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Audit Committee Agenda

Tuesday, 31 July 2018 at 6.00 pm

Council Chamber, Muriel Matters House, Breeds Place, Hastings, TN34 3UY.
Please enter the building via the Tourist Information Centre entrance.

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AUDIT COMMITTEE

23 APRIL 2018

Present: Councillors Rankin (Chair), Sinden (Vice-Chair), Charman and Chowney

17. APOLOGIES FOR ABSENCE

Absence was noted for Councillor Davies.

18. DECLARATIONS OF INTEREST

None.

19. MINUTES OF THE MEETING HELD ON 6 FEBRUARY 2018

RESOLVED – (unanimously) that the minutes of the meeting held on 31 March 2018 be approved and signed by the Chair as a true record.

20. EXTERNAL AUDIT PLAN - AUDIT FOR THE YEAR ENDED 31 MARCH 2018

The Assistant Director, Financial Services and Revenues, presented the BDO audit plan for the audit of the Council's accounts and Value for Money arrangements. The report from BDO highlighted the risk based approach to the audit and the main risks they have identified. It also showed the proposed audit fees.

The Assistant Director, Financial Services and Revenues, introduced Leigh Lloyd-Thomas, BDO Partner, to advise on the plan for the remainder of the year for closing the accounts.

Mr Lloyd-Thomas explained the Audit Plan addressed the following areas; scope, materiality, areas of risk, group accounts and sustainable finances.

In July BDO will report on the key findings and judgements for signing the Annual Accounts.

Councillor Rankin asked what size the Hastings Housing Company needs to be to require group accounts? Mr Lloyd –Thomas explained the criteria that needed to be taken into account and that the threshold in the case of Hastings Borough Council is £1.8million. The Assistant Director, Financial Services and Revenues added that the assets Hastings Borough Council Housing Company were under £800,000 compared to the £1.8millon.

Councillor Sinden asked who the 'Use of Resources' judgement was compared to. Mr Lloyd-Thomas said the comparison was against other Districts. He said that BDO bench mark figures very carefully and that Hastings Borough Council comes out as a higher spending council per person due to legitimate reason eg deprivation.

RESOLVED (unanimously) to accept the External Auditor's Audit Plan.

The reason for the decision was: The Audit Committee, as required by the Constitution, receives and notes the External Auditor's Audit Plan on behalf of the Council.

21. PROPOSED INTERNAL AUDIT PLAN 2018/19

The Chief Auditor submitted his report to the Committee to consider the proposed internal audit plan for 2018/19.

The Chief Auditor said his report sought approval to proceed and went on to give a brief outline of the plan. He said that the plan was designed to discharge the core audits as soon as practical and that the remainder of it was taken up by topical audits with built in flexibility for emerging risks. There was an outline of each audit in the pages behind the calendarised schedule which also included the reason for each audit. He highlighted that the Section 106 audit was there because of the financial materiality and change in key personnel and that the audit of the General Data Protection Regulations (GDPR) was included because of the inherent financial risk and potential damage to reputation.

Councillor Charman said that Members were aware Section 106 monies being due to the Council but could not be sure what it was being spent on and that it would be useful if it was more transparent. The Chief Auditor said the intention of this audit had originally been to provide the committee with just an assurance of effectiveness of the controls over accuracy. He pointed out that it was a complex area but would broaden the scope to include transparency.

Councillor Chowney welcomed the audit of S106 administration. He said it was an area where the public think money disappears. He also welcomed the audit of GDPR arrangements and pointed out that there were complexities that made it difficult for Members to adhere to the regulations. He asked for the GDPR audit to cover both the Council and Members.

Mr Lloyd-Thomas asked if Councillors maintain private email accounts as well as HBC email accounts? He went on to say that there was differing legal advice within the Authorities, for example, some Members are advised to keep emails within the confines of their Authority account and others told they can use their private account.

Councillor Charman explained that anything related to your role as a Councillor should be contained within the Council's systems. This way is easier for Members, the data is

managed and it is within the Council's policies. The main issues are that you cannot use your HBC Councillor email address on leaflets during purdah. Any emails received have to be forwarded to your Councillor email to deal with. During purdah it is confusing and clarification by an audit would be welcome.

Councillor Charman referred to the GDPR audit and explained that the only time she emails to her personal account is when it is necessary print. She recommended Audit attend the GDPR training for Members in order to observe what issues they have been having. She suggested asking Members to complete a questionnaire to see if there are more action points, might be a good way forward

The Assistant Director, Financial Services and Revenues advised that new tablets were on the way to replace the current iPad devices.

Councillor Rankin said the Council should produce a Policy document to keep Members safe. The Assistant Director, Financial Services and Revenues advised that he would check with the Head of Information Technology, if this is in the pipeline. He referred to the cost of fines up to either - 4% of turnover which would equate to around £3.6million for the Council.

Councillor Rankin asked if the new iPads will have keyboards? Councillor Chowney said having tested the device that the tablet will have a keyboard. As a window device it is easy to use and no heavier than the iPad. He said he was impressed with it and could even log into Outlook Webmail.

Councillor Sinden asked if creditors were going up or down. The Chief Auditor said the value of payments made to creditors was going down. He said that he had done some spend analysis a few years ago and the spend was reducing. He said that the Procurement Spend audit would include the up to date position on the amount of transactions and expenditure trends in the Audit Committee summary report.

Councillor Chowney queried the relevance of Petty Cash audit and asked why it was needed when many use contactless cards. He also questioned the meaning of 'Cash and Bank'. The Chief Auditor said Petty Cash re-imbursements were limited to only £15 and is only held in a few places, for example, the general office, bike hut and Crematorium. He said, however, that it gives him a good indication of whether the £15 limit is being adhered to as well as what type of items are going through it. There have been problems before and so it needs to be done every few years. Clearly the materiality is low and so we will not be spending long on it.

The Chief Auditor said that the 'Cash and Bank' audit is one of the top 3 largest core audits that we do. It covers bank statements, mandates etc. but the main area is to do with the suspense account and very complex bank reconciliations.

Councillor Rankin asked if it is the general suspense income which can't be allocated. The Assistant Director, Financial Services and Revenues advised that money is received in a variety of forms, for example, cheque, credit card payments, direct debit, council tax, grants etc. When money comes in it needs to be given the right code. Also, there is a need to check the right VAT markers quickly or potentially lose 20%.

With regard to the general suspense account, many payments for bills are received without any account reference on them or on occasions, not even what the payment is for so we have people clearing the general suspense account by investigating these payments and coding them correctly. It is necessary that income is correctly coded for external audit sign-off.

RESOLVED (unanimously) that the Audit Committee approves the Internal Audit Plan 2018/19.

The reason for the decision was: To ensure that proper financial management arrangements and controls are in place and operating effectively in the Council.

Audit Committee approval of the Internal Audit plan provides clear authority for Internal Audit to discharge the assignments listed therein and enable monitoring of the efficiency and effectiveness of Internal Audit.

22. NOTIFICATION OF ANY ADDITIONAL URGENT ITEMS (IF ANY)

None.

(The Chair declared the meeting closed at. 6.34 pm)

Agenda Item 4

Report to: **Audit Committee**

Date of Meeting: **31 July 2018**

Report Title: **Final Accounts 2017/18**

Report By: **Peter Grace**

Assistant Director – Financial Services and Revenues
(Chief Finance and Section 151 Officer)

Purpose of Report

The Audit Committee are asked to approve the Statement of Accounts (2017-18) on behalf of the Council in accordance with the Accounts & Audit Regulations 2015.

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 2015.

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.

Introduction

1. The Accounts & Audit Regulations 2015 require the Council to approve the Statement of Accounts by the 31st July 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:

   - Comprehensive Income and Expenditure Statement
   - Movement in Reserves
   - 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 in the attached Appendix.

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 unusuable 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".

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 deficit for the year of £581,000 in respect of Council Tax. In respect of Non Domestic Rates there was an in year surplus on the fund of £363,000. The overall position for the year was a deficit amounting to £218,000. There was a surplus of £1,739,000 carried forward from the previous year which when combined with the surplus for 2017/18 leaves an overall surplus on the fund of £1,521,000. Hastings Borough Council's share is a surplus of £358,000 in respect of Council Tax Collection and a deficit of £312,000 in respect of Non Domestic Rates.

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 in respect of Direct Service Expenditure was £13.6 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 6.

Reserves

14. Reserves total £18.0m as at 31 March 2018 as detailed in Note 12. This includes £0.6m of grant from the Hastings and Rother Clinical Commissioning Group and £0.9m of Disabled Facilities Grant that was received in 2017/18 and prior years but not yet spent.

15. The Medium Term Financial Strategy identified the need for any underspend to be used as an opportunity to strengthen reserves, and given the estimated budget reductions required in 2018/19 and beyond there remains a strong case for doing so. The Medium Term Financial Strategy will be reviewed in the August and will include a further review of reserves in the light of future government funding and expenditure pressures.

16. It should be noted that a provision of £245,000 has been made in respect of the remaining outstanding claims for compensation and costs as a result of the closure of the Pier on safety grounds. There has also been a significant claim in respect of rate relief for NHS hospital Trusts – which has not been accepted by the Council.

Pensions

17. 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.

18. There has been an improvement in the balance sheet position since last year. This is principally because financial assumptions at 31 March 2018 are slightly more favorable than they were at 31 March 2017. This has the effect of decreasing liabilities. The overall effect is that the pension fund has moved from a deficit of £40.9 million to a deficit of £40.4 million.

19. 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 2017) and Council contribution rates are determined at that time for a three year period.

Financial Strategy

20. Over the next two financial years, 2018/19 and 2019/20, budget deficits have been identified amounting to £1,039,000 and £1,036,000 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, generate more income, 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.

Wards Affected

None

Implications

Relevant project tools applied? Yes/No

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
Anti-Poverty	No

Additional Information

Appendix A – Financial Statements 2017-18

Officer to Contact

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FINANCIAL REPORT AND STATEMENT OF ACCOUNTS

2017-18

Hastings Borough Council

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Published by :-

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NARRATIVE REPORT

The Statement of Accounts for Hastings Borough Council for the year ended 31st March 2018 has been prepared in accordance with the Accounts and Audit Regulations 2015 and the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ("the Code") issued by the Chartered Institute of Public Finance and Accountancy. The Code is based on International Financial Reporting Standards, as adapted for the UK public sector under the oversight of the Financial Reporting Advisory Body.

The Council's accounts for the year of 2017-18 are set out on pages 37 to 90. The information contained in these accounts can be technical and complex to follow. This narrative report provides a brief explanation of the financial aspects of the Council's activities and draws attention to the main characteristics of the Council's financial position and performance for the year and opportunities and risks for the years ahead. The narrative report is broken down into the following areas:

1. Introduction to Hastings
2. Governance
3. Strategy, Risk and Resource Allocation
4. Performance Review
5. Explanation of the Financial Statements
6. Further Information

1. Introduction to Hastings

Hastings is a beautiful and vibrant coastal cosmopolitan town that is steeped in rich history and culture. With a coastline of 7.5 miles that is overlooked by the remains of William the Conqueror's first English castle and is home to the largest beach launched fishing fleet in Europe, Hastings has become a much loved coastal destination for thousands of tourists and a sought after place to live.

In addition to the blue flag beach and recently rebuilt award winning pier the 92,000 residents of Hastings enjoy a large country park, award winning galleries, museums and theatres that regularly host events through the year.

Hastings is also home to many festivals and events such as the Seafood and Wine Festival and Jack in the Green to name a couple.

In order to ensure that Hastings continues to be an wonderful place to live and work the Council set out its objectives and measures its performance against those objectives, continually striving to improve.

GENERAL INFORMATION

PHYSICAL FEATURES

- Hastings covers an area of **3,079 hectares**
- The Council owns land amounting to approximately **1,000 hectares**
- The length of the coastline is **12 kilometres/7.5 miles**

POPULATION

The Town's estimated population taken from the 2016 Mid-year Population Estimate produced by the Office for National Statistics was 92,236 and is broken down as follows:

	Age group				
Total	0-15	16-29	30-44	45-64	65 and over
92,236	17,262	15,347	16,446	25,329	17,852

The registered electorate in 2017-18 was 64,451

COUNCIL TAX & BUSINESS RATING INFORMATION

Rateable value of business premises at 31 March 2018	£62,806,889
Net Borough Council Revenue Expenditure (excluding capital charges)	£14,860,485
Council Tax Base	25,095
Council Tax at Band D - includes all preceptors	£1,807.00

EMPLOYEES

The average number of persons (FTE's) employed by the Council during the period was:-

	NUMBER OF EMPLOYEES	
	2016-17	2017-18
Full time	260	254
Part time (full time equivalents)	51	50
Total	311	304

The direct cost of employment during the year was :-

	2016-17 £'000	2017-18 £'000
Wages and Salaries	8,956	8,964
National Insurance	847	848
Pension Contributions	1,659	1,448
Total	**11,462**	**11,260**

2. Governance

Hastings Borough Council sits within the East Sussex County Council administrative area. The Council has 32 elected Councillors, also referred to as Members, and is split into 16 Wards with each Ward electing two Councillors. Councillors are not paid a salary for their work, but they do receive allowances. By law, all members of the Council are required to complete a declaration of interest form, the details of which are published annually. The council operates a Cabinet system of governance.

Full Council
All 32 Councillors meet together as Full Council and are responsible for the adoption of the corporate plan, budget and deciding the council's overall policies. Full Council meetings are chaired by the Mayor, who is appointed each year at Annual Council. At the Annual Council meeting, Cabinet members are appointed to their portfolios, the composition of committees for the coming year is agreed and the programme for the year is adopted.

Full Council meets on average around seven times a year. All Council meetings are usually held in the Council Chamber, Muriel Matters House and are generally open for the public to attend.

Cabinet
The Cabinet is currently made up of 8 members, 6 from the Labour group and 2 from the Conservative group. Each Cabinet member from the majority group has a portfolio of responsibilities related to council services. Cabinet is the main decision-making committee of the council. It also makes recommendations to Full Council on the adoption of the budget and other key documents and policies, including the Corporate Plan and Treasury Management Strategy.

Cabinet meets every month and is chaired by the Leader of the Council. The forward plan lists the decisions Cabinet will be taking over the next four months.

Charity Committee
Hastings Borough Council is the sole trustee of the Foreshore Trust. The Trust owns a stretch of land on the seafront at Hastings and St Leonards. In order to minimise and manage any potential conflicts of interest between the council and the charity, decision-making powers for the Foreshore Trust have been delegated to the Charity Committee, which is a Cabinet committee.

The Charity Committee is made up of three members of the council's Cabinet. The Charity Commission appointed a Protector who acts as an independent watchdog over the Trust. Members of the Charity Committee take advice on the management of the Foreshore Trust's land from the Coastal Users Group. An independent Grant Advisory Panel was also set up to advise the Charity Committee on the allocation of grants from the Foreshore Trust's surplus.

The Charity Committee meets every three months.

Appointments committee
Council Appointments Committee is responsible for appointing elected members to represent the council on a variety of statutory bodies, charities and voluntary organisations operating in the town. Council Appointments Committee meets once a year. Extra meetings may be held at other times, if required.

Overview and Scrutiny Committee
Overview and Scrutiny Committee monitors' performance against the targets set out in the council's corporate plan. The committee also identifies potential areas for improvement and explores options to develop council services. Members also undertake reviews which look at issues of local importance. Overview and Scrutiny Committee meet every three months.

Audit Committee
The Audit Committee monitors the council's arrangements for financial governance and stewardship, risk management and audit. The committee also receives advice and reports from the council's external auditors. The Audit Committee produces an annual report to Full Council on the effectiveness of council's internal audit system. The committee has key responsibility for the oversight of the Treasury Management Strategy and approve the council's annual financial statement of accounts. The Audit Committee meets four times a year.

Environment and Safety Committee
The Environment and Safety Committee undertakes the council's functions in respect of Hackney carriage and private hire licenses. It also deals with sexual establishments.

Environment and Safety Committee meetings are not usually open for the public to attend because the committee often needs to consider detailed personal information about an applicant when making their decision. However the minutes of the meeting can be viewed online.

Licensing Committee
The Licensing Committee undertakes the council's functions under the Licensing Act 2003 and gambling legislation.

The Licensing Committee usually delegates its responsibilities to a smaller sub-committee of members, who consider and make decisions on individual applications. The committee meetings are usually held in the Council Chamber at Muriel Matters House and are usually open for the public to attend. Paper copies of the agenda for Licensing Committee meetings are available on request from Democratic Services

Planning Committee
Planning Committee is responsible for deciding applications for planning permission, listed building consent and conservation area consent. The council has produced a Planning Protocol, which sets out how it will deal with planning matters and this is included in part 5 of the Council's Constitution.

Planning Committee meets every month. The meetings are usually held in the Council Chamber, Muriel Matters House and are open for the public to attend.

Standards Committee
Standards Committee promotes and maintains high standards of behaviour by ensuring all elected members comply with the council's code of conduct. A copy of the code of conduct from members can be found in part 5 of the Council's Constitution.

If a complaint is received about a member of Hastings Borough Council the committee may have to assess and investigate the case on advice from the Monitoring Officer. Full Standards Committee meetings are normally open for the public to attend, depending on the sensitivity of the complaint

Employment Committee
The Employment Committee is responsible for the appointment and dismissal of Chief Officers of the council. In some cases, the committee may also asses and investigate a complaint against a chief officer of the council, acting on advice from the Monitoring Officer.

Museums Committee
The Museums Committee is responsible for overseeing the council's museum service and the maintenance of its collection. The committee reviews new donations as they are received and considers proposals for how the service could be developed in the future.

The committee has fourteen members, which includes eight councillors and six members of the museums association.

Hastings and St Leonards Local Strategic Partnership
The Hastings and St Leonards Local Strategic Partnership brings together representatives from the local statutory, voluntary, community and private sectors to address key local issues, discuss strategies and initiatives and shared learning. They aim to encourage joint working and prevent 'silo working' (i.e. different agencies that share aims working in isolation). Involvement of the community is a key aspect of local strategic partnerships.

The Hastings and St Leonards Local Strategic Partnership meets four times a year. The meetings are usually held in the Council Chamber, Muriel Matters House, Hastings and are generally open for the public to attend.

East Sussex Joint Waste Committee
The Joint Waste Committee is made up of elected Member representatives from the Cabinets of each of the following authorities: Eastbourne Borough Council; East Sussex County Council; Hastings Borough Council; Rother District Council and Wealden District Council.

These authorities established the Joint Waste Committee with the intention of facilitating the authorities in working together to improve the quality and effectiveness of the discharge of their waste collection functions under the relevant provisions of the Environmental Protection Act 1990.

The Joint Waste Committee also facilitates the authorities to work in partnership with East Sussex County Council as the Waste Disposal Authority to maximise integration opportunities.

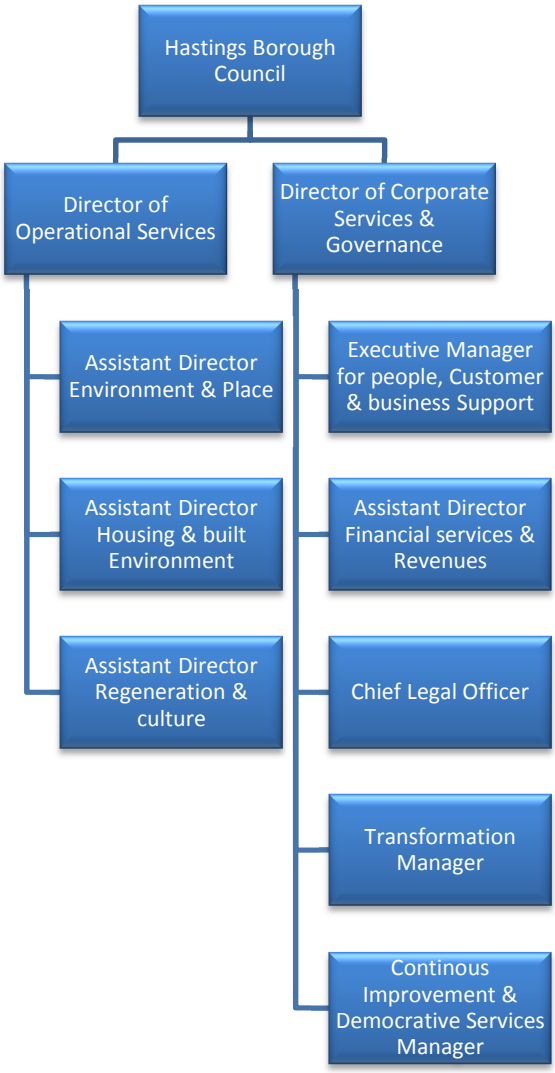
Hastings Housing Company Ltd
During the year the Council established a wholly owned Housing Company limited by share - Hastings Housing Company Ltd. The company has been designed to initially acquire, develop and deliver housing for both market rent, and to provide sub market housing, with the potential to undertake development in the future.

A key objective of the Housing Company is: To acquire existing or newly built property with a view to letting these to local people at market or submarket rents.

The company is in its early stages having only purchased its first property in February 2018. Due to the immaterial nature of the transaction in 2017/18 Group Accounts will not be required however as the company grows and acquires more property the Council will become subject to producing Group Accounts going forward.

Hastings and St Leonards Foreshore Charitable Trust
Hastings and St Leonards Foreshore Charitable Trust is a charity registered at the Charity Commission under number 1105649 and is known locally as the Foreshore Trust. The foreshore is the area of the beach between high and low water which generally belongs to the Crown. In Hasting's case this area of land has been purchased off the Crown. The purpose of the trust is to hold the land for the 'common use, benefit and enjoyment of Her Majesty's subjects and the public generally for ever'. Hastings Borough Council is the trustee of the charity for all purposes and bound by charity law in the same way as any other charity trustee. When making decisions relating to or affecting the Charity, it must act in its best interests. The council administer the affairs of the Foreshore Trust but the two separate entities are ring-fenced and costs incurred by the Council in relation to the foreshore are recharged to the trust. The Foreshore Trust produces its own Statement of Accounts and is not within the Group boundary.

Management Structure of the Council
The council is unusual in the fact that it has no Chief Executive. The council is split into two directorates with each one having a Director and a number of Assistant Directors covering the various service areas. The high level structure is shown below:



3. Strategy, Risk and Resource Allocation

Corporate Plan
The Corporate Plan sets out Hastings Borough Council's strategic direction and priorities. It includes our targets and some of the activities that will be undertaken to implement our priorities. The plan reflects local and national issues and is developed with local people and our partners.

The Council's strategic priorities were reviewed for 2017/18 in the light of the continuing challenges that the Council and the community face. They may be reviewed for 2018/19 in the light of these continuing challenges. They are:-

(a) **Economic & physical regeneration**: To secure economic & physical regeneration that produces high quality new developments while preserving the best of our heritage, high standards of education and training, road & rail improvements and high-speed broadband, thereby creating economic growth and rewarding jobs, particularly in tourism, creative industries, and high-tech manufacturing & research.

