untested process as HBC is in the first wave to transfer</li> <li>- Insufficient time</li> <li>- Not in control of the process</li> </ul>	- Chief Auditor	<ul style="list-style-type: none"> <li>- Local closure plan in place and progress being monitored</li> <li>- Open communication</li> <li>- POD leading on all personnel tasks</li> <li>- Keeping abreast of all developments and sharing information with other councils</li> <li>- Meetings with DWP</li> <li>- Frequent meetings with directly affected staff</li> </ul>

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OPERATIONAL RISK REGISTER  
September 2014

Corporate Resources Directorate

Service: **AUDIT, INVESTIGATIONS AND PROCUREMENT**

	Service	Potential Risk	Risk Rating (Likelihood / Impact)	Potential Impact	Responsibility for controls	Steps to mitigate risk, time frame for implementation and latest position
1	Investigations	Reduced capacity to deal with Council Tax fraud <i>after</i> the transfer of Hastings BC Investigators to DWP SFIS on 1 November 2014	Medium/Medium	<ul style="list-style-type: none"> <li>- Reputation undermined</li> <li>- Loss of administration grant (fraud element)</li> <li>- Increased workload for Housing Benefits staff</li> <li>- Call handling for fraud reporting enquiries</li> <li>- Work-in-progress</li> <li>- Council Tax Reduction fraud loss</li> <li>- Council Tax Reduction Investigation</li> <li>- No qualified and approved investigators in HBC</li> <li>- Not in control of the process</li> </ul>	- Chief Auditor	<ul style="list-style-type: none"> <li>- Communications plan (including keeping members informed)</li> <li>- Meetings with DWP especially on all financial issues</li> <li>- Fact gathering so that strategy can be Refined</li> <li>- Continue discussions with Rother DC, clarify resource requirements and identify which aspects of the residual workload can be absorbed internally</li> </ul>

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**Agenda Item No:**

**Report to:** Audit Committee

**Date of Meeting:** 25 September 2014

**Report Title:** Chief Auditor's Summary & Audit Risk Report

**Report By:** Tom Davies  
Chief Auditor

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## **Purpose of Report**

To inform the Audit Committee of the recent audit findings of the Housing Benefit Grant Subsidy and Disabled Facility Grant audits.

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## **Recommendation(s)**

- 1. That the Audit Committee accepts the report**

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## **Reasons for Recommendations**

To monitor levels of control within the organisation.

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## Audit Committee 25 September 2014

### Housing Benefit Grant Subsidy summary report

Local authorities responsible for managing housing benefit and council tax schemes are able to claim subsidies towards the cost of housing benefit from central government. The final value of the subsidy to be claimed by the Council for the financial year is submitted to central government on form MPF720A which is subject to external audit certification.

As shown in the published audit plan, internal audit performs the audit work of the grant under close supervision of external audit. Certification is to be completed before 31 October each year unless there are extenuating circumstances.

The value of the housing benefit subsidy claimed for 2013/2014 was £53,581,564.

The audit of the Housing Benefit Subsidy Grant is divided into three sections, Non HRA, Rent Allowances and Rent Allowances (Modified). The Department for Work and Pensions provide a blank workbook for each of these sections, which has to be completed in detail for each sample.

Both the Non HRA and the Rent Allowances require an initial sample of 20 cases to be tested and the Rent Allowances (Modified) requires only 5 cases as there are less of these type of cases in the whole population. If any of the cases fail the testing a further 40 cases are required to be re-tested (40+ testing). The 40+ testing is only carried out on the element that caused the failure.

External audit requested 40+ testing following initial testing in each of the 3 sections.

The work is complete except for 3 minor queries that are with a housing association to reply to us.

External audit have been closely involved with the work this year and are satisfied with the work performed. They will issue a formal report that will be presented at the next Audit Committee meeting in January 2015.

~~~~~end~~~~~

**Disabled Facilities Grant summary report**

**Introduction**

A Disabled Facilities Grant (DFG) is a means tested grant designed to help meet the costs of adaptations to a property for a disabled occupant. In summary, in order to qualify for a DFG:

- The required adaptations need to be necessary and appropriate (as determined by Adult Social Care Services) to meet the needs of the disabled person; and
- It must be reasonable and practicable (determined by the housing department) for the relevant works to be carried out.

The maximum mandatory award for a DFG is £30,000. Any works exceeding this limit are funded by other organisations, for example, East Sussex County Council or the applicants themselves. As this grant is means tested, some people may have to pay a contribution towards the required work themselves.

Categories of adaptation that qualify are detailed in the Housing Grants, Construction and Regeneration Act 1996 as being work which must be considered for grant assistance.

During the period 01/04/13 – 31/03/14, 74 DFG claims were closed valued at £388,722.

A brief review was carried out over the processes and procedures as per the published audit plan.

**Audit Conclusion**

Overall Audit Assessment: A – Good.

Controls are in place and are working effectively. There are no significant audit concerns. There are no recommendations made.

**Key Findings**

- 1) The DFG system is administered effectively and efficiently.
- 2) There is a high degree of segregation of duties from referral, approval to proceed, contractor appointment, payment and file closure.

**Management Response**

Agreed.

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**Wards Affected**

None

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**Area(s) Affected**

None

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**Policy Implications**

Please identify if this report contains any implications for the following:

|                                       |     |
|---------------------------------------|-----|
| Equalities and Community Cohesiveness | No  |
| Crime and Fear of Crime (Section 17)  | No  |
| Risk Management                       | Yes |
| Environmental Issues                  | No  |
| Economic/Financial Implications       | No  |
| Human Rights Act                      | No  |
| Organisational Consequences           | No  |
| Local People's Views                  | No  |

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**Background Information**

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**Officer to Contact**

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