(b) **Cultural regeneration**: To contribute to the regeneration of the borough through a rich cultural programme that appeals both to local people and visitors, extending, broadening and promoting the borough's cultural activities to establish Hastings as a nationally and internationally recognised centre for arts and culture.

(c) **Intervention where it's needed**: To make full use of our available powers and sanctions to tackle anti-social behaviour or practices, including poor housing, eyesore properties, unauthorised development, derelict land, fly-tipping and dog fouling.

(d) **Creating decent homes**: To facilitate the supply of secure, affordable and well-designed homes, through strategic planning policies, planning conditions, regulation of the private rented sector, tackling and eliminating bad landlords, and by working with social housing providers.

(e) **An attractive town**: To maintain visually interesting, well-maintained, uncluttered, clean and functional urban public spaces, especially along the seafront and in our town centres, integrated with high quality protected green spaces accessible to all.

(f) **A greener town**: To promote practices that minimise our carbon footprint through our policies and our own operations, protect and enhance biodiversity, and limit damaging consequences of human intervention on the natural environment.

(g) **Transforming the way we work**: To maximise the benefits provided by new technology, to take opportunities for smarter 'One Team' working and continue our drive to be more Customer First focused and efficient in the design and delivery of services.

The Council's corporate plan continues to remain ambitious when set against the background of reductions in annual grant settlements. The Council has a very good track record of achieving its objectives and improving performance, and will look to enhance income streams to continue to provide high quality services. It continues to be well placed to deliver the programme in 2018/19. Significantly reduced resources will however inevitably impact on service delivery in the years ahead.

Customer First Strategy
On the 4th July 2016 the Council adopted the Customer First Strategy for the period 2016-18.

The strategy sets out the Council's intention to put customers at the heart of service delivery. Customer First means:

- Meeting the needs of our customers
- Being accessible
- Improving customer experience
- Providing value.

Medium Term Financial Strategy (MTFS)
Local government as a whole has faced more severe reductions than other parts of the public sector and has needed to provide strong discipline and management to put itself in a position to best address these challenges. The MTFS is a key document in setting out the Council's approach to establishing a financial base to enable the Council's policies and priorities to be delivered.

Good financial management requires councils to properly plan for the future in order to match longer term ambitions and plans with anticipated resources. At present there are a number of key areas of financial uncertainty which cause problems when seeking to accurately forecast available resources for the years ahead. The MTFS seeks to identify these uncertainties, and where possible make an informed view of the likely resource implications. Where there is no clarity as yet, generally, a prudent approach is adopted.

The Council manages its finances by matching Council priorities to funding across the medium term; The MTFS identifies the risks that the Council faces in doing so. The annual budget cycle refines the process for the immediate year ahead and determines the most appropriate use of available resources as well as setting the Council Tax for the borough.

The government's deficit reduction programme continues to result in significant and ongoing reductions in funding for the Council. The period over which these reductions will last continues to have far reaching effects for the levels of service that the Council can continue to provide. The Council continues to find itself in a very challenging financial period that is anticipated to extend for at least 4 more years. The Council opted to accept the government's four year settlement offer. This provides a degree of certainty for at least a part of the Council's funding stream until 2019/20 – albeit there are still very significant year on year reductions. The 4 year settlement provides for the Revenue Support Grant to reduce from £2.038m in 2017/18 to £1.542m in 2018/19 and £988,000 in 2019/20.

The Council has consistently maintained a healthy reserves position and benefits from financial stability. This is demonstrated in the Council's effective monitoring of financial performance and maintaining a balanced budget reflected in forward planning as outlined in the MTFS approved by Cabinet in November 2017.

Since 2013 the Government has provided additional incentives to increase funding and distribute reserves via the localisation of Business Rates and New Homes Bonus. These have been beneficial to the Council and are

important elements of its financial planning. The impacts of changes to New Homes Bonus and 100% Business Rates retention that were announced during 2016/17 have been taken into account when updating future financial forecasts. However, the Government's decision to call a general election in June 2017 meant that the Local Government Finance Bill, which included proposals for further business rates reform and localisation, has not completed its passage through Parliament as originally timetabled and it remains to be seen whether or not the Bill will be reintroduced, thereby creating new uncertainties when planning the council's MTFS.

The MTFS and Corporate Plan are regularly reviewed to ensure that the Council is well-placed to react to the new challenges it faces.

To support the MTFS objectives, the Council's main focus is to maximise income through income generation initiatives whilst ensuring that resources are managed effectively and efficiently.

The latest vision of the MTFS is shown below. The budget for 2018/19 has been balanced but further work is needed going in to the future to identify further savings and efficiencies to balance the budget for future years.

Ref	Revenue Budget Forward Plan	2017-18 Revised Budget £000's	2018-19 Budget £000's	2019-20 Projection £000's	2020-21 Projection £000's	2021-22 Projection £000's
1	**Net Service Expenditure**	**15,089**	**12,301**	**12,647**	**13,000**	**13,360**
2	**Funding Commitments:-**					
3	Pension Fund - Employers increase			54	54	54
4	Election Costs (bi-annually)			(90)		(90)
5	Waste and Street Cleaning Contract			225	300	300
6	**Savings/Additional Income Identified**					
7	PIER savings (Apx K budget book -net)			(888)	(1,190)	(1,099)
8	Fees and Charges			(60)	(120)	(180)
9	Contingency Provision	29	500	400	400	400
10	Interest (net of Fees) & other Adjustments	643	1,190	1,190	1,190	1,190
11	Minimum Revenue Provision (excl. Inc Gen Adj)	785	1,116	1,116	1,116	1,116
12	Contribution to Reserves	1,017	1,072	1,072	1,072	1,072
13	Net Use of Earmarked Reserves	(3,198)	(1,766)	(1,766)	(1,766)	(1,766)
14	**Net Council Expenditure**	**14,365**	**14,413**	**13,899**	**14,055**	**14,357**
15	Taxbase	25,095	25,582	25,710	25,838	25,968
16	Council Tax	250.33	257.81	262.97	268.23	273.60
	Funding					
17	From Collection Fund - Council Tax	(6,282)	(6,595)	(6,761)	(6,931)	(7,105)
18	From Collection Fund - Business Rates	(3,052)	(2,757)	(2,757)	(2,757)	(2,757)
19	Revenue Support Grant	(2,038)	(1,542)	(988)	(438)	0
20	New Homes Bonus	(1,009)	(650)	(630)	(348)	(442)
21	New Homes Bonus return funding	(9)	(9)	(9)	(9)	(9)
22	Council Tax Support Admin Grant	(178)	(167)	(154)	(144)	(134)
23	Housing Benefit Admin Grant	(460)	(421)	(389)	(360)	(333)
24	Transition Grant	(6)				
25	NNDR (Surplus) / Deficit	237	63			
26	NNDR Pooling		(58)	(58)	(58)	(58)
27	Business Rates Section 31 Grant	(901)	(1,114)	(1,117)	(1,117)	(1,117)
28	Council Tax Surplus	(232)	(126)	0	0	0
29	**Contribution To General Fund**	**(13,931)**	**(13,374)**	**(12,863)**	**(12,161)**	**(11,954)**
30	**Funding Shortfall / (Surplus)**	**434**	**1,039**	**1,036**	**1,894**	**2,402**
31	**Use of General Reserve**	0				
32	**Use of Transition Reserve**	(434)	(839)	(836)	(91)	
33	**Use of Resilience and Stability Reserve**					
34	**Use of Community Safety Reserve**		(100)	(100)	(100)	(50)
35	**Use of Economic Development Reserve**		(100)	(100)	(100)	(100)
36	**Net Funding Shortfall / (Surplus)**	**0**	**0**	**0**	**1,603**	**2,252**

The key assumptions within the MFTS above are:

Line 1 General Inflation has been assumed of 2% for 2018/19 and beyond – but only applied to contracts. Wage inflation: 2% assumed for 2018/19 and beyond plus ½% p.a. representing contractual increments.

Line 3	Pension fund cost increases – an additional £105,000 p.a. by 2019/20.
Line 4	Local elections – the costs are budgeted for in 2019/20 (these occur every two years).
Line 5	Waste and street cleaning contract increases
Line 7	Income and efficiency savings.
Line 8	Fees and charges – future increases.
Line 9	Contingency – unexpected cost increases.
Lines 11 to 13	Funding adjustments and re-profiling of expenditure against base budget
Line 15	Recalculation of the taxbase. Assumes a small increase each year, and no downturn in the economy or increases in the amounts paid out in respect of the Council Tax Support scheme.
Line 16	A Council Tax increase of £5 or 2.99% for 2018/19 and for each of the following 2 years has been included for the purposes of this Strategy.
Lines 17 to 28	Funding. The increased scope of Universal Credit in December 2016 for all new claims (for those of working age) leads to greater uncertainty on the future funding levels of the Housing Benefit Administration Grant. For budget planning purposes a decrease of some 10%p.a.has been assumed for each of the next 3 years.
Line 25	Deficit on the collection fund in respect of business rates due mainly to prior year appeals and reimbursements. This is the Council's share.
Line 26	Business rates pooling – with other East Sussex authorities including the Fire Authority.
Line 28	Surplus on the Collection Fund in respect of Council Tax collection, mainly due to good collection and reductions in Council Tax Support being paid. This is the Council's share.
Line 30	**Funding Gap: the predicted deficits in 2018/19, 2019/20, 2020/21, 2021/22**
Line 32	Transition Reserve – The Council will use the Transition Reserve to support the budget in future years.
Line 33	Resilience and Stability Reserve – The Council will use the fund to meet some of the detrimental impacts of the business rate appeals.
Line 34	Community Safety Reserve – established as part of the 2011/12 budget from Transition Grant (£350,000). The use of this reserve in 2018/19 is proposed in order to continue provision of services and activities in this area.
Line 35	Economic Development Reserve – established as part of the 2011/12 budget making process from Transition Grant (£400,000). The use of this reserve in 2018/19 is proposed in order to continue the provision of services and activities in this area.

Priority Income and Efficiency Reviews (PIER)
Due to the financial pressures the Council is under it has developed the PIER process to enable a detailed examination of service performance and priorities, cost pressures, and the scope for achieving efficiency savings and additional income.

The objectives of the process are as follows:-

- To provide services with an opportunity to submit proposals for the business plan. The proposals include all unavoidable growth and savings amounts.
- To allow service delivery proposals to be measured against the corporate plan objectives.
- To provide a mechanism for challenging service proposals in an informed, robust and constructive fashion.
- The revenue estimates and the capital programme are closely linked. As such service bids for capital funding are considered at the same stage.

In addition to the annual Strategic Budget (PIER) process the Council continues to have a programme of areas to review e.g. service reviews, and business reengineering process reviews in order that efficiencies continue to be achieved, monitored and potential new areas identified.

The scale of the budget savings required to balance the budget on a sustainable basis for years ahead is large. The time between the identification and the achievement of savings, as well as income generation, can be significant and the Council will need to be prepared to continue to use a proportion of its reserves to balance the budget and for future invest to save initiatives.

Income Generation
The Council has a number of key income streams besides Council Tax and Non domestic rates. These include for example car parking, rents from land and industrial estates and shopping centres, cemetery, cliff railways, planning, licensing, lettings and land charges.

Over the last 2 years initiatives which generate new income streams (and savings from purchasing Muriel Matters House) have secured some £1.6m additional income/savings per year.

Namely:

- Muriel Matters House – savings on rent and service charges £321,000 p.a. (2015/16 compared to 2017/18) plus office space rental, Council chamber rental.
- Muriel Matters Shops – Income £41,000 p.a.
- Town Hall – Various lettings/Service charge savings – £97,000 p.a.
- Retail Park - Sedlescombe Rd North - £460,000 p.a.
- BD Food Factory – £40,000 p.a.
- Seafront Kiosks - £8,000 p.a.
- Bexhill Road Retail Park- £543,000 p.a.
- Property Fund Investment - £80,000 p.a.

Against the £1.6m there have been additional ongoing borrowing costs in terms of interest and principal repayments (or provision made for them i.e. Minimum Revenue Provision). These are estimated at £1.185m in a full year leaving the net additional resources available to the Council as some £626,000 p.a.

The Cabinet approved the Income Generation Strategy on the 11th September 2017. This included Capital expenditure of £50m spread over a period of 3 years to be financed from borrowing.

Further income generating ideas are being considered including renewable energy generation from solar, wind and other alternatives. The council has an estate within which there are opportunities to reduce energy consumption and to generate and sell energy. There are existing powers for the Council to do this; for example: The Sale of Electricity by Local Authorities (England and Wales) Regulations 2010 (SI 2010/1910). The Council is therefore reviewing these opportunities with a view to investing if the criteria set out in the income generation strategy are met.

CCLA Local Authority Property Fund
CCLA manage investments for charities, religious organisations and the public sector. Due to the current low interest rates offered by banks and in a bid to achieve improved investment returns the council has invested £2,000,000 of its reserves in the CCLA Local Authority Property Fund. The objective of the fund is to provide investors with a high level of income and long-term capital appreciation. The fund is considered suitable for the long-term funds of any local authority seeking exposure to UK commercial property. An advisory board for the fund has been established to represent the interests of investors and the public sector as a whole. The advisory board meet quarterly with the manager of the fund, CCLA, to provide guidance and monitor the management and development of the fund. The increased level of risk associated with this investment will be countered by the superior level of returns that will be received.

4. Performance Review

Revenue
The Council has continued to perform well despite continued Government cuts in funding.

The summary table below shows outturn for the year. The total service expenditure is £13,552,130. The carry forwards into 2018-19 amount to some £159,000.

The following table compares the major elements of the budget and actual for general fund services in 2017-18:-

	Original Budget	Revised Budget	Actual Outturn	Variance
	£000	£000	£000	£000
Directorates				
Corporate Resources	5,043	4,828	4,548	(280)
Operational Services	10,324	10,261	9,005	(1,256)
Contingencies	400	29	0	(29)
Direct Service Expenditure	15,767	15,118	13,553	(1,565)
Net Interest Payments	218	643	591	(52)
Revenue contributions to capital	690	1,040	662	(378)
Other operating costs	519	785	716	(69)
Net Council Expenditure	17,194	17,586	15,522	(2,064)
Less Government Grant	(6,394)	(4,365)	(4,710)	(345)
Less retained business rates	(3,085)	(3,052)	(2,633)	419
Collection Fund Surplus	(165)	(232)	(232)	0
Council Tax	(6,054)	(6,282)	(6,282)	0
Net expenditure excluding reserve movements	**1,496**	**3,655**	**1,665**	**(1,990)**
Contributions to reserves	2,374	1,017	1,749	732
Capital use of earmarked reserves	(690)	(1,040)	(662)	378
Revenue use of earmarked reserves	(2,298)	(3,198)	(2,354)	844
Transfer to/(from) Transition Reserve	(582)	(434)	(398)	36
Transfer to/(from) Specific Reserve	(300)	0	0	0
Net budget surplus transferred to General Reserve	**0**	**0**	**0**	**0**

Whilst there are numerous underspends the most significant variances (in excess of +/- £100,000) were as follows:

Corporate Resources

- Housing Benefit Payments and Administration underspend of (£786,000) due to a one-off reduction in the provision for bad debts relating to overpayments saving (£435,000), additional New Burdens grants received of (£205,000), Flexible Homelessness Support Grant allocation of (£87,000) and other net variances of (£59,000).
- Adverse variance of £342,000 on Corporate Management Expenses due to additional costs in relation to Pier closure, including a provision of £245,000 for future likely costs.
- Overspend of £228,000 on Other Expenditure due to an increased charge for bad debts provision.
- Adverse variance of £146,000 on Council Tax and Business Rates Collection due to change in policy of taking debtors to court leading to a reduction in income received in relation to recovery of court costs.

Operational Services

- Underspend of (£586,000) on Disabled Facilities Grant (DFG) received but not spent in the capital programme and therefore has been recognised as grant received in the revenue figures above.
- Underspend of (£449,000) on NHS Clinical Commissioning Group (CCG). This is in relation to funding received form the CCG that has not yet been spent and has therefore been transferred to reserves for use in future years.
- Underspend of (£127,000) on Housing Administration in relation to Community Housing Fund & Controlling Migration fund. This underspend has been transferred to reserves for use in future years.

- Adverse overspend of £105,000 on Homelessness & Preventing Repossessions due to increased usage of B&B accommodation.
- Adverse overspend of £117,000 on Selective Licensing due to fewer licences processed than estimated. Income for licences received but not yet granted carried forward into the new year.

Council Tax
The balance on the Collection Fund at 31 March 2018 was £1.9m, of which the Council's share was £271,000.

NNDR
The rateable value of business premises at 31 March 2018 was £62,806,889 compared to £57,869,797 at 31 March 2017. This change mainly reflects the movement to the new 2017 rating list, and the increase in rateable values was offset by a reduction in the standard multipliers.

Excluding multiple appeals there were still 76 appeals outstanding relating to the 2010 list, with a total rateable value of £10.1m, and many date back to the start of this list. There are a number of multiple appeals for the same property, making an accurate estimate of the liability very difficult. There is very little information on appeals against the 2017 list, so a standard percentage reduction in income has been estimated.

The net collectable sum for the year was £20,595,000, £229,000 less than original forecast (NNDR1) of £20,824,000. This partially reflects additional reliefs imposed by the Government, for which the Council is compensated by Section 31 grants. The NNDR element of the Collection Fund has a deficit balance of £167,000 (the Council's share of the £418,000 overall deficit).

Material assets/liabilities
The Council purchased the Bexhill Road Retail Park during the year as part of its economic development and regeneration strategy. This significant new material assets cost £8.8m and has been financed by a combination of loans from the Public Works Loan Board (PWLB).

No new material liabilities have been incurred during the financial year.

Pier Closure
During the year the Council has incurred costs of £1,379,000 in relation to settling compensation claims and associated legal and other costs relating of the closure of the pier due to safety concerns back in June 2006. A further provision of £245,000 has been made for expected outstanding costs.

Pension
The net long term pension liability changed very little during the year, moving from £40.9m to £40.4m. 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. Changes in discount rates can trigger wide fluctuations in values from year to year, but these do not therefore necessarily correspond with the longer term view of contribution rates required to maintain the Council's need to provide for pension payments over the longer term.

<u>2018-19 Budget</u>

The table below summarises planned net expenditure on services for 2018-19, compared to 2017-18, 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, council tax and non-domestic rates and use of reserves. The sum of £1,039,000 is identified within the budget as being required from reserves to fund the 2018-19 deficit.

	2017-18 Revised Budget £000	2018-19 Original Budget £000	Variance 2017-18 to 2018-19 £000
Directorates			
Corporate Resources	4,828	3,490	(1,338)
Operational Services	10,261	8,811	(1,450)
Contingencies	29	500	471
Direct Service Expenditure	15,118	12,801	(2,317)
Net interest payments	643	1,190	547
Other operating costs	785	1,116	331
Revenue contribution to capital	1,040	324	(716)
Net Contribution to / (from) Reserves	(2,615)	(1,733)	882
Capital use of earmarked reserves	(1,040)	(324)	716
Net Council Expenditure	13,931	13,374	(557)
Less Government Grant :-			
Revenue Support Grant	(2,038)	(1,542)	496
Other general Grants	(2,327)	(2,359)	(32)
Retained business rates	(3,052)	(2,815)	237
Collection Fund Surplus	(232)	(63)	169
Amount to be met by Council Tax Payers	**6,282**	**6,595**	**313**

End of Year Performance 2017/18

The council's 2017/18 corporate plan was divided into 5 areas reflecting key priorities for the year ahead. They were; cleaner and safer, driving economic growth, support when it's needed, providing great services and income generation.

The section below gives a summary of the actions in the 2017/18 corporate plan for each priority. A RAG (Red, Amber, Green) status for each item shows our position at the end of the year.

This is how we're doing against the key activities set out in this year's corporate plan:

Cleaner and Safer	**RAG**
Improving the cleanliness of the town, working closely with our waste, street cleansing and grounds maintenance contractors	A
Supporting community safety and working with the Safer Hastings and Rother Community Safety Partnership	G
Delivering fair and proportionate enforcement services in relation to off street parking, enviro-crime and environmental health	G
Driving Economic Growth	**RAG**
Working with regional and county partnerships to attract investment to the area including improved rail links and support to business	G
Building on the opening of The Source, Hastings Pier and our widely recognised cultural programme we will promote Hastings as an exciting place to live, visit, work and invest	G
Continue to support higher education provision in the town and the development of provision to succeed the University of Brighton	G
Taking forward the development of a town centre and White Rock action plan to lay the basis and spread the benefits of regeneration along and adjacent to the seafront	G
Subject to funding will deliver schemes to help some of the most excluded communities in the borough into economic activity and training	G

Seek to enhance sports and leisure activity through new contracts for our facilities and encouraging others to invest in new provision	G
Maximise the level of occupancy of the council's business premises and support the provision of new employment space by Sea Change or ourselves as appropriate	G
Work with the town centre management committee and its successor Love Hastings to deliver an enhanced and mores sustainable town centre	G
Support when it's needed	**RAG**
Supporting local people during the transition to Universal Credit and other welfare changes	G
Look to support as far as possible those affected by welfare changes	G
Maintaining and further developing our approach to improving standards in housing through licensing and proactive enforcement activity	G
Releasing land for residential development that caters for a range of housing needs (Year-end reporting only)	G
Continuing our innovative approach to housing regeneration through the Coastal Space Programme, grot busting and empty homes programmes	G
Extending our housing offer through the new housing company	G
Working with developers and housing associations to improve the supply of new affordable homes	G
Provide great service	**RAG**
Reviewing all our services and activities and considering the best ways of delivering these in the future	G
Finishing our transformation programme to make sure our processes and systems are as efficient as possible and our services are designed to be delivered online	G
Striving to continuously improve our performance and customer care	G
Working with partnerships to get the best for local people	G
Income generation	**RAG**
We will develop the financial, staffing and other policies that will enable us to put a more commercial approach at the centre of everything we do. At the heart of this will be a new Income Generation Strategy that will influence our planning and thinking for the future. We will bring forward proposals for: • Housing investment – having set up a housing company • Generating energy low carbon initiatives and involvement in the energy market • Expanding seafront assets, like beach huts and glamping • Purchasing commercial property where this is profitable and economically beneficial • Using our parks and open spaces for new events that generate income and add to our cultural and community life • Collecting our council tax and business rates efficiently • Reviewing fees and charges	G

Performance Indicators

Performance indicators are also used to measure our progress throughout the year. These are broadly split between corporate priorities such as financial targets, operational priorities such as Environmental, Housing and Regeneration targets. The indicators that measure the performance assess each target through a series of 'milestones'. These milestones are measured on a quarterly basis, and at 31 March those that have achieved their target are given a Green status, narrowly missed target (which may be because the target has changed or been affected by external circumstances) as Amber status and those not achieved a Red status.

The tables below show our achievement against the targets set for 2017/18:

NARRATIVE REPORT

Target Number	Performance Indicator	Target	Performance
	Cleaner and safer		
1	Improved street and environmental cleanliness (levels of litter, dog fouling, detritus, graffiti and flyposting)	5%	6%
2	Percentage of household waste sent for reuse, recycling and composting	30%	30.1%
3	Percentage of food establishments which are broadly compliant with food hygiene law	92%	98%
4	The average number of failed bin collections (per 100,000 collections)	110	78
5	Green Flag status retained for our key parks and open spaces	Green flag status retained	Green flag status retained
	Driving economic growth		
6	Increased number of visitors to Hastings Museum and Art Gallery	46,500	43,206
7	Increased number of people using council Leisure Centres	420,000	409,354
8	Major Planning Applications determined within 13 weeks or as agreed with applicants	80%	58%
9	Non-major planning applications determined within 8 weeks or as agreed with the applicant	80%	80%
10	Householder planning applications determined within 8 weeks or as agreed with the applicant	80%	82%
11	Major planning applications determined within 13 weeks or as agreed with the applicant over a 2 year rolling period	60%	71%
12	Non-major planning applications determined within 8 weeks or as agreed with the applicant over a 2 year rolling period	70%	85%
	Support when it's needed		
13	Number of homelessness cases prevented (bigger is better)	1,500	1,698
14	% of homeless applications resulting in a placement in emergency accommodation (smaller is better)	50%	50%
15	Private sector homes meeting the required standard	200	201
16	Number of affordable homes created	75	70
17	Number of long term (2+ years) empty properties bought back into use (bigger is better)	70	112
18	Number of neglected buildings improved (bigger is better)	50	55
19	Number of new homes built	200	189
20	Average number of days to process new housing benefit claims (smaller is better)	15	15.2
21	Average number of days to process changes to housing benefit claims (smaller is better)	5	5.7
22	Average number of days to process new Council Tax Reduction claims	15	14
23	Average number of days to process changes to Council Tax Reduction claims	5	5.7
	Providing great services		
24	% of customers self-serving online	60	55.9
25	The proportion of working days / shifts lost due to sickness absence	6.25	8.1
	Income generation		
26	% Council Tax collected in year (bigger is better)	96.3	95.1
27	% Non domestic rates collected in year (bigger is better)	98	98.5

Targets for these indicators are discussed with Directors and Assistant Directors, and are set by members before the start of each new financial year. The targets for both Corporate and Operations are reviewed each year and changed according to the requirements of the Council and therefore may increase or decrease in number.

Capital Expenditure
The Council spent £14,341,000 on capital projects during 2017-18, as summarised below:

Scheme	Revised Budget £'000	Outturn £'000
Sandrock Park - Land Purchase	23	0
Muriel Matters House Refurbishment	0	(2)
New Factory unit	40	1
Kiosk above Bottle Alley	30	18
New ERP system	430	424
Bexhill Road Retail Park	8,841	8,841
Conversion of 12/13 York Buildings	25	25
Priory Meadow Contribution towards Capital works	185	0
Private Sector Renewal Support	20	9
Disabled Facilities Grant	1,155	1,047
Empty Homes Strategy - CPO	60	30
Central St. Leonards Town Heritage Initiative 2	0	0
Restoration of Pelham Crescent/ Pelham Arcade	90	28
Road at Pelham Arcade	20	1
Coastal Space Regeneration Project - Phase 2	758	758
Coastal Space - Phase 3	1,376	1,376
Hastings Housing Company	1,500	780
Castle Access/ Interpretation	50	5
Factory Refurbishment (ACE)	0	2
Groyne Refurbishment	5	0
Work on Harbour Arm and New Groynes	1,220	454
Additional Chalets	85	83
Public Realm	60	26
Bottle Alley	174	174
CCTV Control Room	9	8
Country Park -Interpretive Centre	32	9
Playgrounds Upgrade Programme	29	34
Playgrounds Carnoustie & Kensington Close	38	22
Purchase of new parking machines and boards	70	65
Coastal Communities scheme 4	272	121
East Hill Cliff Railway	0	2
Total	**16,597**	**14,341**

This capital expenditure was financed as shown below:-

	£'000
Capital receipts	98
Government grants and other contributions:	
towards assets	478
towards REFCUS	1,943
Sums set aside from revenue and reserves	662
Borrowing	11,160
	14,341

The Council is planning to spend £32,938,000 on capital projects during 2018-19, as shown in the table below. £27,160,000 is due to be funded from borrowing, £4,247,000 by grants and contributions, £1,255,000 from capital receipts and £276,000 from reserves.

Scheme	£000
New ERP system	70
Conversion of 12/13 York Buildings	657
Priory Meadow Contribution towards Capital works	65
Commercial Property Investments	20,160
Private Sector Renewal Support	50
Disabled Facilities Grant	1,500
Empty Homes Strategy - CPO	70
Restoration of Pelham Crescent/ Pelham Arcade	207
Road at Pelham Arcade	94
Development of Land at Ore Valley	700
Energy Generation	2,000
Hastings Housing Company	5,000
Castle Access/ Interpretation	206
Groyne Refurbishment	35
Work on Harbour Arm and New Groynes	1,220
Further Sea Defence works	150
Public Realm	50
Country Park -Interpretive Centre	398
Playgrounds Upgrade Programme	93
Coastal Communities scheme 4	142
Buckshole and Shornden Reservoirs	71
	32,938

Borrowing Facilities
Total loans outstanding owed to external sources for capital spending amount to £41.0m. Under the prudential code for borrowing the Council's Capital Financing Requirement is £39.5m. The difference relates to spending on schemes slipping into the next financial year.

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 2018 is £18.042 million compared with £19.707 million at 31st March 2017.

Non Domestic Rates
From 1 April 2013 the regime around the income that Local Authorities collect from business rates changed from one where the authority collected purely on behalf of Central Government to one where this income is shared between Central Government, Local Authorities and major precepting bodies. This change affected the retention of the income collected and introduced a risk to the Council for failure to collect rates in comparison with a predetermined “Start-Up” funding assessment.

The Council collects National Non Domestic Rates (NNDR) and retains 40% of it for its own use, the remainder being passed on to the Government (50%), East Sussex County Council (9%), and East Sussex Fire and Rescue Authority (1%). This activity involves the usual risk of non-payment, mitigated by managing the allowance for impairment of debt. There is also the risk of losses from appeals against the values determined by the Valuation Offices. Prior to 31 March 2015 appeals could be backdated to 1 April 2010, when the 2010 list came into operation. Appeals relating to the 2010 list after the start of 2015/16 can only be backdated to 1 April 2015. There are still many appeals outstanding against the 2010 list, and the provision for this list stood at £1.823m at 31 March 2018, This is an estimate based on past settlement of appeals, but the actual liability could be a significantly different figure. The new 2017 list came into effect on 1 April 2017. No appeals have been settled against this list, and the Council has therefore assumed a standard 4.7% reduction in income (£1.394k), so the

total provision stood at £3.217m at 31 March 2018. This Council's share of the total potential liability is 40% of the total: £1.287m.

Conclusion
Hastings Borough Council has continued to perform well despite the recent cuts to funding and the challenging economic climate. The Council has embarked on an ambitious transformation programme and income generation strategy to meet these expectations, and to help preserve the vibrant local economy.

The Council will need to maintain its focus on delivering its day to day operations, and balancing quality and demand with reducing resources. A strong performance management system and an ambitious Transformation Programme and supported by robust Corporate Plan and Financial Strategies will help to achieve this.

5. Explanation of the Financial Statements

Annual Financial Report
The annual financial report is made up as follows:

(i) Expenditure 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 Council 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 and the Cost of Services in the Comprehensive Income and Expenditure Statement can be found in the Expenditure and Funding Analysis (Note 6) on pages 56 and 57.

(ii) Annual Governance Statement
Issues relating to governance and internal financial controls are particularly pertinent to the preparation and publication of the Statement of Accounts. Regulation 6 of the Accounts and Audit Regulations 2015 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.

(iii) Statement of Responsibilities
The Statement of Responsibility sets out the general responsibilities of both the Council and the Chief Finance Officer, in making proper financial arrangements and in maintaining financial records.

(iv) Independent Auditor's report

(v) 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.

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 Statement. These are

different from the statutory amounts required to be charged to the General Fund for tax setting purposes (see Note 6 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.

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.

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 Reserve being used to fund capital expenditure). 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”.

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 and Business Rates.

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 Government for Business Rates and other amounts relating to the operation of the Fund.

Accounting Policies
This Statement of Accounts, in common with those for the whole of the public sector, is compiled in line with International Financial Reporting Standards (IFRS). The detailed requirements relating to local authorities are brought together in the CIPFA Code of Practice and summarised in the notes on accounting policies.

6. Further Information

Further information about the accounts is available from Financial Services at the address shown on page 2.

P. Grace CPFA - Chief Finance Officer

EXPENDITURE SUMMARIES

2016-17				2017-18			
Expend	**Income**	**Net**	**Service**	**Revised Estimate**	**Expend**	**Income**	**Net**
£	**£**	**£**		**£**	**£**	**£**	**£**
151,973	0	151,973	Director of Corporate Services and Governance	**151,440**	**148,005**	**0**	**148,005**
269,012	0	269,012	Corp. Policy, Partnerships and Performance	**267,110**	**264,292**	**0**	**264,292**
103,740	0	103,740	Electoral Services	**109,490**	**108,446**	**0**	**108,446**
213,571	0	213,571	Estates Services	**211,000**	**207,850**	**0**	**207,850**
129,025	0	129,025	Building Surveyors	**126,800**	**126,819**	**0**	**126,819**
352,730	(39,762)	312,968	Legal Services	**351,170**	**422,793**	**(77,037)**	**345,756**
193,716	(1,491)	192,225	Audit and Investigations Services	**168,640**	**169,459**	**(5,386)**	**164,073**
638,954	(1,576)	637,378	Accountancy Services	**640,740**	**654,450**	**(131)**	**654,319**
1,741,434	(54,535)	1,686,899	Revenues Services	**1,557,050**	**1,692,948**	**(128,772)**	**1,564,176**
469,016	(6,297)	462,719	Personnel and Organisational Development and Business Support	**446,910**	**447,556**	**(1,120)**	**446,436**
113,543	(480)	113,063	Corporate Personnel Expenses	**161,960**	**130,086**	**(3,870)**	**126,216**
603,197	(11,544)	591,653	Contact Centre	**614,690**	**593,104**	**(8,282)**	**584,822**
152,950	0	152,950	Digital by Design	**177,340**	**173,184**	**0**	**173,184**
200,684	(94,717)	105,967	Admin Buildings - Town Hall	**47,650**	**154,816**	**(101,531)**	**53,285**
288,128	(45,083)	243,045	Admin Buildings - Muriel Matters House	**287,510**	**334,199**	**(57,905)**	**276,294**
87,149	0	87,149	Admin Buildings - General Expenses	**84,500**	**63,214**	**0**	**63,214**
25,483	0	25,483	Admin Buildings - Corporate Archive	**28,300**	**27,738**	**0**	**27,738**
241,988	(20)	241,968	Corporate Expenses	**251,090**	**244,126**	**130**	**244,256**
534,584	(4,407)	530,177	IT	**533,840**	**531,330**	**(38)**	**531,292**
245,701	0	245,701	IT Reserve / Hardware	**253,750**	**251,846**	**0**	**251,846**
20,563	0	20,563	Land & Property Systems-GIS	**21,060**	**20,979**	**0**	**20,979**
153,403	(23,667)	129,736	Corporate Management Expenses	**1,235,800**	**1,626,108**	**(48,464)**	**1,577,644**
428,800	0	428,800	Non Distributed Costs	**660,420**	**660,420**	**0**	**660,420**
47,571,094	(48,084,778)	(513,684)	Benefit Payments and Administration	**(198,000)**	**39,611,471**	**(40,595,919)**	**(984,448)**
0	(195,574)	(195,574)	Council Tax and Business Rates Collection	**(363,510)**	**0**	**(217,462)**	**(217,462)**
26,068	(399,002)	(372,934)	Employment Areas	**(381,600)**	**37,033**	**(406,230)**	**(369,197)**
148,122	(1,517,324)	(1,369,202)	Factory Units	**(1,406,920)**	**113,681**	**(1,562,695)**	**(1,449,014)**
292,060	(1,738,423)	(1,446,363)	Farms and Other Properties	**(1,958,630)**	**375,583**	**(2,379,499)**	**(2,003,916)**
21,662	0	21,662	St Mary in the Castle	**21,820**	**6,019**	**0**	**6,019**

EXPENDITURE SUMMARIES

2016-17				2017-18			
Expend	**Income**	**Net**	**Service**	**Revised Estimate**	**Expend**	**Income**	**Net**
£	**£**	**£**		**£**	**£**	**£**	**£**
95,401	(26,042)	69,359	Other Expenditure	**130,900**	**363,833**	**(5,258)**	**358,575**
85,654	(29,376)	56,278	Registration of Electors	**46,320**	**86,521**	**(26,078)**	**60,443**
323,209	0	323,209	Cost of Democracy	**332,050**	**329,897**	**0**	**329,897**
240,318	(170,039)	70,279	Election Expenses	**9,050**	**227,171**	**(215,582)**	**11,589**
31	0	31	Local Strategic Partnership	**0**	**0**	**0**	**0**
1,553	(106)	1,447	Sustainable Development	**20,330**	**14,818**	**0**	**14,818**
0	0	0	Public Consultation	**0**	**0**	**0**	**0**
155,807	0	155,807	Pier Closure Costs	**100,000**	**113,248**	**0**	**113,248**
17,952	0	17,952	Shelters and Seats	**20,130**	**16,645**	**0**	**16,645**
11,653	0	11,653	Street Naming and Numbering	**8,210**	**5,410**	**(120)**	**5,290**
65,216	(560)	64,656	Decorative Lighting	**104,580**	**88,524**	**0**	**88,524**
0	0	0	Corporate Systems ERP	**15,000**	**4,927**	**0**	**4,927**
101,595	(163,737)	(62,142)	Foreshore Trust	**(60,000)**	**(10,969)**	**(48,769)**	**(59,738)**
56,516,739	(52,608,540)	3,908,199	**Corporate Resources and Governance**	**4,827,990**	**50,437,580**	**(45,890,018)**	**4,547,562**
382,225	347	382,572	Environmental Services Management & Administration	**299,110**	**299,029**	**(1,588)**	**297,441**
220,725	0	220,725	Amenities Administration	**216,410**	**213,359**	**0**	**213,359**
459,372	(7,522)	451,850	Waste and Parking Team	**410,680**	**402,772**	**(1,650)**	**401,122**
376,625	(244,560)	132,065	Administration - Housing	**583,920**	**508,249**	**(50,842)**	**457,407**
86,834	(12,860)	73,974	Local Land Planning & Admin	**80,630**	**90,887**	**(13,420)**	**77,467**
159,117	2	159,119	Director of Operational Services	**152,670**	**151,728**	**0**	**151,728**
83,103	0	83,103	Leisure Administration	**80,770**	**81,225**	**(25)**	**81,200**
134,512	0	134,512	Resort Services Management and Administration	**61,280**	**60,656**	**0**	**60,656**
141,323	0	141,323	Regeneration Administration Division	**136,060**	**137,498**	**0**	**137,498**
301,746	(5,929)	295,817	Communications & Marketing	**236,030**	**241,714**	**(10,644)**	**231,070**
80,855	0	80,855	Building Control	**74,860**	**74,449**	**0**	**74,449**
816,830	(321,576)	495,254	Development Control & Conservation	**418,000**	**811,493**	**(391,160)**	**420,333**
93,478	(373,007)	(279,529)	Local Land Charges Register	**(204,110)**	**117,108**	**(329,993)**	**(212,885)**
735,990	(278,253)	457,737	Homelessness & Preventing Repossessions	**413,160**	**1,137,473**	**(618,834)**	**518,639**

EXPENDITURE SUMMARIES

2016-17				2017-18			
Expend	**Income**	**Net**	**Service**	**Revised Estimate**	**Expend**	**Income**	**Net**
£	**£**	**£**		**£**	**£**	**£**	**£**
135,840	0	135,840	Homelessness Prevention	**123,420**	**197,569**	**(81,770)**	**115,799**
4,437	(50,000)	(45,563)	Rough Sleeper prevention	**45,560**	**299,764**	**(277,500)**	**22,264**
64,744	(108,347)	(43,603)	Syrian Resettlement Programme	**(94,250)**	**228,475**	**(225,628)**	**2,847**
318,118	(360,729)	(42,611)	Social Lettings	**(48,770)**	**368,163**	**(416,521)**	**(48,358)**
95,601	0	95,601	Homelessness Strategy	**115,610**	**105,422**	**0**	**105,422**
15,959	0	15,959	Housing Register	**15,740**	**16,369**	**0**	**16,369**
121,513	(105,678)	15,835	Deposits funded by ESCC	**(22,500)**	**114,850**	**(137,350)**	**(22,500)**
45,965	(28,500)	17,465	Youth Homelessness	**15,000**	**45,753**	**(36,416)**	**9,337**
5,200	0	5,200	Anti Poverty	**0**	**0**	**0**	**0**
42,000	0	42,000	POAL officer	**0**	**0**	**0**	**0**
276,177	(20,351)	255,826	Housing Renewal	**240,370**	**243,887**	**(13,469)**	**230,418**
62,155	(19,000)	43,155	Rogue Landlords	**0**	**0**	**0**	**0**
445,833	(545,399)	(99,566)	Selective Licensing	**(264,250)**	**412,295**	**(559,739)**	**(147,444)**
76,111	(28,742)	47,369	Housing Licensing	**(2,000)**	**13,772**	**(20,063)**	**(6,291)**
131,703	(561,730)	(430,027)	Housing Solution Services	**2,730**	**85,488**	**(668,564)**	**(583,076)**
19,666	0	19,666	Coastal Space Enforcement Activities	**0**	**0**	**0**	**0**
3,515	0	3,515	Dangerous Structures	**2,500**	**1,202**	**0**	**1,202**
18,380	(12,917)	5,463	Coastal Local Economic Partnership (LEP)	**4,650**	**0**	**0**	**0**
402,340	0	402,340	Housing - NHS Clinical Commissioning Group CCG	**1,123,900**	**674,703**	**0**	**674,703**
9,087	(6,326)	2,761	Sustainable Housing in Inclusive Neighbourhoods	**(800)**	**32,322**	**(40,470)**	**(8,148)**
2,128	0	2,128	Climate Active Neighbourhoods	**(3,970)**	**14,363**	**(9,389)**	**4,974**
338,559	(7,045)	331,514	Regeneration Activity	**346,000**	**398,501**	**(84,320)**	**314,181**
188,314	(20)	188,294	Planning Policy	**339,190**	**293,828**	**(115)**	**293,713**
236,778	(66,243)	170,535	Cultural Activities	**111,140**	**181,866**	**(81,619)**	**100,247**
381,626	(185,523)	196,103	Cultural Development	**88,510**	**109,898**	**(26,526)**	**83,372**
116,805	(1,387)	115,418	External Funding Initiatives	**78,980**	**76,762**	**(91)**	**76,671**
53,801	(2,755)	51,046	Community Cohesion	**50,660**	**50,602**	**0**	**50,602**
6,220	(9,112)	(2,892)	Fisheries Local Action Group (FLAG)	**(13,890)**	**56,768**	**(65,649)**	**(8,881)**
0	0	0	Coastal Communities Fund	**(35,000)**	**167,181**	**(235,250)**	**(68,069)**
37,089	(1,680)	35,409	Employability	**0**	**129**	**0**	**129**

EXPENDITURE SUMMARIES

2016-17				2017-18			
Expend	**Income**	**Net**	**Service**	**Revised Estimate**	**Expend**	**Income**	**Net**
£	**£**	**£**		**£**	**£**	**£**	**£**
2,356	(2,570)	(214)	Talent Match	**0**	**0**	**0**	**0**
97,365	(96,964)	401	Sea Escapes - CCF III Coastal Communities Fund Revenue	**0**	**0**	**0**	**0**
19,556	(19,500)	56	CHART CLLD Connecting Hastings and Rother Together	**(15,800)**	**29,789**	**(45,589)**	**(15,800)**
346,894	(46,353)	300,541	Community Partnership	**244,430**	**244,018**	**0**	**244,018**
5,918	(4,535)	1,383	Older and Younger People	**4,160**	**2,793**	**(526)**	**2,267**
13,561	(3,361)	10,200	Youth Activities (Young Persons Council)	**5,000**	**5,430**	**(200)**	**5,230**
28,165	(2,700)	25,465	1066 Community Grants	**0**	**779**	**(1,179)**	**(400)**
0	0	0	Town Centre Management (BID)	**9,300**	**9,330**	**0**	**9,330**
0	0	0	Community Development Activity	**5,000**	**5,000**	**0**	**5,000**
39,259	(21,259)	18,000	Image Raising Campaign Project	**0**	**0**	**0**	**0**
209,222	(112,023)	97,199	1066 Country Campaign	**82,290**	**160,854**	**(88,586)**	**72,268**
89,637	(50,454)	39,183	Tourism Marketing	**46,550**	**65,622**	**(21,679)**	**43,943**
214,444	(138,186)	76,258	Tourist Information Centre	**49,240**	**168,027**	**(124,593)**	**43,434**
21,292	(11,958)	9,334	Community Awareness	**14,350**	**22,490**	**(9,982)**	**12,508**
4,604	0	4,604	Twinning / Sierra Leone	**3,000**	**3,000**	**0**	**3,000**
138,068	(55,193)	82,875	Raising the profile of Hastings	**78,930**	**152,547**	**(52,534)**	**100,013**
0	(178)	(178)	Norman Castles Interreg project	**0**	**0**	**0**	**0**
3,293	0	3,293	Meteorological Expenses	**2,250**	**1,824**	**0**	**1,824**
27,278	0	27,278	Civic and Ceremonial Expenses	**25,470**	**26,347**	**0**	**26,347**
22,319	(26,872)	(4,553)	Filming	**(4,000)**	**27,916**	**(38,333)**	**(10,417)**
5,612	0	5,612	Coastal Protection	**2,230**	**2,320**	**0**	**2,320**
428	0	428	Navigational Aids	**1,440**	**1,341**	**0**	**1,341**
1,427	0	1,427	Environmental Schemes Net Shops	**12,420**	**15,878**	**0**	**15,878**
260,766	(388,291)	(127,525)	Cliff Railways	**(175,370)**	**275,317**	**(421,240)**	**(145,923)**
29,026	(66,412)	(37,386)	Castle and Caves	**(46,610)**	**15,619**	**(23,000)**	**(7,381)**
20,126	(196,767)	(176,641)	Chalets and Beach Huts	**(181,350)**	**29,923**	**(191,754)**	**(161,831)**
640,412	1,000	641,412	White Rock Theatre	**652,500**	**631,868**	**0**	**631,868**
58,873	(48,889)	9,984	Seafront	**35,750**	**70,618**	**(55,342)**	**15,276**
416,071	(60,025)	356,046	Museums	**340,910**	**430,738**	**(77,667)**	**353,071**

EXPENDITURE SUMMARIES

2016-17				2017-18			
Expend	**Income**	**Net**	**Service**	**Revised Estimate**	**Expend**	**Income**	**Net**
£	**£**	**£**		**£**	**£**	**£**	**£**
4,022	0	4,022	First World War Project	**1,330**	**5,358**	**0**	**5,358**
54,001	(54,032)	(31)	Sports Management	**3,460**	**53,471**	**(56,288)**	**(2,817)**
28,048	(100)	27,948	Falaise Fitness Centre	**12,870**	**13,248**	**(100)**	**13,148**
68,665	(10,391)	58,274	Sports Centres	**19,370**	**38,685**	**(18,470)**	**20,215**
5,000	0	5,000	William Parker Athletics Track	**5,000**	**5,000**	**0**	**5,000**
46,331	(46,939)	(608)	Opening Doors	**27,350**	**49,133**	**(27,789)**	**21,344**
33,527	0	33,527	Sports Development	**27,100**	**29,996**	**(4,200)**	**25,796**
53,352	(38,982)	14,370	Street Games	**1,690**	**21,283**	**(25,279)**	**(3,996)**
32,191	(36,103)	(3,912)	Sports for All	**10,140**	**25,747**	**(14,180)**	**11,567**
137,905	(87,270)	50,635	Active Hastings	**48,050**	**145,314**	**(105,244)**	**40,070**
90,498	(21,648)	68,850	Play Development	**67,680**	**111,365**	**(41,354)**	**70,011**
2,600	0	2,600	Primary Care Trust Grant	**1,250**	**0**	**0**	**0**
31,061	0	31,061	Play Pathfinder	**32,000**	**30,559**	**0**	**30,559**
65,091	(65,100)	(9)	Playground Projects	**0**	**1,164**	**(4,000)**	**(2,836)**
28,822	0	28,822	Lets Get Moving (CCG)	**39,580**	**4,000**	**0**	**4,000**
23,031	0	23,031	British BID DCLG - Loan Fund	**5,250**	**0**	**0**	**0**
157,016	(1,475)	155,541	Food Safety	**161,190**	**149,196**	**0**	**149,196**
45,582	(1,100)	44,482	Health and Safety	**45,510**	**44,556**	**(2,366)**	**42,190**
159,851	(4,557)	155,294	Environmental Protection	**181,210**	**173,356**	**(5,128)**	**168,228**
40,384	(10,997)	29,387	Pest Control	**30,530**	**38,906**	**(12,644)**	**26,262**
98,302	(189,903)	(91,601)	Local Licensing	**(100,040)**	**93,605**	**(218,983)**	**(125,378)**
65,714	(82,467)	(16,753)	Liquor Licensing	**(28,950)**	**55,317**	**(75,993)**	**(20,676)**
40,509	(28,214)	12,295	Gambling Licensing	**3,840**	**35,253**	**(32,930)**	**2,323**
34,675	(2,100)	32,575	Stray Dog Contract	**32,180**	**36,056**	**(3,865)**	**32,191**
31,524	0	31,524	Emergency Planning	**35,740**	**32,099**	**0**	**32,099**
1,376,516	(2,308,572)	(932,056)	Parking	**(918,060)**	**1,409,504**	**(2,409,011)**	**(999,507)**
206,830	(100)	206,730	Closed Circuit Television	**214,630**	**211,205**	**0**	**211,205**
26,146	(25,000)	1,146	ESCC Highway Tree Maintenance	**(3,000)**	**19,466**	**(25,000)**	**(5,534)**
0	0	0	Public Realm	**0**	**0**	**0**	**0**
990,390	(63,044)	927,346	Waste Collection	**1,000,420**	**999,842**	**(60,880)**	**938,962**
372,166	(232,339)	139,827	Recycling	**157,320**	**391,253**	**(238,676)**	**152,577**
1,240,582	(19,000)	1,221,582	Street Cleansing	**1,178,650**	**1,194,531**	**(19,000)**	**1,175,531**
227,250	(307,641)	(80,391)	Greenwaste	**(85,990)**	**244,273**	**(322,129)**	**(77,856)**
156,821	0	156,821	Waste and Environmental Enforcement Team	**154,840**	**250,800**	**(105,430)**	**145,370**
21,094	0	21,094	Together Action	**23,900**	**24,051**	**0**	**24,051**
100,040	(6,500)	93,540	Safer Hastings Partnership (HBC)	**95,620**	**110,819**	**(19,500)**	**91,319**

EXPENDITURE SUMMARIES

2016-17				2017-18			
Expend	**Income**	**Net**	**Service**	**Revised Estimate**	**Expend**	**Income**	**Net**
£	**£**	**£**		**£**	**£**	**£**	**£**
48,292	(51,124)	(2,832)	Safer Hastings Partnership (External)	**0**	**47,481**	**(75,912)**	**(28,431)**
65,900	(65,900)	0	CS Domestic Violence (CCG)	**0**	**47,072**	**(47,072)**	**0**
13,287	0	13,287	Watercourses	**16,870**	**13,819**	**0**	**13,819**
667,732	(1,175,455)	(507,723)	Cemetery and Crematorium	**(526,180)**	**647,110**	**(1,166,307)**	**(519,197)**
17,689	0	17,689	Travellers Costs	**17,260**	**17,261**	**0**	**17,261**
26,184	0	26,184	Town Centre	**24,550**	**25,218**	**0**	**25,218**
25,519	(24,252)	1,267	Allotments	**(2,350)**	**21,272**	**(23,473)**	**(2,201)**
10,099	0	10,099	Ecology	**12,750**	**7,115**	**0**	**7,115**
134,567	0	134,567	Arboriculture	**128,360**	**155,277**	**(150)**	**155,127**
1,320,078	(111,546)	1,208,532	Parks and Gardens	**1,371,030**	**1,545,240**	**(100,256)**	**1,444,984**
125,392	(43,677)	81,715	Hastings Country Park	**74,500**	**103,442**	**(50,518)**	**52,924**
124,401	(116,988)	7,413	Countryside Stewardship	**14,000**	**101,104**	**(88,542)**	**12,562**
338,650	(761)	337,889	Public Conveniences	**278,010**	**261,827**	**(2,569)**	**259,258**
19,457,698	(9,949,609)	9,508,089	**Operational Services**	**10,260,550**	**19,958,609**	**(10,954,047)**	**9,004,562**

Service Measures

2016-17		**2017-18**
	Numbers of:	
45,497	Museum visitors	43,206
94,255	East Hill Cliff Railway users	98,619
94,433	West Hill Cliff Railway users	99,253
21	Public Conveniences	19
196	Burials	171
81,228	Grave spaces	81,288
1,509	Cremations	1,474
3,070,000	Dustbins Emptied (Bin Equivalents)	3,114,956
9,500	Recycling tonnage	9,300
733	Planning Applications	1,028
2	Conservation Area Projects	2
240	Building Regulation Applications	233
1,658	Local Land Charges (full searches only)	1,260
2,144	Car Parking Spaces (Off-Street)	2,144
3,454	Penalty Charge Notices issued	3,311
2,147	Licences Issued	1,821
474	Food Hygiene Inspections	409
179	Health & Safety Inspections	211
62,077	Local Electorate	64,451
100	Number of Factory Units	100
270	Kilometres of Streets maintained within the Borough	270
1,489,079	Rental Income from Factory Units (£)	1,552,448

ANNUAL GOVERNANCE STATEMENT

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" (2016 Edition).

3. A copy of the code is on our website at www.hastings.gov.uk.

4. This statement explains how Hastings Borough Council has complied with the code and also meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

The purpose of the governance framework

5. 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.

6. 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.

7. 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 2018, up to the date of approval of the Statement of Accounts.

The governance framework

8. 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. 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 Councillor portfolios. There is an Overview and Scrutiny Committee which covers 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 and service induction routines are in place for new staff. This now includes an e-learning module. Information regarding policies and procedures are held on the intranet which continues to be enhanced and developed.

ANNUAL GOVERNANCE STATEMENT

- The Council has an Internal Audit function and informal 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 and updating of new policies and procedures.

- The Risk Champion is the Director of Corporate Services and Governance.

- The Corporate Risk Management Group also incorporates the Health & Safety framework.

- The Council has a Whistle Blowing Policy based on the British Standards model that enables staff, contractors or councillors of the public to confidentially raise with the council any suspicions they may have. There is also a customer comments and complaints system that is monitored by management.

- 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 designed to provide more focus to councillor and senior officer management of risk. The Strategic Risk Register is formally reviewed at the Corporate Risk Management meetings and the Operational Risk Registers are reviewed at Directorate Management Team (DMT) meetings.

- The Audit Committee perform an annual rigorous review of the Strategic 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 (Unit 4), which integrates the general ledger function with those of budgetary control, payments and Income. The council has upgraded its main accounting system to a new Enterprise Resource Planning system with effect from April 2018. The HR System (currently Midland Trent) will be migrated to the Enterprise Resource Planning system by August 2018 for efficiency gains.

- Finance Operating Procedures (FOPs) are held on the council's intranet and support the council's constitution. The FOPs contain information on financial and business procedures and processes that must 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 risk based 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. The Council has focussed its quarterly reporting of data on 27 Key Indicators that can be used to assess the 'health' of the organisation. This, together with the reporting on each of the service's commitments set out in the Corporate Plan, 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 an in-house developed spreadsheet system.

- The Director of Corporate Services and Governance has assumed the role of Senior Information Risk Owner (SIRO) who has overall responsibility for the Council's information risk policy.

- Hastings Borough Council is the sole Trustee for 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.

- Service Reviews – The council's transformation programme has continued to undertake intensive business process mapping of a range of services to (where possible) move services online and or to realise efficiencies and improve processes for our customers and staff. Progress against the transformation programme is detailed in quarterly performance reports. These coincide with existing plans for service reviews being planned through the Priorities, Income & Efficiency Reviews (PIER) process and the Strategic Oversight and Project Board (SOAPB).

- Councillor Development – Before councillors can undertake their roles all councillors have to undertake the appropriate training. This includes full induction for all new councillors, a range of compulsory training so that councillors can fulfil their roles on our committees, and leadership training where appropriate provided in conjunction with the LGA. Councillor training and development is monitored and evaluated quarterly by the Councillor Training and Development Group.

- Consultation – The council undertakes a range of consultation throughout the year subject to activities identified in the corporate plan. The council also consults annually on its corporate plan and budget with a variety of stakeholders.

- The Hastings and St. Leonards Local Strategic Partnership (LSP) Board is a body that brings together key representatives from the private/business, community/voluntary and public sector and has a rotating chair person. The LSP Board meet quarterly to address key issues affecting the town as a whole improve the quality of life for those who live and work in the town. They are supported by an Executive Delivery Group (EDG) which also meets quarterly, chaired by the Director of Operational Services.

- The key role of the Local Strategic Partnership (LSP) is to:

  i Identify and report strategic issues, which key partners should be aware of.

  ii Provide strategic leadership on any Borough wide issue, identified by partners and agreed by the LSP, where no other appropriate existing organisation or partnership can be identified.

  iii Act to bring together intelligence, expertise and community and business support to identify priorities and develop solutions to maximise the town's economic opportunities and address barriers to regeneration.

- An Executive Board meets alternate Mondays and consists of the Leader and Deputy Leader of the Council, Director of Corporate Services and Governance and Director of Operational Services. Both councillors and senior management are kept apprised of progress and new developments and are able to determine direction in light of these.

Changes to the Council's Structure and Governance arrangements

9. During the year, Hastings Borough Council established the Hastings Housing Company, a wholly owned housing company limited by shares. Its governance arrangements and business plan were carefully considered by Cabinet at its meeting held on 11 September 2017. Its purpose is to initially acquire and provide housing for rent in the Borough with the potential to undertake development in the future. It has acquired one asset in 2017/18 valued at approximately £800,000.

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)'

10. The Assistant Director Financial Services and Revenues, is the Council's Chief Finance Officer and 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)'

11. The role of the Chief Auditor at Hastings Borough Council complies with the CIPFA statement.

Review of effectiveness

12. 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.

13. 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 the Overview and Scrutiny Committee.

14. The Council's constitution sets out the responsibilities of both Councillors and their senior managers. In particular, the Council has identified the three statutory posts as follows:

Head of Paid Service	-	Director of Corporate Services & Governance
Monitoring Officer	-	Chief Legal Officer
Section 151 officer	-	Assistant Director Financial Services and Revenues (Chief Finance Officer)

15. 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.

16. The arrangements for the provision of internal audit are contained within the Council's Financial Rules, which are included within the Constitution. The Chief Finance Officer is 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 2015. The Internal Audit service is managed, independently, by the Assistant Director and operates in accordance with the Public Sector Internal Audit Standards. 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 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.

17. 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 Strategic and Operational Risk Registers

18. From the work undertaken by Hastings Audit in 2017/18 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.

Significant governance issues

19. The Council follows the CIPFA/SOLACE guidance entitled ‘Delivering Good Governance in Local Government (Guidance Note for English Authorities)’. In accordance with its categorisation of significant issues, there are no new issues to report, however, provided below is an update to the ongoing risks on which progress was reported last year.

20. In the last Annual Governance Statement, it was reported that there was still a significant risk relating to the reduction in Government grant funding. A balanced budget for 2018/19 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.

22. Also last year, it was reported that there was a potential risk to do with the implications arising from ‘Brexit’. This still potentially has significant implications in the years ahead for the level of external funding that Hastings and the Council receives and the joint working that is undertaken with partner organisations both in this country and Europe. It may also have implications on the Council’s central government funding, business rate income, procurement arrangements and Treasury management strategy. Councillors will be informed of the implications as and when sufficient detail becomes available.

23. Most of these risks to services in the future stem from the large scale reductions in funding. One strand of the council’s strategy to mitigate the losses of funding is to generate additional income. The council therefore appointed an Income Generation Manager 2016/17 and approved a new Income Generation Strategy in September 2017 that is monitored by the Income generation Board.

24. 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:…….....	Signed:……
Leader of the Council	Director of Corporate Services
	& Governance

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 Assistant Director Financial Services and Revenues (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 in accordance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in United Kingdom (the CODE).

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 37 to 90 give a true and fair view of the financial position of the Council as at 31 March 2018 and its income and expenditure for the year ended 31st March 2018.

Signed on behalf of Hastings Borough Council:

P Grace CPFA,	Cllr John Rankin
Chief Finance Officer	Chair of the Audit Committee

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

Opinion on the financial statements

We have audited the financial statements of Hastings Borough Council ("the Council") for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Income and Expenditure Statement and notes to the financial statements including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Hastings Borough Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion on the financial statements
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)), the Code of Audit Practice issued by the National Audit Office in April 2015 ("Code of Audit Practice") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information
The Chief Financial Officer is responsible for the other information. The other information comprises the Narrative report together with all other information included in the Financial Report and Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be

materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

On the basis of our work, having regard to the guidance on the specified criterion published by the National Audit Office in November 2017, we are satisfied that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review of **the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources** in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion, published by the National Audit Office in November 2017, as to whether in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

The National Audit Office has determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Based on our risk assessment, we undertook such work as we considered necessary. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Matters on which we are required to report by exception

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

- we have been unable to satisfy ourselves that the Annual Governance Statement is misleading or inconsistent with other information that is forthcoming from the audit;
- we issue a report in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit;
- we designate under section 24 of the Local Audit and Accountability Act 2014 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

Responsibilities of the Chief Financial Officer and the Council

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which comprises the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council intends to cease operations or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

In respect of our audit of the financial statements our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Auditor's responsibilities in respect of the Council's use of resources

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

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

Certificate of completion of the audit

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

Use of our report

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

Leigh Lloyd-Thomas

For and on behalf of BDO LLP, Appointed Auditor

London, UK

31 July 2018

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

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2016-17 Gross £'000	2016-17 Income £'000	2016-17 Net £'000		2017-18 Gross £'000	2017-18 Income £'000	2017-18 Net £'000
58,711	(52,609)	6,102	Corporate Services and Governance	**50,608**	**(45,890)**	**4,718**
22,649	(11,367)	11,282	Operational Services:	**25,968**	**(12,897)**	**13,071**
81,360	(63,976)	17,384	Cost of Services	**76,576**	**(58,787)**	**17,789**
0	(721)	(721)	(Gain) or loss on sale of assets	**0**	**(659)**	**(659)**
0	(721)	(721)	Other operating expenditure	**0**	**(659)**	**(659)**
703	0	703	Interest payable and similar charges	**1,090**	**0**	**1,090**
1,363	0	1,363	Net interest on defined pension liabilities	**1,037**	**0**	**1,037**
0	(301)	(301)	Interest receivable and similar income	**0**	**(305)**	**(305)**
(44)	(68)	(112)	Income and expenditure in relation to investment properties and changes in their fair value	**64**	**(190)**	**(126)**
2,022	(369)	1,653		**2,191**	**(495)**	**1,696**
0	(6,180)	(6,180)	Council Tax Income	**0**	**(6,427)**	**(6,427)**
5,403	(8,354)	(2,951)	Non domestic rates	**5,463**	**(8,241)**	**(2,778)**
0	(2,835)	(2,835)	Revenue Support Grant	**0**	**(2,038)**	**(2,038)**
0	(2,974)	(2,974)	Other non-ringfenced government grants	**0**	**(2,673)**	**(2,673)**
0	(814)	(814)	Capital grants and contributions	**0**	**(2,696)**	**(2,696)**
5,403	(21,157)	(15,754)		**5,463**	**(22,075)**	**(16,612)**
88,785	(86,223)	2,562	(Surplus) or Deficit on Provision of Services	**84,230**	**(82,016)**	**2,214**
		(6,746)	Surplus on revaluation of non-current assets			**1,890**
		655	Impairment losses on non-current assets charged to the revaluation reserve			**655**
		0	Valuation (gains) / losses on available for sale financial assets reserve			**64**
		(567)	Remeasurement of the net defined benefit pension liability			**(2,702)**
		(6,658)	Other Comprehensive Income and Expenditure			**(93)**
		(4,096)	Total Comprehensive Income and Expenditure			**2,121**

MOVEMENT IN RESERVES STATEMENT

	General Fund Balance	Ear-marked Reserves	Capital Receipts reserve	Capital grants unapplied	Total usable reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2017-18							
Balance at 1 April 2017	(500)	(19,707)	(138)	(498)	(20,843)	(63,563)	(84,406)
Movement in Reserves in 2017-18							
(Surplus)/deficit on the provision of services (accounting basis)	2,214	0	0	0	2,214	0	2,214
Other Comprehensive Income and Expenditure	0	0	0	0	0	(93)	(93)
Total Comprehensive Income and Expenditure	2,214	0	0	0	2,214	(93)	2,121
Adjustments between accounting and funding basis under regulation - note 7	(549)	0	(351)	(2,218)	(3,118)	3,118	0
Net increase/decrease before transfers to Earmarked reserves	1,665	0	(351)	(2,218)	(904)	3,025	2,121
Transfers to/from Earmarked reserves - note 7	(1,665)	1,665	0	0	0	0	0
(Increase)/Decrease in Year	0	1,665	(351)	(2,218)	(904)	3,025	2,121
Balance at 31 March 2018	**(500)**	**(18,042)**	**(489)**	**(2,716)**	**(21,747)**	**(60,538)**	**(82,285)**

MOVEMENT IN RESERVES STATEMENT

	General Fund Balance	Ear-marked Reserves	Capital Receipts reserve	Capital grants unapplied	Total usable reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2016-17							
Balance at 1 April 2016	(500)	(20,187)	(2)	(308)	(20,997)	(59,313)	(80,310)
Movement in Reserves in 2016-17							
(Surplus)/deficit on the provision of services (accounting basis)	2,562	0	0	0	2,562	0	2,562
Other Comprehensive Income and Expenditure	0	0	0	0	0	(6,658)	(6,658)
Total Comprehensive Income and Expenditure	2,562	0	0	0	2,562	(6,658)	(4,096)
Adjustments between accounting and funding basis under regulation - note 7	(2,082)	0	(136)	(190)	(2,408)	2,408	0
Net (increase)/decrease before transfers to Earmarked reserves	480	0	(136)	(190)	154	(4,250)	(4,096)
Transfers to/from Earmarked reserves - note 8	(480)	480	0	0	0	0	0
(Increase)/Decrease in Year	0	480	(136)	(190)	154	(4,250)	(4,096)
Balance at 31 March 2017	**(500)**	**(19,707)**	**(138)**	**(498)**	**(20,843)**	**(63,563)**	**(84,406)**

BALANCE SHEET

31 March 2017			**31 March 2018**
£'000			**£'000**
115,274	Property, Plant and Equipment	*Note 15*	**120,353**
1,178	Investment Properties	*Note 15*	**1,164**
14	Intangible Assets		**435**
14,789	Heritage Assets	*Note 15*	**15,048**
2,184	Long Term Debtors	*Note 16*	**2,954**
0	Long Term Investments	*Note 18*	**1,936**
133,439	**LONG TERM ASSETS**		**141,890**
71	Inventories		**53**
0	Assets Held for Sale		**34**
9,042	Short Term Debtors	*Note 16*	**7,100**
23,093	Short Term Investments	*Note 18*	**10,041**
4,932	Cash and Cash Equivalents	*Cash Flow*	**20,022**
37,138	**CURRENT ASSETS**		**37,250**
(7,963)	Short Term Creditors	*Note 17*	**(12,606)**
(9,198)	Short Term Borrowing	*Note 18*	**(2,563)**
(1,615)	Provisions	*Note 17*	**(1,997)**
0	Capital grants received in advance		**(100)**
(18,776)	**CURRENT LIABILITIES**		**(17,266)**
(25,441)	Long Term Borrowing	*Note 18*	**(38,759)**
(1,058)	Long Term Creditors	*Note 17*	**(430)**
(40,896)	Net Pension Liability	*Note 11*	**(40,400)**
(67,395)	**LONG TERM LIABILITIES**		**(79,589)**
84,406	**NET ASSETS**		**82,285**
(500)	General Fund	*MIRS*	**(500)**
(19,707)	Earmarked reserves	*Note 12*	**(18,042)**
(138)	Capital Receipts Reserve	*MIRS*	**(489)**
(498)	Capital grants and contributions	*MIRS*	**(2,716)**
(20,843)	**USABLE RESERVES**		**(21,747)**
(268)	Deferred capital receipts	*Note 13*	**(521)**
(58,364)	Revaluation Reserve	*Note 13*	**(55,296)**
(45,897)	Capital Adjustment Account	*Note 13*	**(45,081)**
40,896	Pensions Reserve	*Note 13*	**40,400**
(19)	Financial instruments Adjustment Account	*Note 13*	**0**
135	Accumulated Absences Account	*Note 13*	**0**
(46)	Collection Fund Adjustment Account	*Note 13*	**(104)**
0	Available for Sale Reserve	*Note 13*	**64**
(63,563)	**UNUSABLE RESERVES**	*Note 13*	**(60,538)**
(84,406)	**TOTAL RESERVES**		**(82,285)**

CASH FLOW STATEMENT

2016-17 £'000		2017-18 £'000
(14,768)	Taxation	(14,627)
(55,655)	Grants and Contributions	(54,630)
(14,596)	Sales of goods and rendering of services	(14,186)
(301)	Interest received	(349)
(791)	other receipts from operating activities	(654)
(86,111)	**Cash inflows generated from operating activities**	**(84,446)**
9,987	Cash paid to and on behalf of employees	9,904
47,573	Housing benefit payments	40,803
5,403	NNDR Tariff and levy payments	5,413
14,403	Cash paid to suppliers of goods and services	15,949
630	Interest paid	936
5,290	Other operating cash payments	6,469
83,286	**Cash outflows generated from operating activities**	**79,474**
(2,825)	**Net cashflows from operating activities**	**(4,972)**
(831)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(447)
15,368	Purchase of property, plant and equipment, investment property and intangible assets	10,234
15,000	Purchase of short-term and long-term investments	25,000
(13,000)	Proceeds from the sale of short-term and long-term investments	(36,000)
(667)	Other receipts from investing activities	(2,797)
15,870	**Net cashflows from investing activities**	**(4,010)**
(41,515)	Cash receipts from short term and long term borrowing.	(22,665)
26,528	Repayments of short term and long term borrowing	16,122
(98)	Changes in National Non-Domestic Rates balances held for preceptors	734
(662)	Changes in Council tax balances held for preceptors	(299)
(15,747)	**Net cashflows from financing activities**	**(6,108)**
(2,702)	**Net (Increase) / decrease in cash and cash equivalents**	**(15,090)**
2,230	Cash and bank balances 1 April	4,932
2,702	Change during the year	15,090
4,932	Cash and bank balances 31 March	**20,022**

31 March 2017		**31 March 2018**
3	Cash in hand	199
1,893	Bank balances	5,114
3,036	Cash equivalents	14,709
4,932	Totals	**20,022**

1 CHANGES TO ACCOUNTING POLICIES AND TO PREVIOUS YEARS FIGURES

Changes to 2017-18 Code of Practice

The 2017-18 Code of Practice incorporates several changes to accounting standards, but those that apply to this Council have not necessitated major changes or restatements of the previous year's figures.

The opening total of the Capital Financing Requirement, as shown in Note 14, has been re-stated to add £295,000 at 1 April 2017 (£325,000 at 1 April 2016) relating to loans to other bodies financed in previous years from capital resources and to show the reduction resulting from annual repayments to the Council. This has no other impact on the accounting statements and notes. In Notes 22 on Leases the 2016/17 values for the future minimum lease payments receivable under non-cancellable leases in future years has been restated. This has no other impact on the accounting statements and notes.

The Code of Practice stipulates that a council need not comply with it if the information is not material to the "true and fair" view of its financial position, financial performance and cash flows, and to the understanding of users of the financial statements and notes. This provision applies to both the disclosures and to accounting principles. In line with this dispensation the Council omits a number of disclosures specified by the Code. From 2017-18 it has also discontinued adherence to the requirement to accrue for outstanding annual leave etc, as outlined in accounting policy 2.6, on the grounds that this figure had been immaterial, with little annual variation, since it was first recorded in 2010-11. This accrual was reversed as an adjustment between the accounting and funding bases, so had no impact on the level of usable reserves.

Changes to the 2018-19 Code of Practice

There are some changes which have been incorporated into the 2018-19 Code of Practice, but none of them are expected to have any material impact or to require any restatements of the 2017-18 figures.

IFRS 9 Financial Instruments	The Council will adopt IFRS 9Financial Instruments with effect from 1st April 2018. The main changes include the reclassification of financial assets and the earlier recognition of the impairment of financial assets. The Council does not expect the reclassification changes to have material impact upon the financial statements because the majority of its financial assets will retain the same measurement basis. The Council does not expect the impairment changes to have material impact upon the financial statements because the impairment charge will be immaterial for its treasury management assets (e.g. bank deposits and bonds)
IFRS 15 -Revenue from Contracts with Customers	The Council will adopt IFRS 15 with effect from 1st April 2018. The standard requires the recognition of revenue from contracts, based on control-based revenue recognition model. The council does not have any material revenue streams within the scope of the new standard.
IAS 12 -Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses	The Council will adopt IAS 12 with effect from 1st April 2018. The standard applies to deferred tax assets related to debt instruments measured at fair value.
IAS 7-Statement of Cash Flows: Disclosure Initiative	The Council will adopt IAS 7 with effect from 1st April 2018. The council does not expect for any further disclosures to be required

2 ACCOUNTING POLICIES

2.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2017-18 financial year and its position at the end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, 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 2017-18, 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 purchaser, and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure 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 inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when 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 overpayments of Housing Benefit.

The Council collects income from payers of Council Tax and Non-Domestic Ratepayers, but only part of the income relates to this Council, the balance being collected on behalf of other major precepting authorities, including the Government. 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 are split between Short Term and Long Term Debtors.

2.3 Cash and Cash Equivalents

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

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

2.4 Charges to Revenue for Non-Current Assets 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 amortisation 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 2.20 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 participated in the Local Authority Mortgage Scheme (LAMS) using the cash backed option. The mortgage lenders required a 5 year deposit from the Council to match the 5 year life of the indemnity. The deposit placed with the mortgage lender provided an integral part of the mortgage lending, and was treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) rose by the amount of the total indemnity. Part of this debt was repaid in full in 2016-17 and the rest, again in full, in 2017-18. These repayments reduced the CFR by the full £2m originally advanced. The council had previously decided that MRP was not required for this element of the CFR.

2.5 Contingent Assets and Liabilities

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 Council, whose outcome is uncertain when the balance sheet is compiled.

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent assets and liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

2.6 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 Council. Prior to 2017-18 an accrual was 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 was 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 was 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 were charged to the General Fund in the financial year in which the salary payment is made.

As noted in 1.1 above, this accrual and the consequent accounting-funding adjustment was immaterial, and has been discontinued from 2017-18.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. 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 2.5% (based on the indicative rate of return on the iBoxx Sterling Corporate Index, AA over 20 years).

The assets of the East Sussex County Council Pension Fund attributable to this Council are included 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 pension 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 charged to the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement.
- contributions by scheme participants, which increase plan liabilities, but correspondingly increase plan assets, and are therefore not reflected in the Comprehensive Income and Expenditure Statement
- remeasurements – changes in the present value of the net pensions liability, resulting from:
    - the return on plan assets, excluding the amounts included in net interest.
    - 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.

2.7 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.

2.8 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.

2.9 Fair Value

The Council measures some of its non-financial assets (surplus assets and investment properties, and its available for sale financial asset, at fair value at each reporting date. The Council also discloses fair values for financial assets and liabilities categorised as loans and receivables. Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction at the year end. The fair value measurement assumes that the transaction takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market.

The Council measures the asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that they act in their economic best interest.

When measuring the fair value the Council takes into account the market participants' ability to generate economic benefits by using the asset or liability in its highest or best use, or by selling it to another party that would use the asset or liability for its highest and best use.

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

Inputs to the valuation techniques for assets and liabilities that are measured or disclosed in the financial statements are categorised within the fair value hierarchy, as follows:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the year end
Level 2	Inputs, other than quoted prices within Level 1, that are observable for the asset or liability, either directly or indirectly
Level 3	Unobservable inputs for the asset or liability

2.10 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, and also some amounts included within short term and long term creditors, 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 the borrowings that the Council 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.

Financial Assets

The term “financial asset” covers cash and beneficial contractual rights to receive or exchange cash or liabilities. The Council invests in two types of financial assets:

- Loans and receivables - these are financial assets that have fixed or determinable payments, and are not quoted in an active market.
- Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

The Council’s balance sheet includes the following 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”.
- The debtor for the bank deposit for the LAMS scheme; this was a short term debtor at 31 March 2017 and repaid during 2017-18.
- A long term loan to Optivo (formerly Amicus Horizon) for £1,788,000 included in the balance sheet under long term debtors.
- Loans to the Foreshore Trust and The Source totalling £277,000 (partly long term and partly short term). These loans are either at, or at the equivalent to the PWLB rate of interest, which is equal to the same rate as the Council borrows money, but less than the market rate that the Foreshore Trust would otherwise need to borrow at. Although this constitutes a “soft loan”, the accounting adjustments would be immaterial, and the Council does not apply them as permitted by the accounting Code.
- 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”.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Council 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 de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the CI&ES for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the CI&ES when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. The Council currently holds an investment in a property fund valued at £1.936m at 31 March 2018 and the fair values are based on the quoted market price.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/ loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. If impairment losses are incurred these would be debited to the Financing and Investment Income and Expenditure line in the CI&ES, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CI&ES, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve. Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

2.11 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 properly credited to the General Fund, an equivalent appropriation is made from the General Fund into the Capital Grants Unapplied Reserve, which is set aside for the financing of capital investment. When it has been applied for financing it is transferred to the Capital Adjustment Account.

2.12 Heritage Assets

The Council's Heritage Assets are as follows:

- A collection of heritage assets at its museums

- The mayor's Civic Regalia
- Hastings Castle
- Hastings Caves

The above assets are held in support of the primary objective of increasing the knowledge, understanding and appreciation of the Council's history and local area. However, because of the historic nature of the assets and lack of comparable market values the Council does not consider that reliable cost or valuation information can be obtained for the castle and caves. Consequently the Council does not recognise the value of these Heritage Assets on the Balance Sheet, other than the capitalisation of annual expenditure to enhance the assets.

Where possible, Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council'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 Council 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 general policies on revaluation of property, plant and equipment- see note 2.17.

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 policies on impairment of property plant and equipment- see note 2.17.

2.13 Income from Council Tax and Non-Domestic Rates

The council tax and Non-Domestic Rates (NDR) income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

2.14 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. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation 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.

2.15 Leases

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).

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.

Although the Council acts as a lessee, as outlined above, the amounts involved are immaterial.

The Council does not act as a lessor for any finance 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.

2.16 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.

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.

2.17 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 (2.12 above). Property, plant and equipment is made up 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 – current 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 – current 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 market value for the best and highest use in its existing condition, taking account, for example, of any planning consents at the balance sheet date
- Assets under construction – historic cost

Revaluation

We revalue assets included in the Balance Sheet at current value when there may 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.

The revaluation exercise also involves a review and update to expected asset lives.

Impairment

The values of each category of assets and of material individual assets 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 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 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 Statement. 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 Statement, 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 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.
- 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.

Depreciation is charged to the Cost of Services in the Comprehensive Income and Expenditure Statement, but this is not a not a proper 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.

2.18 Provisions

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

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

When payments are eventually made, they are charged to the provision carried 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 the relevant services.

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 Income and Expenditure 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), it 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.

2.19 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 and Heritage Assets. 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: This 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 Council accounts for post- employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes the employer's contributions to the pension fund (including payments relating to unfunded benefits). The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.
- Accumulated Absences Reserve: this contained the difference between the statutory and accounting liability for the cost of accumulated absences: the cost was properly chargeable to the Comprehensive Income and Expenditure Statement, but not to the General Fund. As noted in 1.1 and 2.6 above, this adjustment was immaterial, and has been discontinued from 2017-18.
- Financial Instruments Adjustment Account: this represented the difference between the accounting and legislative charges for finance costs. For this Council this reflected discounts received in previous years when restructuring PWLB loans: the final adjustments were made as scheduled during 2017-18,so that the balance sheet value is zero.
- 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.

- Available for Sale Financial Instruments Reserve: this contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:
  - revalued downwards or impaired and the gains are lost.
  - disposed of and the gains are realised.

2.20 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.

Similarly income received and accounted for as grants and contributions towards this category of capital expenditure is credited as income to the relevant service account, but a transfer from the Capital Adjustment Account reverses the credit and the impact on Council Tax.

2.21 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. CRITICAL JUDGEMENTS

As outlined in Note 25, the Council acts as the sole trustee for the Hastings and St Leonards Foreshore Charitable Trust. The scheme is so constituted as to prevent the Council from obtaining any benefit from the Trust's activities and no group accounts are produced. Further details of the Foreshore Trust are given in Note 25 (Related Parties).

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

The estimate of the pension 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 and mortality rates. A firm of consulting actuaries, Hymans Robertson, is engaged to provide the Council with expert advice about the assumptions to be applied. Details of these assumptions are included in Note 11. The effect on the liability for changes to assumptions are:

- A 0.5% decrease in the discount rate would result in an increase in the pension liability of £13,520,000.
- An increase of one year in life expectancies for pensioners would increase the liability by about 3-5%.
- A 0.5% increase in the salary rate would increase the liability by £1,576,000.
- A 0.5% increase in pensions would increase the liability by £11,785,000

All these assumptions are listed in Note 11, 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.

Allowances for impairment of debt

The policies for assessing allowances for impairment of debt are outlined in Note 2.2 above. All of these allowances are based on assessments of the Council's ability to recover debt over future years, and are therefore a matter of judgement, based largely on past performance. As part of the allowances for Council Tax and Non-Domestic Rates relate to other authorities and the Government (also outlined in Note 2.2), the assessment that this Council makes also impacts on the debtors and creditors established for these bodies.

Allowance for the impact of rating appeals

Similarly the Council maintains a provision for the impact of outstanding rating appeals. There are two elements to this provision:

- Outstanding appeals relating to the 2010 list are assessed on the basis of reductions in rateable value on appeals already settled.
- No appeals have been settled on the 2017 list, so an overall reduction of 4.7% has been assumed, in line with central projections.

NOTE 5. EVENTS AFTER THE BALANCE SHEET DATE

There were no material events after the balance sheet date that impacted on the view of the Council's finances contained in this set of accounts.

NOTE 6. EXPENDITURE AND FUNDING ANALYSIS

This note shows how the accounting and financing adjustments make up the difference between the outturn report and the Comprehensive Income and Expenditure Statement.

2016-17				2017-18		
Net expenditure chargeable to the General Fund	Adjustments between funding and accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net expenditure chargeable to the General Fund	Adjustments between funding and accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000		**£'000**	**£'000**	**£'000**
3,908	2,194	6,102	Corporate Services and Governance	**4,548**	**170**	**4,718**
9,508	1,774	11,282	Operational Services:	**9,005**	**4,066**	**13,071**
13,416	3,968	17,384	Cost of Services	**13,553**	**4,236**	**17,789**
(12,936)	(1,886)	(14,822)	Other Income and Expenditure	**(11,888)**	**(3,687)**	**(15,575)**
480	2,082	2,562	Surplus or Deficit before reserve movements	**1,665**	**549**	**2,214**

General Fund	Earmarked Reserves	Total		General Fund	Earmarked Reserves	Total
£'000	£'000	£'000		**£'000**	**£'000**	**£'000**
(500)	(20,187)	(20,687)	Opening balances	(500)	(19,707)	(20,207)
480	0	480	Surplus or Deficit	1,665	0	1,665
(480)	480	0	Transfer to (from) earmarked reserves	(1,665)	1,665	0
(500)	(19,707)	(20,207)	Closing balances	(500)	(18,042)	(18,542)

An analysis of the accounting and financing adjustments are shown in the table below, and they are also shown in detail in Note 7.

	Adjustments between Funding and Accounting Basis			
	Capital and Assets	Pensions	Other	Total
	£'000	£'000	£'000	**£'000**
2016-17				
Corporate Services and Governance	2,796	(573)	(29)	**2,194**
Operational Services:	1,316	523	(65)	**1,774**

	Adjustments between Funding and Accounting Basis			
	Capital and Assets	**Pensions**	**Other**	**Total**
	£'000	£'000	£'000	**£'000**
Cost of Services	4,112	(50)	(94)	**3,968**
Other income and expenditure from the Expenditure and Funding Analysis	(3,020)	1,363	(229)	**(1,886)**
Net Difference	**1,092**	**1,313**	**(323)**	**2,082**

	Adjustments between Funding and Accounting Basis			
	Capital and Assets	**Pensions**	**Other**	**Total**
	£'000	£'000	£'000	**£'000**
2017-18				
Corporate Services and Governance	470	(229)	(71)	**170**
Operational Services:	2,741	1,398	(73)	**4,066**
Cost of Services	3,211	1,169	(144)	**4,236**
Other income and expenditure from the Expenditure and Funding Analysis	(4,694)	1,037	(30)	**(3,687)**
Net Difference	**(1,483)**	**2,206**	**(174)**	**549**

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.

	General Fund Balance	**Capital Receipts reserve**	**Capital grants unapplied**	**Unusable Reserves**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
2016-17					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Amortisation Intangible Assets	(10)	0	0	10	**0**
Depreciation and impairment of non-current assets	(4,020)	0	0	4,020	**0**
Movements in value of Investment Properties	46	0	0	(46)	**0**
Gain or (loss) on disposal of non-current assets	(377)	0	0	377	**0**
Capital receipts to Usable Capital Receipts Reserve	1,098	(833)	0	(265)	**0**
Capital grants and contributions to Capital Grants Unapplied Reserve	225	0	(225)	0	**0**
Difference between accounting and statutory finance costs	(153)	0	0	153	**0**

	General Fund Balance	Capital Receipts reserve	Capital grants unapplied	Unusable Reserves	Total
	£'000	£'000	£'000	£'000	£'000
2016-17					
Difference between accounting and statutory employment benefit	85	0	0	(85)	**0**
Difference between accounting and statutory credit for Council Tax	(39)	0	0	39	**0**
Difference between accounting and statutory credit for Non-Domestic Rates	430	0	0	(430)	**0**
Revenue Expenditure Financed from Capital under Statute	(1,499)	0	0	1,499	**0**
Difference between accounting and statutory charge for pension costs	(1,313)	0	0	1,313	**0**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement					**0**
Statutory provision for the financing of capital investment	505	0	0	(505)	**0**
Capital expenditure financed from revenue	934	0	0	(934)	**0**
Other adjustments					**0**
Capital expenditure financed from Capital Receipts	0	697	0	(697)	**0**
Capital expenditure financed from Capital grants and contributions	2,006	0	35	(2,041)	**0**
Total for 2016-17	**(2,082)**	**(136)**	**(190)**	**2,408**	**0**

	General Fund Balance	Capital Receipts reserve	Capital grants unapplied	Unusable Reserves	Total
	£'000	£'000	£'000	£'000	£'000
2017-18					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Amortisation Intangible Assets	(3)	0	0	3	**0**
Depreciation and impairment of non-current assets	(1,755)	0	0	1,755	**0**
Movements in value of Investment Properties	(39)	0	0	39	**0**
Gain or (loss) on disposal of non-current assets	(43)	0	0	43	**0**
Capital receipts to Usable Capital Receipts Reserve	702	(449)	0	(253)	**0**
Capital grants and contributions to Capital Grants Unapplied Reserve	2,428	0	(2,428)	0	**0**
Difference between accounting and statutory finance costs	(19)	0	0	19	**0**
Difference between accounting and statutory employment benefit	135	0	0	(135)	**0**
Difference between accounting and statutory credit for Council Tax	(87)	0	0	87	**0**

	General Fund Balance	Capital Receipts reserve	Capital grants unapplied	Unusable Reserves	Total
	£'000	£'000	£'000	£'000	£'000
Difference between accounting and statutory credit for Non-Domestic Rates	145	0	0	(145)	**0**
Revenue Expenditure Financed from Capital under Statute	(3,397)	0	0	3,397	**0**
Difference between accounting and statutory charge for pension costs	(2,206)	0	0	2,206	**0**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement					
Statutory provision for the financing of capital investment	717	0	0	(717)	**0**
Capital expenditure financed from revenue	662	0	0	(662)	**0**
Other adjustments					
Capital expenditure financed from Capital Receipts	0	98	0	(98)	**0**
Capital expenditure financed from Capital grants and contributions	2,211	0	210	(2,421)	**0**
Total for 2017-18	**(549)**	**(351)**	**(2,218)**	**3,118**	**0**

NOTE 8. EXPENDITURE AND INCOME ANALYSED BY NATURE

2016-17 £'000		2017-18 £'000
14,287	Employee benefits expenses	**14,927**
64,407	Other service expenses	**60,953**
3,984	Depreciation, amortisation, impairment	**1,797**
703	Interest payments	**1,090**
5,403	NDR Tariff and levy	**5,463**
88,784	**Total expenditure**	**84,230**
(721)	(Gain) or loss on disposal of assets	**(659)**
(12,698)	Fees, charges and other service income	**(14,146)**
(301)	Interest and investment income	**(305)**
(14,534)	Income from taxation	**(14,668)**
(57,969)	Government grants and contributions	**(52,238)**
(86,223)	**Total income**	**(82,016)**
2,561	**(Surplus) or Deficit on the Provision of Services**	**2,214**

NOTE 9. FEES, CHARGES AND OTHER SERVICE INCOME

2016-17 £'000		2017-18 £'000
(4,296)	Corporate Services and Governance	(5,025)

2016-17 £'000		2017-18 £'000
(8,333)	Operational Services:	(8,930)
(69)	Investment Properties	(191)
(12,698)	**Total fees, charges and other service income**	**(14,146)**

NOTE 10. GRANTS AND CONTRIBUTIONS

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

Grants £'000	2016-17 Contribs. £'000	Total £'000		**Grants £'000**	**2017-18 Contribs. £'000**	**Total £'000**
(48,150)	0	(48,150)	DWP benefits and other grants	**(40,635)**	**0**	**(40,635)**
(996)	0	(996)	DCLG grants	**(1,765)**	**0**	**(1,765)**
0	(233)	(233)	Contributions from other local authorities	**0**	**(28)**	**(28)**
(1,418)	0	(1,418)	Grants for revenue financed from capital under statute	**(1,943)**	**0**	**(1,943)**
(241)	(308)	(549)	Other Grants and Contributions	**(85)**	**(377)**	**(462)**
(50,805)	**(541)**	**(51,346)**	**Total within Cost of Services**	**(44,428)**	**(405)**	**(44,833)**
(2,835)	0	(2,835)	Revenue Support Grant	**(2,038)**	**0**	**(2,038)**
(159)	0	(159)	New Burdens Grant	**0**	**0**	**0**
(758)	0	(758)	Benefits Administration Grant and Council Tax admin support	**(638)**	**0**	**(638)**
(1,396)	0	(1,396)	New Homes Bonus	**(1,018)**	**0**	**(1,018)**
(656)	0	(656)	Section 31Grant Income	**(1,011)**	**0**	**(1,011)**
(5)	0	(5)	Transition Grant	**(5)**	**0**	**(5)**
(814)	0	(814)	Grants and contributions towards capital expenditure	**(2,696)**	**0**	**(2,696)**
(6,623)	**0**	**(6,623)**	**Total within Taxation and non-specific grant income**	**(7,406)**	**0**	**(7,406)**
(57,428)	**(541)**	**(57,969)**	Total grants and contributions	**(51,834)**	**(405)**	**(52,239)**

NOTE 11. 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 Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. The Council also previously incurred some liabilities for unfunded pensions, resulting from the award of added years' entitlements to members of staff taking early retirement. This liability, which is included in the total net liability reported in the table below, stood at £2,519,000 at 31 March 2018, (£2,827,000 at 31 March 2017) and the Council made payments totalling £171,000 in 2017-18 (£179,000 in 2016-17), as part of the overall payments reported below.

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 following transactions have been made in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement.

2016-17 £'000		2017-18 £'000
	Comprehensive Income and Expenditure Statement	
2,044	Current Service Cost	**3,280**
0	Curtailments	**0**
2,044	Cost of Services	**3,280**
1,363	Net interest expense	**1,037**
1,363	Financing and Investment Income and Expenditure	**1,037**
3,407	Total Post Employment Benefit Charged to the Surplus/Deficit on the Provision of Services	**4,317**
(17,065)	Return on plan assets, less included in interest expense	**69**
	Actuarial gains & losses:	
(2,060)	Changes in demographic assumptions	**0**
22,952	Changes in financial assumptions	**(2,574)**
(4,394)	Other	**(197)**
(567)	Re-measurement of the net defined benefit liability	**(2,702)**
2,840	Total Comprehensive Income and Expenditure Statement	**1,615**
	Movement in Reserves Statement	
3,407	Reversal of items relating to retirement benefit debited or credited to the Comprehensive Income and Expenditure Statement	**4,317**
(2,094)	Employer's pension contributions and direct payments to pensioners payable in the year	**(2,111)**
1,313	**Total taken to Note 6**	**2,206**

The table below shows separately the movements in the assets and liabilities.

2016-17 £'000	**Reconciliation of Fair Value of Employer Assets (scheme Assets):**	2017-18 £'000
99,907	Value of Assets at 1 April	**117,497**
3,347	Interest income on plan assets	**2,900**
522	Contributions by Members	**542**
2,094	Contributions by the Employer	**2,111**
17,065	Return on assets excluding amounts recognised in Other Comprehensive Income	**(69)**
(5,438)	Benefits Paid	**(5,468)**
117,497	Value of Assets at 31 March	**117,513**

2016-17 £'000	**Reconciliation of Defined Benefit Obligation (scheme Liabilities):**	**2017-18 £'000**
(140,057)	Value of Liabilities at 1 April	**(158,393)**
(2,044)	Current Service Cost	**(3,280)**
(4,710)	Interest Cost	**(3,937)**
(522)	Contribution by Members	**(542)**
	Actuarial Gains and (Losses):	
2,060	Change in demographic assumptions	**0**
(22,952)	Change in financial assumptions	**2,574**
4,394	Other experience gains and (losses)	**197**
0	(Losses) and Gains on Curtailments	**0**
5,438	Benefits Paid	**5,468**
(158,393)	Value of Liabilities at 31 March	**(157,913)**
(40,896)	Net Liability at 31st March	**(40,400)**

Annual Contribution to fund

The estimated contribution for 2018-19 is £2,104,000 compared with the actual contribution of £2,111,000 for 2017-18.

Plan Assets

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

31 March 2017					**31 March 2018**			
Quoted Prices in Active Markets	Prices not quoted in Active markets	Total	%	Asset Category	**Quoted Prices in Active Markets**	**Prices not quoted in Active markets**	**Total**	**%**
£,000	£,000	£,000			**£,000**	**£,000**	**£,000**	
				Equity Securities:				
2,189.2	0.0	2,189.2	**2%**	Consumer	**2,189.5**	**0.0**	**2,189.5**	**2%**
1,158.5	0.0	1,158.5	**1%**	Manufacturing	**1,158.6**	**0.0**	**1,158.6**	**1%**
197.4	0.0	197.4	**0%**	Energy and Utilities	**197.5**	**0.0**	**197.5**	**0%**
3,553.7	0.0	3,553.7	**3%**	Financial Institutions	**3,554.2**	**0.0**	**3,554.2**	**3%**
2,012.1	0.0	2,012.1	**2%**	Health and Care	**2,012.4**	**0.0**	**2,012.4**	**2%**
1,674.4	0.0	1,674.4	**1%**	Information Technology	**1,674.6**	**0.0**	**1,674.6**	**1%**
234.3	398.2	632.5	**1%**	Other	**234.4**	**398.2**	**632.6**	**1%**
				Debt Securities:				
0.0	3,255.8	3,255.8	**3%**	UK Government	**0.0**	**3,256.2**	**3,256.2**	**3%**
209.6	0.0	209.6	**0%**	Other	**209.6**	**0.0**	**209.6**	**0%**
				Private Equity:				
0.0	6,723.8	6,723.8	**6%**	All	**0.0**	**6,724.7**	**6,724.7**	**6%**
				Real Estate:				
0.0	11,266.6	11,266.6	**10%**	UK Property	**0.0**	**11,268.2**	**11,268.2**	**10%**
0.0	0.0	0.0	**0%**	Overseas Property	**0.0**	**0.0**	**0.0**	**0%**
				Investment funds and unit trusts:				
14.4	64,697.5	64,711.9	**54%**	Equities	**14.4**	**64,706.4**	**64,720.8**	**54%**
0.0	13,554.7	13,554.7	**12%**	Bonds	**0.0**	**13,556.6**	**13,556.6**	**12%**
0.0	118.0	118.0	**0%**	Hedge Funds	**0.0**	**118.0**	**118.0**	**0%**
174.0	0.0	174.0	**0%**	Commodities	**174.0**	**0.0**	**174.0**	**0%**
0.0	1,298.8	1,298.8	**1%**	Infrastructure	**0.0**	**1,298.9**	**1,298.9**	**1%**
0.0	128.0	128.0	**0%**	Other	**0.0**	**128.0**	**128.0**	**0%**
				Derivatives:				

31 March 2017					**31 March 2018**			
Quoted Prices in Active Markets	Prices not quoted in Active markets	Total	%	Asset Category	**Quoted Prices in Active Markets**	**Prices not quoted in Active markets**	**Total**	**%**
£,000	£,000	£,000			**£,000**	**£,000**	**£,000**	
0.0	0.0	0.0	**0%**	Inflation	**0.0**	**0.0**	**0.0**	**0%**
0.0	0.0	0.0	**0%**	Interest rate	**0.0**	**0.0**	**0.0**	**0%**
0.0	24.7	24.7	**0%**	Foreign exchange	**0.0**	**24.7**	**24.7**	**0%**
0.0	0.0	0.0	**0%**	Other	**0.0**	**0.0**	**0.0**	**0%**
				Cash and cash equivalents				
2,963.9	1,649.4	4,613.3	**4%**	All	**2,964.3**	**1,649.6**	**4,613.9**	**4%**
14,381.5	103,115.5	117,497.0	100%	**Totals**	**14,383.5**	**103,129.5**	**117,513.0**	**100%**

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 2016. The main assumptions used in their calculations are:

2016-17		**2017-18**
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
22.1	Men	**22.1**
24.4	Women	**24.4**
	Longevity at 65 for future pensioners:	
23.8	Men	**23.8**
26.3	Women	**26.3**
2.4%	Rate of inflation	**2.4%**
2.8%	Rate of increase in salaries	**2.8%**
2.4%	Rate of increase in pensions	**2.4%**
2.5%	Rate for discounting scheme liabilities	**2.6%**
	Take-up of option to convert annual pension into retirement lump sum:	
50%	Pre 2008	**50%**
75%	Post 2008	**75%**

NOTE 12. EARMARKED RESERVES

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

		Balance at 1 April 2016	**Movement 2016-17**	**Balance at 1 April 2017**	**Movement 2017-18**	**Balance at 31 March 2018**
		£'000	£'000	£'000	£'000	£'000
						Note 13
(1)	General Reserve	(7,537)	(107)	(7,644)	(24)	(7,668)
(2)	Capital Reserve	(724)	87	(637)	487	(150)
(3)	Renewal and Repairs Reserve	(1,854)	106	(1,748)	120	(1,628)
(4)	Risk Management Reserve	(340)	10	(330)	0	(330)

		Balance at 1 April 2016	Movement 2016-17	Balance at 1 April 2017	Movement 2017-18	Balance at 31 March 2018
		£'000	£'000	£'000	£'000	£'000
(5)	Information Technology Reserve	(218)	32	(186)	34	(152)
(6)	On-Street Car Parking Surplus Reserve	(65)	17	(48)	8	(40)
(7)	Section 106 Reserve	(546)	4	(542)	35	(507)
(8)	VAT reserve	(257)	0	(257)	5	(252)
(9)	Government Grants Reserve	(597)	30	(567)	(135)	(702)
(10)	Monuments in perpetuity	(51)	3	(48)	1	(47)
(11)	Ore Valley Reserve	(250)	0	(250)	0	(250)
(12)	Mortgage Reserve	(125)	(23)	(148)	148	0
(13)	Invest to save and efficiency Reserve	(952)	174	(778)	358	(420)
(14)	Resilience and Stability Reserve	(600)	0	(600)	0	(600)
(15)	Transition Reserve	(2,222)	0	(2,222)	398	(1,824)
(16)	Redundancy Reserve	(648)	0	(648)	0	(648)
(17)	Community Safety Reserve	(350)	0	(350)	0	(350)
(18)	Economic Development Reserve	(504)	3	(501)	0	(501)
(19)	Safer Hastings Partnership Reserve	(41)	(2)	(43)	(29)	(72)
(20)	Bathing Water Reserve	(32)	0	(32)	32	0
(21)	First World War Reserve	(5)	(12)	(17)	5	(12)
(22)	Coastal Communities Reserve	(10)	0	(10)	10	0
(23)	Carry-forwards	(457)	186	(271)	112	(159)
(24)	Clinical Commissioning Group	(1,706)	442	(1,264)	679	(585)
(25)	Young Peoples Council	(10)	(9)	(19)	0	(19)
(26)	Sports for All	(6)	6	0	0	0
(27)	Revenue Hardship Fund	(80)	0	(80)	0	(80)
(28)	Disabled Facilities Grant	0	(431)	(431)	(494)	(925)
(29)	Syrian Resettlement Programme	0	(36)	(36)	15	(21)
(30)	Selective Licensing Reserve	0	0	0	0	0
(31)	Housing licensing reserve	0	0	0	(6)	(6)
(32)	Community Housing Reserve	0	0	0	(94)	(94)
	Total	**(20,187)**	**480**	**(19,707)**	**1,665**	**(18,042)**

For Reserves with a balance at as 31st March 2018 the reasons for maintaining these earmarked reserves are shown below**:**

1 The General Reserve is used to support revenue spending.

2 The Capital Reserve is earmarked to support capital spending.

3 The Renewal and Repairs Reserve is maintained for the purchase of vehicles, plant, equipment and the repair and redecoration of property.

4 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.

5 The Information Technology Reserve is for the purpose of financing the purchase of computing equipment and computer systems required by the Council.

6 On-street car parking surpluses are shared with East Sussex County Council. Shares will be spent on traffic management and transportation issues within the borough.

7 Section 106 Reserve – these are the developers' contributions to be used to finance various projects.

8 VAT reserve holds receipts of windfall VAT reclaim and the monies have been earmarked for use in various revenue and capital schemes.

9 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 will not be used to finance expenditure until after the end of the financial year.

10 The Monuments in Perpetuity reserve has been set up to maintain burial plots at the Cemetery.

11 Ore Valley reserve has been set up to fund activity in the area.

12 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 to fund potential liabilities in the event of any default and the guarantee being called upon.

13 Invest to save Reserve - To provide future funding for projects which will delivery savings but require upfront funding.

14 Resilience and Stability Reserve- To cushion the impact of fluctuations in business rates income and costs of Council tax reduction scheme.

15 Transition Reserve is the sum put aside to cushion the impact of significant grant reduction in future years.

16 Redundancy Reserve - sum put aside to help meet expected redundancy costs arising in future years.

17 Community Safety Reserve - is specifically earmarked over the medium term to maintain Community Safety activities as further central Government grant reductions occur.

18 Economic Development Reserve is specifically earmarked for significant job creation activity over the medium term.

19 Safer Hastings Partnership - is specifically earmarked to reduce crime, disorder and anti-social behaviour in neighbourhoods and on the streets.

20 Bathing Water Project was funded by the Environment Agency to improve the quality of the bathing water in the local area.

21 First World War Project - A five year project to research locally and commemorate the first world war through outreach to the community and exhibitions.

22 Coastal Communities Reserve (CCF) - The CCF aims to encourage the economic development of UK coastal communities by awarding funding to create sustainable economic growth and jobs.

23 Carry-forwards - To fund specific Revenue expenditure originally budgeted for in the current year.

24 Clinical Commissioning Group - To fund Health projects aimed at enabling Lifestyle and behavioural change in Hastings.

25 Young Peoples Council - To fund Young Peoples Council activities.

26 Sports for All – income received up-front but used in subsequent years to encourage involvement in sport

27 Revenue Hardship Fund - To support cases of Hardship relating to Council Tax.

28 Disabled Facility Grant - Funding for disabled adaptions.

29 Syrian Resettlement Programme Reserve - Funding received to support Syrian resettlement programme.

30 Selective Licensing – To smooth the impact of non-refundable license income received up-front but covering several years.

31 Housing Licensing - To smooth the impact of non-refundable license income received up-front but covering several years.

32 Community Housing – Government grant for us over more than one year.

NOTE 13. UNUSABLE RESERVES

Unusable reserves are held for various purposes as set out in the Accounting Policies (see Note 2.19 above). The tables below summarise the movements in the balances of the reserves, and movements on the individual reserves are then shown in more detail.

2016-17	**Balance 1 April 2016**	**Comp-rehensive I&E**	**Accounting - Financing Adjust.**	**Balance 31 March 2017**
	£'000	**£'000**	**£'000**	**£'000**
Deferred capital receipts	(3)	0	(265)	(268)
Revaluation Reserve	(52,963)	(6,091)	690	(58,364)
Capital Adjustment Account	(46,890)	0	993	(45,897)
Pensions Reserve	40,150	(567)	1,313	40,896
Financial instruments Adjustment A/c	(172)	0	153	(19)
Accumulated Absences Account	220	0	(85)	135
Collection Fund Adjustment Account	345	0	(391)	(46)
Total	**(59,313)**	**(6,658)**	**2,408**	**(63,563)**

2017-18	**Balance 1 April 2017**	**Comp-rehensive I&E**	**Accounting - Financing Adjust.**	**Balance 31 March 2018**
	£'000	£'000	£'000	£'000
Deferred capital receipts	(268)	0	(253)	(521)
Revaluation Reserve	(58,364)	2,545	523	(55,296)
Capital Adjustment Account	(45,897)	0	816	(45,081)
Pensions Reserve	40,896	(2,702)	2,206	40,400
Financial instruments Adjustment A/c	(19)	0	19	0
Accumulated Absences Account	135	0	(135)	0
Collection Fund Adjustment Account	(46)	0	(58)	(104)
Available for sale reserve	0	64	0	64
Total	**(63,563)**	**(93)**	**3,118**	**(60,538)**

Deferred Capital Receipts

2016-17 £000		**2017-18** £000
(3)	Balance 1 April	(268)
	Accounting / Financing Adjustments:	
(267)	Deferred receipts from asset disposals	(521)
2	Deferred receipts received to Capital Receipts Reserve	268
(268)	**Balance 31 March**	**(521)**

Revaluation Reserve

2016-17 £000		**2017-18** £000
(52,963)	Balance 1 April	(58,364)

2016-17 £000		2017-18 £000
	Comprehensive Income & Expenditure:	
(6,091)	(Gain) or Loss on revaluation of assets	2,545
	Accounting / Financing Adjustments:	
232	Gain or (loss) on sale of non-current assets	20
458	Depreciation charged to Revaluation Reserve	503
(58,364)	**Balance 31 March**	**(55,296)**

Capital Adjustment Account

2016-17 £000		2017-18 £000
(46,890)	Balance 1 April	(45,897)
	Accounting / Financing Adjustments:	
10	Write down Intangible Assets	3
4,020	Depreciation and impairment of non-current assets	1,755
(46)	Movements in value of Investment Properties	39
145	Gain or (loss) on sale of non-current assets	23
1,499	Revenue Expenditure Financed from Capital under Statute	3,397
(505)	Statutory provision for the financing of capital investment	(717)
(934)	Capital expenditure financed from revenue	(662)
(697)	Capital expenditure financed from Capital Receipts	(98)
(2,041)	Capital expenditure financed from Capital grants and contributions	(2,421)
(458)	Depreciation charged to Revaluation Reserve	(503)
(45,897)	**Balance 31 March**	**(45,081)**

Pensions Reserve

2016-17 £000		2017-18 £000
40,150	Balance 1 April	40,896
	Comprehensive Income & Expenditure:	
(567)	Re-measurement of the net defined benefit liability	(2,702)
	Accounting / Financing Adjustments:	
1,313	Difference between accounting and statutory credit for pension costs	2,206
40,896	**Balance 31 March**	**40,400**

Financial Instruments Adjustment Account

2016-17 £000		2017-18 £000
(172)	Balance 1 April	(19)
	Accounting / Financing Adjustments:	
153	Difference between accounting and statutory finance costs	19
(19)	**Balance 31 March**	**0**

Accumulated Absences Account

2016-17 £000		2017-18 £000
220	Balance 1 April	135
	Accounting / Financing Adjustments:	
(85)	Difference between accounting and statutory employment benefit	(135)
135	**Balance 31 March**	**0**

Collection Fund Adjustment Account

2016-17 £000		2017-18 £000
345	Balance 1 April	(46)
	Accounting / Financing Adjustments:	
39	Difference between accounting and statutory credit for Council Tax	87
(430)	Difference between accounting and statutory credit for Non-Domestic Rates	(145)
(46)	**Balance 31 March**	**(104)**

Available for sale assets reserve

2016-17 £000		2017-18 £000
0	Balance 1 April	0
	Accounting / Financing Adjustments:	
	Comprehensive Income & Expenditure:	
0	(Gain)/loss on revaluation of available for sale financial assets	64
0	**Balance 31 March**	**64**

NOTE 14. 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.

As set out in Note 1 above the 2016-17 figures have been re-stated to add £325,000 at 1 April 2016, reducing by £30,000 reflecting repayments during the year, to include previously omitted loans granted out of capital resources. This did not affect the calculation of the CFR.

2016-17 re-stated				2017-18		
Fin. Lease £'000	Other £'000	Total £'000		**Fin. Lease £'000**	**Other £'000**	**Total £'000**
254	18,135	18,389	Opening Capital Financing Requirement 1 April	**254**	**29,824**	**30,078**
			Capital Investment			
0	15,211	15,211	Property, Plant and Equipment	**0**	**9,710**	**9,710**
0	0	0	Investment Properties	**0**	**25**	**25**
0	0	0	Intangible Assets	**0**	**424**	**424**
0	135	135	Assets Held for Sale	**0**	**0**	**0**
0	51	51	Heritage assets	**0**	**5**	**5**
0	0	0	Long and short term loan - Housing Company	**0**	**780**	**780**
0	1,499	1,499	Revenue Expenditure Funded from Capital under Statute	**0**	**3,397**	**3,397**
			Sources of finance			
0	(697)	(697)	Capital receipts	**0**	**(98)**	**(98)**
0		0	Government grants and other contributions:			
0	(623)	(623)	towards assets	**0**	**(478)**	**(478)**
	(1,418)	(1,418)	towards REFCUS		**(1,943)**	**(1,943)**
0	(934)	(934)	Sums set aside from revenue and reserves	**0**	**(662)**	**(662)**
0	13,224	13,224	Financed from loan	**0**	**11,160**	**11,160**
0	(1,030)	(1,030)	Repayments from debtors	**0**	**(1,028)**	**(1,028)**
0	(505)	(505)	Minimum Revenue Provision	**0**	**(717)**	**(717)**
254	29,824	30,078	Closing Capital Financing Requirement 31 March	**254**	**39,239**	**39,493**

The opening and closing Capital Financing Requirements are made up of the following balance sheet items:

31 March 2017 re-stated				**31 March 2018**		
Fin. Lease £'000	Other £'000	Total £'000		**Fin. Lease £'000**	**Other £'000**	**Total £'000**
242	115,032	115,274	Property, Plant and Equipment	**121**	**120,232**	**120,353**
0	1,178	1,178	Investment Properties	**0**	**1,164**	**1,164**
0	14	14	Intangible Assets	**0**	**435**	**435**
0	0	0	Assets Held for Sale	**0**	**34**	**34**
0	14,789	14,789	Heritage assets	**0**	**15,048**	**15,048**
0	2,053	2,053	Long Term Debtors	**0**	**2,796**	**2,796**
0	1,031	1,031	Short Term Debtors	**0**	**40**	**40**
0	(58,364)	(58,364)	Revaluation Reserve	**(38)**	**(55,258)**	**(55,296)**
12	(45,909)	(45,897)	Capital Adjustment Account	**170**	**(45,251)**	**(45,081)**
254	29,824	30,078		**253**	**39,240**	**39,493**

The Council has to set money aside as a Minimum Revenue Provision (MRP) to reduce the CFR. Before 1 April 2007 commutation rules meant that this Council was not obliged to set aside an annual MRP. Since then the

Council has set aside a sum equivalent to 4% of the 1 April 2007 balance of the CFR, plus the impact of capital expenditure financed from loan in subsequent years.

The CFR includes some long and short term debtors, as the advances have been financed from capital resources. The CFR is reduced as repayments are made.

31 Mar 2017 £'000		31 Mar 2018 £'000
1,000	Mortgage scheme deposit	0
0	Housing company	780
1,788	Optivo (formerly Amicus Horizon)	1,788
24	The Source	23
272	Foreshore Trust	244
3,084		**2,835**

The annual and cumulative figures set aside are as follows:

2016-17 Fin. Lease £'000	2016-17 Other £'000	2016-17 Total £'000		2017-18 Fin. Lease £'000	2017-18 Other £'000	2017-18 Total £'000
799	3600	4,399	Balance 1 April	799	4,105	4,904
0	505	505	MRP for the year	0	717	717
799	4,105	4,904	Balance 31 March	**799**	**4,822**	**5,621**

NOTE 15. NON-CURRENT ASSETS AND ASSETS FOR SALE

PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings £'000	Vehicles Plant etc £'000	Infra-structure £'000	Comm. Assets £'000	Surplus Props. £'000	Under Construct. £'000	Total £'000
Cost:							
Opening value 1 April 2016	72,130	3,249	13,956	12,931	5,644	610	108,520
Additions	14,375	208	523	15	0	90	15,211
Disposals	(1)	0	0	0	(248)	0	(249)
Impairment losses	(2,376)	0	0	0	0	0	(2,376)
Impairment loss reversals	19	0	0	0	0	0	19
Reclassifications	112	252	0	0	(26)	(338)	0
Revaluations	4,520	0	0	0	937	0	5,457
Value 31 March 2017	88,779	3,709	14,479	12,946	6,307	362	126,582
Cumulative Depreciation:							
Opening value 1 April 2016	(484)	(1,846)	(7,485)	(289)	0	0	(10,104)
Charge for the year	(824)	(338)	(493)	0	(8)	0	(1,663)
Disposals	0	0	0	0	6	0	6
Impairment loss reversals	0	0	0	0	0	0	0
Revaluations	452	0	0	0	1	0	453
Balance 31 March 2017	(856)	(2,184)	(7,978)	(289)	(1)	0	(11,308)
Net book value 31 March 2017	**87,923**	**1,525**	**6,501**	**12,657**	**6,306**	**362**	**115,274**

	Land & Buildings	Vehicles Plant etc	Infra-structure	Comm. Assets	Surplus Props.	Under Construct.	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost:							
Opening value 1 April 2017	88,779	3,709	14,479	12,946	6,307	362	126,582
Additions	9,118	73	454	56	0	9	9,710
Disposals	(47)	(1,199)	0	0	0	0	(1,246)
Impairment losses	(1,152)	0	0	0	(29)	0	(1,181)
Impairment loss reversals	1,167	0	0	0	0	0	1,167
Reclassifications	(277)	(1)	0	0	532	(288)	(34)
Revaluations	(2,768)	0	0	0	(538)	0	(3,306)
Value 31 March 2018	94,820	2,582	14,933	13,002	6,272	83	131,692
Cumulative Depreciation:							
Opening value 1 April 2017	(856)	(2,184)	(7,978)	(289)	(1)	0	(11,308)
Charge for the year	(873)	(349)	(508)	0	(11)	0	(1,741)
Disposals	4	1,199	0	0	0	0	1,203
Impairment loss reversals	0	0	0	0	0	0	0
Revaluations	497	0	0	0	10	0	507
Balance 31 March 2018	(1,228)	(1,334)	(8,486)	(289)	(2)	0	(11,339)
Net book value 31 March 2018	**93,592**	**1,248**	**6,447**	**12,713**	**6,270**	**83**	**120,353**

The Council's properties categorised as Other Land and Buildings and Surplus Properties are subject to regular revaluations, which are phased over 5 years, but with an annual review to ensure that there are no material understatements or overstatements. The revaluations at both 31 March 2017 and 31 March 2018 were carried out by Wilkes Head and Eve, a professional firm of valuers, in line with the principles set out in Note 2.17.

The assets were valued over financial years as follows:

	Land & Buildings	Vehicles Plant etc	Infra-structure	Comm. Assets	Surplus Props.	Under Construct.	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Valued in:							
2013-14	3,103	0	0	0	0	0	3,103
2014-15	1,637	0	0	0	0	0	1,637
2015-16	23,074	0	0	0	2,247	0	25,321
2016-17	13,089	0	0	0	4,023	0	17,112
2017-18	43,766	0	0	0	0	0	43,766
Historic Cost	8,923	1,248	6,447	12,713	0	83	29,414
Net book value 31 March 2018	**93,592**	**1,248**	**6,447**	**12,713**	**6,270**	**83**	**120,353**

The Council's surplus properties consist of various parcels of land which are surplus to operational requirements, but which are not yet being actively marketed. There are no quoted prices for identical assets, but there are values available for similar assets, so it has been possible to value them at Level 2 of the Fair Value hierarchy (see Note 2.9 above), both at the start and end of the financial year.

INVESTMENT PROPERTIES

The movements in the values of investment properties are shown below:

2016-17 £'000		2017-18 £'000
1,132	Balance at start of the year	**1,178**
0	Purchases	**25**
46	Net gains/ (losses) from fair value adjustments	**(39)**
1,178	Balance at end of the year	**1,164**

The Council's Investment Properties consist of commercial properties let at market rents. There are no quoted prices for identical properties, and also no significant observable values for similar properties. Values have therefore been assessed under Level 3 of the Fair Value hierarchy (see Note 2.9 above), both at the start and end of the financial year. They are measured using the income approach, by means of the discounted cash flow method, where the discounted cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream. In all cases the highest and best use for these assets is their current use.

Income and expenditure on Investment Properties was as follows:

2016-17 £'000		2017-18 £'000
1,132	Balance at start of the year	**1,178**
0	Purchases	**25**
46	Net gains/ (losses) from fair value adjustments	**(39)**
1,178	Balance at end of the year	**1,164**

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

2016-17 **£'000**		2017-18 **£'000**
14,556	Balance at start of the year	**14,789**
51	Additions	**5**
182	Revaluations	**254**
14,789	Balance at end of the year	**15,048**

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

31 March 2017 £000's		31 March 2018 £000's
405	Turner Painting of Old Town	412
1,661	Art Collection - General	1,690
7,509	Art Collection - other	7,638
623	Ceramics Glass & Porcelain	634
3,571	Misc. - Silver, books, manuscripts etc.	3,633
633	Machinery, Equipment & other	634

31 March 2017 £000's		31 March 2018 £000's
204	Civic Regalia	207
82	Hastings Castle	97
101	Coins	103
14,789		15,048

NOTE 16. DEBTORS AND CONTINGENT ASSETS

DEBTORS

The table below analyses the balance sheet figures between different types of debt. The Council has made an allowance for impairment of £464,000, for doubtful debts for trade accounts receivable, compared to £203,000 as at 31 March 2017.

31 March 2017 £'000		31 March 2018 £'000
	Amounts falling due within one year:	
3,788	Central government bodies	**922**
561	Other Local Authorities & Public Bodies	**823**
4,693	All other bodies	**5,355**
9,042	Total short term debtors	**7,100**
95	Central government bodies	**130**
19	Other Local Authorities & Public Bodies	**26**
2,070	All other bodies	**2,799**
2,184	Amounts falling due after one year (all other bodies)	**2,954**
11,226	Total Debtors	**10,054**

CONTINGENT ASSETS

The council is involved in a retribution claim against Royal Mail in the High Court. This is in relation to VAT that was incurred on postal charges paid by the council. Royal Mail had invoiced for services on the basis that they were exempt from VAT however after review by the European Court of Justice in the Zipvit case it found that the services should have been standard rated. The council is therefore seeking compensation for the VAT that was imbedded in the charges it was paying but was unable to recover as there was no VAT amount shown on the invoices sent by Royal Mail. It is likely that the Council will be successful in the court action and receive compensation with interest however it is also possible that an out of court settlement may be made. Legal proceedings began in 2015 but it is not possible to determine when matters will conclude or what settlement will be received.

NOTE 17. LIABILITIES

CREDITORS

31 March 2017 £'000		31 March 2018 £'000
	Amounts falling due within one year:	
(1,703)	Central government bodies	**(4,223)**
(2,368)	Other Local Authorities	**(2,369)**
(3,892)	All other bodies	**(6,014)**
(7,963)	Total short term creditors	**(12,606)**

31 March 2017 £'000		31 March 2018 £'000
	Amounts falling due after one year:	
(295)	Other entities and individuals	**(296)**
(763)	Other Local Authorities	**(134)**
(1,058)	Total Long Term Creditors	**(430)**
(9,021)	Total Creditors	**(13,036)**

PROVISIONS

Due to the localisation of Business Rates, which became effective from 1 April 2013, the Council has set aside a provision for any potential liabilities as a result of Business Rate payers' appeals against rateable valuations. The Council is responsible for a 40% share of this liability, the Ministry for Housing, Communities and Local Government 50%, East Sussex County Council for 9% and the East Sussex Fire Authority for 1%. The provision includes an amount for appeals lodged to date but yet to be determined by the Valuation Office Agency (VOA) plus an amount for appeals expected but not yet lodged with VOA which has been estimated. It is expected that the majority of appeals will be settled by the VOA by 2020/21, but the Council cannot be certain as to when the appeals will be resolved because the timing of resettlement depends on the VOA.

The Council has not made any further provisions in 2017-18 for the legal fees relating to the Compulsory purchased property claims.

The council has made a provision in 2017/18 for the settlement of Pier closure compensation and costs that have not been paid or accrued for at the end of 2017/18. The exact amount and timings of any remaining settlements are not known but estimates have been made based on experience of settled claims.

	Balance at 1 April 2017	Additional Provisions made	Amounts used	Reversals	Balance at 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Compulsory purchase order provision	(465)	0	0	0	(465)
Pier closure compensation	0	(245)	0	0	(245)
NNDR provision for appeals - HBC element	(1,150)	(558)	334	87	(1,287)
	(1,615)	(803)	334	87	(1,997)

CONTINGENT LIABILITIES

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. The value of this potential liability is unknown and hard to quantify.

NOTE 18. FINANCIAL INSTRUMENTS

NATURE AND EXTENT OF RISKS

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

- Credit Risk — the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk — the possibility that the Council might not have funds available to meet its

commitments to make payments.

- 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 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 approved by Council on 13 February 2017 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2017-18 was set at £70m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £70m. 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 annually.

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 & Poor's 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 key elements are the security of capital and the liquidity of investments.

This Council uses the creditworthiness service provided by Link Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies – Fitch, Moody's and Standard and Poor's, 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 annual Investment Strategy for 2017-18 was approved by Full Council on 13 February 2017 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 Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2018 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.

The Council reviews trade debtors on a regular basis, and made a 100% provision against specific debts, 50% for those over 90 days overdue, and 10% for those less than 10 days. This is modified by excluding public sector bodies, and adjusting for debts where a payment plan is in place.

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.

31 March 2017				**31 March 2018**		
Amount	Bad Debt Provision	Estimated maximum exposure to default	Category	**Amount**	**Bad Debt Provision**	**Estimated maximum exposure to default**
£'000	£'000	£'000		**£'000**	**£'000**	**£'000**
1,305	(203)	1,102	Trade receivables	**1,968**	**(464)**	**1,504**
1,500	0	1,146	Other trade debtors	**1,602**	**0**	**1,602**
2,805	(203)	2,248	Total	**3,570**	**(464)**	**3,106**

The past due but not impaired amount can be analysed by age as follows:

31 March 2017 £'000		**31 March 2018 £'000**
241	Less than three months	**1,151**
560	More than three months	**817**
801	Total	**1,968**

All other trade debtors are due to be received within one year, while trade 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.

The maturity analysis of financial assets is as follows:

31 March 2017 £'000		**31 March 2018 £'000**
31,862	Less than 1 year	**33,128**
2,068	Less than 5 years greater than 1 year	**3,960**
33,930	Total	**37,088**

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 set out below. The amounts included are the payments to extinguish the liability, rather than the undiscounted future cash flows.

31 March 2017 £'000		**31 March 2018 £'000**
(9,198)	Less than 1 year	**(2,254)**
(2,000)	Between 1 and 2 years	**(261)**
0	Between 3 and 5 years	**(823)**
(1,244)	Between 6 and 10 years	**(1,451)**
(22,197)	More than 10 years	**(36,224)**
(34,639)	Total	**(41,013)**

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.

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.

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

	£'000
Increase in interest payable on variable rate borrowings	**20**
Increase in interest receivable on variable rate investments	**(80)**
Impact on Surplus or Deficit on the Provision of Services	**(60)**

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 a bank account denominated in Euros to deal with payments and receipts with the Euro countries, and therefore has a small risk of loss to movements in exchange rates.

FINANCIAL INSTRUMENT BALANCES

The long term investment is categorised as an asset available for sale, while the short term investments are all included within the category of "loans and receivables".

31 March 2017 Book Value £,000	31 March 2017 Fair Value £,000		31 March 2018 Book Value £,000	31 March 2018 Fair Value £,000
0	0	Available for sale financial asset	1936	1936
0	0	**Long term Investments**	**1,936**	**1,936**
23,093	23,101	Loans and Receivables	**10,041**	**10,020**
(93)	(93)	Less accrued interest	**(41)**	**0**
23,000	23,008	**Short term Investments**	**10,000**	**10,020**
1,305	1,305	Trade accounts receivable	**1,968**	**1,968**
(203)	(203)	Provision for impairment	**(464)**	**(464)**
1,000	1,000	LAMS Deposit	**0**	**0**
1,890	1,890	Other trade debtors	**1,602**	**1,602**
3,992	3,992	**Short Term Debtors**	**3,106**	**3,106**
1,793	1,793	Optivo (formerly Amicus Horizon) loan	**1,788**	**1,788**
264	264	Foreshore Trust	**233**	**233**
11	11	Staff car loans	**3**	**3**
2,068	2,068	**Long Term Debtors**	**2,024**	**2,024**
4,932	4,932	**Cash and Cash Equivalents**	**20,022**	**20,028**
33,992	34,000	**Total Financial Assets**	**37,088**	**37,114**

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

31 March 2017 Book Value £'000	31 March 2017 Fair Value £'000		31 March 2018 Book Value £'000	31 March 2018 Fair Value £'000
(25,441)	(29,102)	Public Works Loan board	**(38,759)**	**(42,757)**
(254)	(254)	Long Term Creditors	**(254)**	**(254)**
(25,695)	(29,356)	**Long Term Liabilities**	**(39,013)**	**(43,011)**
(9,198)	(9,198)	Short Term Loans	**(2,563)**	**(2,256)**
133	0	Adjust for interest on long term loans	**273**	**0**
(1,416)	(1,416)	Short Term Creditors	**(3,811)**	**(3,811)**
(10,481)	(10,614)	**Short Term Liabilities**	**(6,101)**	**(6,067)**
(36,176)	(39,970)	**Total Financial Liabilities**	**(45,114)**	**(49,078)**

Interest Receivable and Payable

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:

2016-17 £'000		2017-18 £'000
	Interest receivable	
(296)	Interest from loans and receivables	(281)
(5)	Other interest receivable	(24)
(301)	**Total Interest receivable**	**(305)**
	Interest payable	
498	Interest on long term borrowing	512
205	Other interest payable and similar charges	578
703	**Total Interest payable**	**1,090**

Valuation Techniques for Fair Value

The fair values valuations have been provided by the Council's Treasury Management advisor, Link Asset Services. 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, Link Assets Services has used the prevailing rate of a similar instrument with a published market rate, as the discount factor.

The fair value calculations for these financial instruments are in line with level 2 of the hierarchy outlined in accounting policy 2.9 above (Inputs, other than quoted prices within Level 1, that are observable for the asset or liability, either directly or indirectly).

For loans from the PWLB, valued in line with level 2, 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 Link Asset Services from the market on 31st March, using bid prices where applicable.

Available for sale assets are valued in line with Level 1 (quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the year end) with regard to the fair value hierarchy.

NOTE 19 RECONCILIATION BETWEEN THE SURPLUS/DEFICIT ON THE PROVISION OF SERVICES AND THE CASH FLOWS FROM OPERATING ACTIVITIES

2016-17 £'000		2017-18 £'000
2,562	(Surplus) or deficit on the provision of services	**2,214**
(1,663)	Depreciation of Property Plant and Equipment	**(1,742)**
(2,357)	Impairment of Property Plant and Equipment	**(13)**
(10)	Amortisation of Intangible Assets	**(3)**
(1,313)	Pension Fund adjustments	**(2,206)**

2016-17 £'000		2017-18 £'000
46	Movements in the market value of Investment Properties	**(39)**
(377)	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	**(43)**
	Changes in level of revenue accruals:	
(26)	Long Term Debtors	**759**
30	Short Term Investments	**(52)**
(1)	Long Term Creditors	**(1)**
(43)	Inventories	**(18)**
(692)	Short Term Debtors	**(2,227)**
(1,015)	Short Term Creditors	**(4,477)**
(62)	Short Term Borrowing	**(140)**
184	Provisions	**(382)**
1,098	Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	**702**
814	Capital Grant & Contributions	**2,696**
(2,825)	**Net cash flows from Operating Activities**	**(4,972)**

NOTE 20. EMPLOYEE REMUNERATION

The table below shows the remuneration of senior management. The figures include where appropriate amounts receivable in relation to returning officer duties.

Post holder information (Post title)	Salary (Inc. fees & Allow-ances)	Expense Allowance	Com-pensation for loss of office	Benefits in Kind (e.g.lease cars)*	Pension Cont-ributions**	Total Remun-eration
	£	£	£	£	£	£
Financial Year: 2016-17						
Director of Corporate Resources and Governance	87,872	0	0	6,243	18,406	112,521
Director of Operational Services	82,416	0	0	8,384	17,802	108,602
Assistant Director of Finance and Revenues (Section 151 Officer)	81,345	0	0	0	16,823	98,168
Assistant Director of Regeneration	71,388	0	0	0	15,288	86,676
Assistant Director of Environmental Services	71,388	0	0	0	14,914	86,302
Assistant Director of Housing	71,388	0	0	0	14,638	86,026
Total	**465,797**	**0**	**0**	**14,627**	**97,871**	**578,295**
Financial Year: 2017-18						
Director of Corporate Resources and Governance	88,036	0	0	6,723	15,890	110,649
Director of Operational Services	82,416	0	0	8,943	14,876	106,235
Assistant Director of Finance and Revenues (Section 151 Officer)	82,158	0	0	0	14,169	96,327
Assistant Director of Regeneration	64,957	0	0	0	11,130	76,087
Assistant Director of Environmental Services	72,102	0	0	0	12,354	84,456
Assistant Director of Housing	72,102	0	0	0	12,354	84,456
Total	**461,771**	**0**	**0**	**15,666**	**80,773**	**558,210**

* 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.

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. It includes compensation payments, but excludes employer's pension contributions. This table 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 may be held by more than one employee during the course of the year, and conversely an employee may hold more than one post.

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

2016-17		**2017-18**
4	£50,000 - 54,999	**5**
1	£55,000 - 59,999	**0**
4	£60,000 - 64,999	**4**
1	£65,000 - 69,999	**2**
3	£70,000 - 74,999	**3**
0	£75,000 - 79,999	**0**
1	£80,000 - 84,999	**1**
0	£85,000 - 89,999	**0**
2	£90,000 - £94,999	**2**
16		**17**

NOTE 21. 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 one employee in 2017-18, incurring costs of £20,901. In comparison it terminated the contracts of 4 employees in 2016-17, incurring costs of £90,328. Termination costs are charged to the Council's Comprehensive Income and Expenditure Statement in the year when the employment was terminated.

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

2016-17				Banding	**2017-18**			
Number of exit packages			Cost		**Number of exit packages**			**Cost**
Compuls. Redund.	Other departures	Total exit packages	Total		**Compuls. Redund.**	**Other departures**	**Total exit packages**	**Total**
			£					**£**
2	**0**	**2**	**12,936**	£0 - £20,000	**0**	**0**	**0**	**0**
0	**1**	**1**	**36,288**	£20,001 - £40,000	**0**	**1**	**1**	**20,901**
0	**1**	**1**	**41,104**	£40,001 - £60,000	**0**	**0**	**0**	**0**
2	**2**	**4**	**90,328**		**0**	**1**	**1**	**20,901**

NOTE 22. LEASES

COUNCIL ACTING AS LESSOR – OPERATING LEASES

The Council 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:

2016-17 Restated £'000		**2017-18** £'000
2,863	Not later than one year	3,631
10,070	Later than one year and not later than five years	12,119
74,109	Later than five years	76,316
87,042		92,066

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 2017-18 contingent rents of £225,360 were receivable by the Council (£179,677 in 2016-17).

NOTE 23. 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 to non-audit services provided by the Council's external auditors BDO.

2016-17 £'000		**2017-18 £'000**
55	External audit services	**55**
0	Other services	**0**
55		**55**

NOTE 24. MEMBERS ALLOWANCES

2016-17 £'000		**2017-18 £'000**
278	Members Allowances	**278**
9	Conferences, Training and Travelling Expenses	**4**
284		**282**
32*	Number of Councillors	**32**
£ 8,691	Average sum per Councillor	**£ 8,692**

The total amount paid includes £1,458 for non-elected committee members.

NOTE 25. RELATED PARTY TRANSACTIONS

Definition

The term “related party” covers any relationship 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 10 (grants and contributions), 16 (debtors) and 17 (liabilities).

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 11. Although the scheme is administered by East Sussex County Council, the pension fund is a separate entity.

Hastings Housing Company Ltd

During the year the Council established a wholly owned Housing Company limited by share - Hastings Housing Company Ltd. The company has been designed to initially acquire, develop and deliver housing for both market rent, and to provide sub market housing, with the potential to undertake development in the future. A key objective of the Housing Company is: To acquire existing or newly built property with a view to letting these to local people at market or submarket rents.

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. Six members are also members of East Sussex County Council. £432,000 (£467,000 2016-17) was paid to Hastings and St Leonards Foreshore Charitable Trust of which some members are Trustees. Repayments were made on the remaining annuity loan which was advanced as £300,000 during 2015/16, £243,900 of which was outstanding at 31 March 2018. 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. For all the organisations listed in the table below the relationship to the organisation was that the member was in a position of general control or management.

2016-17				2017-18		
Paid to (Supplier)	**Received From (Customer)**	**Balance at 31/03/17**	**Organisation**	**Paid to (Supplier)**	**Received From (Customer)**	**Balance at 31/03/18**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
10	8	0	Education Futures Trust	**17**	**11**	**0**
41	0	0	St Marys in the Castle	**11**	**0**	**0**
0	0	0	Love Hastings	**219**	**0**	**0**
8	27	0	Hastings and St Leonards Credit Union	**17**	**2**	**0**
10	0	0	Hastings International Chess Congress	**10**	**0**	**0**
1	0	0	SouthWater Area Community Centre	**6**	**0**	**0**

Grants to Voluntary Organisations

Hastings and St Leonards Foreshore Trust

The Council acts as the sole trustee for the Hastings and St Leonards Foreshore Charitable Trust. The trusteeship scheme is so constituted as to prevent the Council from obtaining any benefit from the Trust's activities.

During the year 2017-18 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 £1,361,000 and expenditure of £ 930,000, giving a net figure of £432,000 within the Council's own Accounts (net figure in 2016-17 was £467,000).

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

NOTE 26. EXCEPTIONAL ITEMS

There were no exceptional items in this financial year.

COLLECTION FUND

COLLECTION FUND INCOME & EXPENDITURE ACCOUNT

These accounts represent the transactions of the Collection Fund (accounting separately for income relating to council tax and Non-Domestic Rates) which is a statutory fund separate from the main accounts of the Council, although this Council's share of it is included in the 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.

2016-17 £'000		**2017-18 £'000**
	Council Tax	
	INCOME	
(44,793)	Income from Council Taxpayers	**(47,673)**
	EXPENDITURE	
	Precepts and demands on Collection Fund	
30,894	East Sussex County Council	**32,984**
3,675	Sussex Police and Crime Commissioner	**2,218**
2,140	East Sussex Fire Authority	**3,863**
6,054	Hastings Borough Council	**6,282**
	Apportionments of previous year surplus	
824	East Sussex County Council	**1,176**
99	Sussex Police and Crime Commissioner	**82**
58	East Sussex Fire Authority	**140**
165	Hastings Borough Council	**232**
	Bad & Doubtful Debts	
490	Write offs of uncollectable income	**88**
651	Provision for uncollectable income-addition / (reduction)	**1,189**
45,050		**48,254**
257	Movement on Fund Balance - (surplus) / deficit	**581**

FUND BALANCE FOR COUNCIL TAX

(2,777)	Balance brought forward	**(2,520)**
257	(Surplus) / deficit for year	**581**
(2,520)	Balance carried forward	**(1,939)**

2016-17 £'000		**2017-18 £'000**
	Non-Domestic Rates	
	INCOME	
(22,419)	Income from Ratepayers	**(22,099)**
132	Transitional Protection payments	**91**
	Apportionments of previous year deficit	
(798)	Government	**(296)**
(144)	East Sussex County Council	**(53)**
(16)	East Sussex Fire Authority	**(6)**
(639)	Hastings Borough Council	**(237)**
(23,884)	Total	**(22,600)**

COLLECTION FUND

2016-17 £'000		2017-18 £'000
	EXPENDITURE	
	Precepts and demands on Collection Fund	
10,683	Government	**10,412**
1,923	East Sussex County Council	**1,874**
214	East Sussex Fire Authority	**208**
8,547	Hastings Borough Council	**8,330**
	Bad & Doubtful Debts	
321	Write offs of uncollectable income	**130**
(41)	Provision for uncollectable income-addition / (reduction)	**197**
	Impairments resulting from appeals	
1,403	Write offs	**610**
(375)	Provision for uncollectable income-addition / (reduction)	**342**
134	Transfer to General Fund - Cost of Collection Allowance	**134**
22,809		**22,237**
(1,075)	Movement on Fund Balance - (surplus) / deficit	**(363)**
	FUND BALANCE FOR DON-DOMESTIC RATES	
1,856	Balance brought forward	**781**
(1,075)	(Surplus) / deficit for year	**(363)**
781	Balance carried forward	**418**

COLLECTION FUND BALANCE

2016-17 £'000		2017-18 £'000
(921)	Balances brought forward	**(1,739)**
(818)	(Surplus) / deficit for year	**218**
(1,739)	Balance - (surplus) / deficit carried forward	**(1,521)**

NOTE 1. INCOME FROM BUSINESS RATES (NNDR)

The Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate. From the amount collected 50% 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 full multiplier for 2017-18 was 47.9p, compared to 49.7p for 2016-17, and the small business multiplier was 46.6p compared with 48.4p in 2016-17. The rateable value of business premises at 31 March 2018 was £62,806,889 compared to £57,869,797 at 31 March 2017.

NOTE 2. COUNCIL TAX BASE

Band & Value	Number of Chargeable Properties	Relationship to Band D	Annual Amount
			£
Band A - up to £40,000	8,042.00	6/9	5,360.60
Band B - over £40,000 up to £52,000	8,307.85	7/9	6,461.70
Band C - over £52,000 up to £68,000	6,058.95	8/9	5,385.70
Band D - over £68,000 up to £88,000	5,164.00	-	5,164.00
Band E - over £88,000 up to £120,000	1,739.30	11/9	2,125.80
Band F - over £120,000 up to £160,000	745.25	13/9	1,076.50
Band G - over £160,000 up to £320,000	188.55	15/9	314.30
Band H - over £320,000	18.00	18/9	36.00
	30,263.90		**25,924.60**

	Collection Rate	
Council Tax Base and amount originally expected for 2017/18	96.5%	25,095
East Sussex County Council share		32,983,864
Sussex Police and Crime Commissioner		3,862,371
East Sussex Fire Authority share		2,218,398
Hastings Borough Council share		6,282,031
		45,346,664

NOTE 3. SURPLUSES & DEFICITS

In accordance with the accounting code of practice surpluses and deficits arising from the collection of Council Tax and Rates 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.

2016-17 Council Tax £'000	2016-17 NNDR £'000		**2017-18 Council Tax £'000**	**2017-18 NNDR £'000**
		Balance brought forward :-		
0	928	Government	**0**	**391**
(2,001)	167	East Sussex County Council	**(1,819)**	**70**
(239)	0	Sussex Police & Crime Commissioner	**(216)**	**0**
(140)	19	East Sussex Fire Authority	**(127)**	**8**
(397)	742	Hastings Borough Council	**(358)**	**312**
(2,777)	1,856	(Surplus) / Deficit	**(2,520)**	**781**
		Movement on Fund Balance :-		
0	(537)	Government	**0**	**(182)**
182	(97)	East Sussex County Council	**413**	**(32)**
23	0	Sussex Police & Crime Commissioner	**50**	**0**
13	(11)	East Sussex Fire Authority	**31**	**(4)**
39	(430)	Hastings Borough Council	**87**	**(145)**
257	(1,075)	(Surplus) / Deficit	**581**	**(363)**

COLLECTION FUND

2016-17 Council Tax £'000	2016-17 NNDR £'000		2017-18 Council Tax £'000	2017-18 NNDR £'000
		Balance carried forward :-		
0	391	Government	**0**	**209**
(1,819)	70	East Sussex County Council	**(1,406)**	**38**
(216)	0	Sussex Police & Crime Commissioner	**(166)**	**0**
(127)	8	East Sussex Fire Authority	**(96)**	**4**
(358)	312	Hastings Borough Council	**(271)**	**167**
(2,520)	781	(Surplus) / Deficit	**(1,939)**	**418**

NOTE 4. BALANCES HELD FOR EACH COUNCIL

	Government	ESCC	Police	Fire	Hastings BC	Total
	£	£	£	£	£	£
Balances as at 31 March 2017						
1: Council Tax						
Arrears	**0**	4,273,776	508,354	296,047	837,515	5,915,692
Impairment Allowance for doubtful debts	0	(3,285,373)	(390,786)	(227,580)	(643,822)	(4,547,561)
Overpayments	0	(803,379)	(95,560)	(55,651)	(157,435)	(1,112,025)
Prepayments	0	(470,391)	(55,952)	(32,584)	(92,181)	(651,108)
(Surplus)/deficit	0	(1,818,873)	(216,604)	(126,630)	(358,104)	(2,520,211)
Totals	0	(2,104,240)	(250,548)	(146,398)	(414,027)	(2,915,213)
2: Non-Domestic Rates						
Arrears	557,189	100,294	0	11,144	445,751	1,114,378
Impairment allowance for doubtful debts	(395,236)	(71,142)	0	(7,905)	(316,188)	(790,471)
Overpayments	(257,158)	(46,289)	0	(5,143)	(205,727)	(514,317)
Prepayments	(85,120)	(15,322)	0	(1,702)	(68,096)	(170,240)
Provision for losses on appeals	(1,437,500)	(258,750)	0	(28,750)	(1,150,000)	(2,875,000)
(Surplus)/deficit	390,476	70,285	0	7,810	312,380	780,951
Totals	(1,227,349)	(220,924)	0	(24,546)	(981,880)	(2,454,699)

COLLECTION FUND

	Government	ESCC	Police	Fire	Hastings BC	Total
	£	£	£	£	£	£
Balances as at 31 March 2018						
1: Council Tax						
Arrears	0	5,345,607	636,626	349,183	989,262	7,320,678
Impairment Allowance for doubtful debts	0	(4,188,689)	(498,845)	(273,612)	(775,162)	(5,736,308)
Overpayments	0	(759,557)	(90,458)	(49,615)	(140,564)	(1,040,194)
Prepayments	0	(480,804)	(57,261)	(31,407)	(88,978)	(658,450)
(Surplus)/deficit	0	(1,406,528)	(166,116)	(95,674)	(270,813)	(1,939,131)
Totals	0	(1,489,971)	(176,054)	(101,125)	(286,255)	(2,053,405)
2: Non-Domestic Rates						
Arrears	714,651	128,637	0	14,293	571,721	1,429,302
Impairment allowance for doubtful debts	(493,732)	(88,871)	0	(9,875)	(394,986)	(987,464)
Overpayments	(279,722)	(50,350)	0	(5,594)	(223,777)	(559,443)
Prepayments	(17,903)	(3,223)	0	(358)	(14,323)	(35,807)
Provision for losses on appeals	(1,608,500)	(289,530)	0	(32,170)	(1,286,800)	(3,217,000)
(Surplus)/deficit	208,896	37,601	0	4,178	167,117	417,792
Totals	(1,476,310)	(265,736)	0	(29,526)	(1,181,048)	(2,952,620)

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 intangible 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 non-current assets, including assets that are not directly owned by the Council (see below for Revenue Expenditure Financed from Capital Under Statute).

CAPITAL RECEIPTS

The proceeds from the sale of non-current assets.

CASH EQUIVALENTS

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.

COMMUNITY ASSETS

Assets such as parks that the Council intends to hold in perpetuity, that have no determinable useful life, and which may have restrictions on their disposal.

CREDITORS

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

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.

GLOSSARY

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 scheme under which benefits are payable under regulations, in which the benefits re 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 obsolescence through technological or other changes.

EARMARKED RESERVES

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

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.

FAIR VALUE

The fair value of an asset is the price at which it could be exchanged in an arm’s length transaction.

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.

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 include Revenue Support Grant and Housing Benefit subsidy.

HERITAGE ASSETS

These are assets which are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.

IMPAIRMENT

A reduction in the value of an asset, whether from physical or economic causes, or because of a reduction in the market price.

GLOSSARY

INFRASTRUCTURE ASSETS

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

INTANGIBLE ASSETS

Identifiable non-monetary assets such as software licences.

INVESTMENT PROPERTIES

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

LEASES

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 for an agreed period of time.

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, the Sussex Police and Crime Commissioner 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; similarly the statutory share of Non-Domestic Rates that are payable to the Government, County Council and the Fire Authority.

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, e.g. 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 non -current asset for the Council.

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 charges for services, council tax and non-domestic rates. It is centrally determined on a needs basis.

UNUSABLE RESERVES

These are reserves, including those offsetting non-current assets and the negative reserve that offsets the long-term pension liability, that are not immediately available for use to support revenue or capital expenditure.

USABLE RESERVES

These reserves are available to support the Council's expenditure, although the Capital Receipts Reserve and the Capital Grants and Contributions Reserve may only be used for capital purposes.

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Agenda Item 5

Report to: Audit Committee

Date of Meeting: 31 July 2018

Report Title: BDO Audit Completion Report - Audit for the year ended 31 March 2018

Report By: Peter Grace

Assistant Director Financial Services and Revenues (Chief Finance Officer)

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 2017/18 accounts, and their value for money assessment of the Council.

Recommendation(s)

1. **That the report and action plan be accepted.**

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.

Background

1. The 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. Auditing standards require the external auditors to report to those charged with governance, certain matters before giving an opinion on the accounts.

2. Subject to the successful resolution of matters set out in the outstanding matters section of the report, BDO anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2018.

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. BDO anticipate issuing an unmodified opinion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

5. A Senior BDO representative is expected to attend the Committee and present the report.

Wards Affected

None

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
Anti-Poverty	No

Additional Information

Appendix A: Final report to the Audit Committee - Audit for the year ended 31 March 2018.

Officer to Contact

Tom Davies
Email: tdavies@hastings.gov.uk
Telephone: 01424 451524

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HASTINGS BOROUGH COUNCIL

AUDIT COMPLETION REPORT

Audit for the year ended 31 March 2018

30 July 2018

BDO

CONTENTS

WELCOME

We have pleasure in presenting our Audit Completion Report to the Audit Committee. This report is an integral part of our communication strategy with you, a strategy which is designed to ensure effective two way communication throughout the audit process with those charged with governance.

It summarises the results of completing the planned audit approach for the year ended 31 March 2018, specific audit findings and areas requiring further discussion and/or the attention of the Audit Committee. At the completion stage of the audit it is essential that we engage with the Audit Committee on the results of audit work on key risk areas, including significant estimates and judgements made by management, critical accounting policies, any significant deficiencies in internal controls, and the presentation and disclosure in the financial statements.

We look forward to discussing these matters with you at the Audit Committee meeting on 31 July 2018, and to receiving your input.

In the meantime if you would like to discuss any aspects in advance of the meeting we would be happy to do so.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. This report has been prepared solely for the use of the Audit Committee and those charged with governance. In preparing this report we do not accept or assume responsibility for any other purpose or to any other person.

This report contains matters which should properly be considered by the Council as a whole. We expect that the Audit Committee will refer such matters to the Council, together with any recommendations, as it considers appropriate.

We would also like to take this opportunity to thank the management and staff of the Council for the co-operation and assistance provided during the audit.

OVERVIEW

This summary provides an overview of the audit matters that we believe are important to the Audit Committee in reviewing the results of the audit of the financial statements and use of resources of the Council for the year ended 31 March 2018.

It is also intended to promote effective communication and discussion and to ensure that the results of the audit appropriately incorporate input from those charged with governance.

AUDIT SCOPE AND OBJECTIVES	
Audit status	We have substantially completed our audit procedures in accordance with the planned scope and our objectives have been achieved, subject to resolution of matters set out in the outstanding matters section below.
Audit risks update	No additional significant audit risks were identified during the course of our audit procedures subsequent to our Audit Plan dated 27 February 2018.
Materiality	Our final materiality is £1.68 million.
Changes to audit approach	There were no significant changes to our planned audit approach nor were any restrictions placed on our audit.
KEY AUDIT AND ACCOUNTING MATTERS	
Material misstatements	Our audit identified no material misstatements that resulted in adjustment to the deficit on provision of services. However, we found one material misstatement in respect of the disclosure for future minimum lease payments receivable on operating leases due to an error in the formula in the spreadsheet that resulted in an increase in future payments receivable of £7 million. This has been corrected by management.
Unadjusted audit differences	Our audit identified two errors above our reporting threshold that would reduce the deficit for the year by £39,000.
Control environment	Our audit identified no significant deficiencies in internal controls.
KEY MATTERS FROM OUR AUDIT OF USE OF RESOURCES	
Sustainable resource deployment	The 2018/19 and 2019/20 budgets reflect further reductions in Government support and requires £1 million from reserves in each year to deliver a balanced budget. In the medium term, there are budget shortfalls of £1.9 million in 2020/21 and £2.4 million in 2021/22 that will need to be addressed. The Council holds significant reserves to support the budget shortfalls in the coming years although there remains a challenge to close the funding gap in the medium term. While there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

OVERVIEW

AUDIT OPINION	
Financial statements	We anticipate issuing an unmodified opinion on the financial statements for the year ended 31 March 2018.
Annual Governance Statement	We have no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements or our knowledge.
Use of resources	We anticipate issuing an unmodified opinion on the arrangements in place to secure economy, efficiency and effectiveness in the use of resources for the year ended 31 March 2018.
OTHER MATTERS FOR THE ATTENTION OF THE AUDIT COMMITTEE	
Whole of Government Accounts (WGA)	The Council is below the audit threshold of £500 million for a full assurance review of the WGA Data Collection Tool.
Audit independence	Our observations on our audit independence and objectivity and related matters are set out in Appendix IV.
Management letter of representation	The draft management letter of representation, to be approved and signed, is set out in Appendix VI.

OUTSTANDING MATTERS

The following matters are outstanding at the date of this report. We will update you on their current status at the Audit Committee meeting at which this report is considered:

1. Partner review of audit evidence and key judgements
2. Final review and approval by you of the Statement of Accounts
3. Subsequent events review
4. Management letter of representation, as attached in Appendix VI to be approved and signed

KEY AUDIT AND ACCOUNTING MATTERS

AUDIT RISKS

We have assessed the following as audit risks from our audit planning. We set out how these risks have been addressed and the outcomes of our work.

Key: ■ Significant risk ■ Normal risk

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
1	**Management override of controls**	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual. By its nature, there are no controls in place to mitigate the risk of management override.	We have: • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements	We have used data analytics software, BDO Advantage, to review the Council's general ledger, in order to focus our testing of journals on higher risk areas. Our detailed testing of a sample of journals did not identified any significant issues.
			• Reviewed accounting estimates for biases and evaluated whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud	We have not found any indication of management bias in accounting estimates. Our views on significant management estimates are set out in this report.
			• Obtained an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.	We have identified no significant or unusual transactions which we consider to be indicative of fraud in relation to management override of controls.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
2	**Revenue recognition**	Under auditing Standards there is a presumption that income recognition presents a fraud risk. In particular, we consider there to be a significant risk in respect of the existence (recognition) of revenue and capital grants that are subject to performance and / or conditions before these may be recognised as revenue in the comprehensive income and expenditure statement (CIES). We also consider there to be a significant risk in relation to the existence of fees and charges and investment rental income recorded in the CIES with a particular focus on year-end cut off.	We have: • Tested a sample of grants subject to performance and / or conditions to confirm that conditions of the grant have been met before the income is recognised in the CIES. • Tested a sample of fees and charges to ensure income has been recorded in the correct period and that all income that has been recorded should have been recorded.	We found immaterial misclassification between grants income and fees and charges which were adjusted by management. We found no issues in our tested sample of fees and charges.

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
3	**Valuation of land, buildings and investment properties**	Management uses external valuation data to assess whether there has been a material change in the value of classes of assets. Investment properties are revalued annually according to market conditions at year-end. Higher value operational properties (other land and buildings) are revalued annually to provide assurance that carrying values are materially stated, with the remainder of non-material value assets revalued periodically (minimum of every five years). Operational asset valuations are undertaken by external valuers. We consider there to be a risk over the valuation of land, buildings and investment properties where valuations are based on market assumptions or where updated valuations have not be provided for a class of assets at the year-end.	We have: • Reviewed the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert.	From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on this work.
			• Reviewed the basis of valuation for a sample of assets valued in year and confirmed this was appropriate based on their usage.	We reviewed the valuation methodology applied and confirmed the basis of valuation for assets valued in year as appropriate.
			• Reviewed valuation movements against indices of price movements for similar classes of assets and followed up valuation movements that appear unusual against indices.	Our review of the reasonableness of valuation assumptions applied is noted on the following page.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ESTIMATE		IMPACT
Land and buildings are valued by reference to existing use market values	**Other land and buildings - Existing use basis of valuation in an active market** The valuer undertook valuations on 30 assets (£21.2 million by value) at 31 March 2018 valued on an existing use basis where there is an active market. The valuer has obtained recent sales for similar asset and made adjustments to reflect the location, size and price movements since the sale. We have reviewed a sample of 16 valuations and checked the data used by the valuer and confirmed that appropriate similar recent sales had been used and that adjustment made by the valuer to reflect the valuation of the asset were appropriate. We compared the percentage movement of revalued assets to general market movements using information provided by Gerald Eve LLP and challenged the valuer for any valuations for six assets that were outside of an expected range. Reasonable explanations were provided for each asset. We concluded that the valuations for other land and buildings based on existing use in an active market are reasonable.	< lower higher >
Investment properties are valued by reference to highest and best use market value	**Investment properties** The valuer undertook valuations on four assets (£1.139 million by value) at 31 March 2018 using recent sales for similar properties and used rental amounts for the property and market yields of 8% to 9% to value the asset. We have reviewed all valuations and the data used by the valuer and confirmed that appropriate similar recent sales had been used, that rental amounts were checked to rental agreements, and the market yield applied was appropriate. We compared the percentage movement of revalued assets to general market movements using information provided by Gerald Eve LLP and challenged the valuer for any valuations for two assets that were outside of an expected range. Reasonable explanations were provided for each asset. We concluded that the valuations for investment properties are reasonable.	< lower higher >

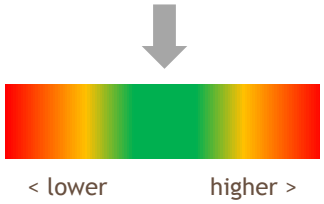
KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ESTIMATE		IMPACT
Some specialist buildings are valued at depreciated replacement cost by reference to building indices	**Other land and buildings - Specialist properties depreciated replacement cost (DRC)** The valuer undertook valuations on four assets (£15.2 million by value) at 31 March 2018, including a community centre, museum and theatre. DRC valuations are based on rebuild costs using up to date tender pricing information with an age / obsolescence adjustment to reflect its current condition and remaining economic life. The valuer has used tender rebuild prices provided by RICS with appropriate Hastings location cost adjustments, using an appropriate rebuild cost per square foot for each type of property. The valuer has applied an aging adjustment using the original build date of the property and standard useful economic lives for each type of property to reflect the percentage of the remaining economic live, with aging only coming into effect after the first 5 years of its life as little aging in the building is expected in these initial years. We have reviewed all valuations and the data used by the valuer and confirmed that the size (square foot) agreed to estates records and that the tender price used agreed to the RICS tender prices. We compared the percentage movement of revalued assets to general market from the BCIS tender price index with local pricing adjustments using information provided by Gerald Eve LLP and RICS, and challenged the valuer for four valuations that were outside of an expected range. Reasonable explanations were provided for each asset. We concluded that the valuations for other land and buildings based on depreciated replacement cost valuations are reasonable.	< lower higher >
Assets not revalued in year	**Assets not subject to revaluation in the year** The value of assets not revalued are £60.01 million by value. We reviewed these by class of assets and considered whether the balances could be materially misstated by reference to the Gerald Eve report of price movements. For assets valued at existing use, the potential uplift in valuation is still within an acceptable range of their carrying value. For asset valued using DRC, the price index suggests a significant uplift of up to 6.7% for tender prices. Using an acceptable range of +/- 4% for to reflect the inherent uncertainty in these valuations, this suggest an estimated increase of £103,000 above what would be acceptable compared to their carrying value. This is not material and therefore there is no requirement to obtain an updated valuation but this is above our reporting threshold and has been included as an estimated audit difference in Appendix II.	< lower higher >

KEY AUDIT AND ACCOUNTING MATTERS

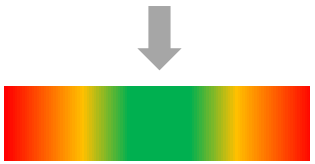
	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
4	**Pension liability assumptions**	The pension liability comprises the Council's share of the market value of assets held in the East Sussex County Council Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the 2016 triennial membership data held by the pension fund, rolled forward, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation at 31 March 2018 when calculating the liability. There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.	We have: • Checked the disclosures to the information provided by the pension fund actuary.	We have agreed the disclosures to the information provided by the pension fund actuary and identified no issues.
			• Requested assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.	No issues were reported by the pension fund auditor with regard to the controls over providing complete and accurate data to the actuary.
			• Requested assurance from the auditor of the pension fund to agree contributions paid and the overall investment returns in the fund to the data provided to the actuary and used in the updated valuation.	No issues were reported by the pension fund auditor with regard to the contributions paid and the investment returns in the fund to the data provided to the actuary. The pension auditor indicated that they did not receive
			• Checked whether there were any notifiable events that may require the actuary to update the roll-forward data for the valuation.	We have not identified any events that may require the actuary to update the roll-forward for the valuation.
			• Reviewed the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.	Our review of the reasonableness of assumptions used to calculate the present value of future pension obligations is noted in the following page.

KEY AUDIT AND ACCOUNTING MATTERS

SIGNIFICANT ESTIMATE				IMPACT
The key assumptions include estimating future expected cash flows to pay pensions including inflation, salary increases and mortality of members; and the discount rate to calculate the present value of these cash outflows	The actuary has used the following assumptions to value to future pension liability:			
	Actual	**Acceptable range**	**Comments**	
	RPI increase	3.4%	3.4%	Reasonable
	CPI increase	2.4%	2.4%	Reasonable
	Salary increase	2.8%	--	Reasonable (derived from RPI assumptions)
	Pension increase	2.4%	2.4%	Reasonable
	Discount rate	2.6%	2.6-2.7%	Reasonable
	Mortality - LGPS:			
	- Male current	23.8 years	23.5-26.6	Reasonable
	- Female current	26.3 years	26.2-26.9	Reasonable
	- Male retired	22.1 years	21.5-22.8	Reasonable
	- Female retired	24.4 years	24.1-25.1	Reasonable
	Commutation	50%	50%	Reasonable
	We have compared the assumptions and estimates used by the actuary with the expected ranges provided by the independent consulting actuary. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.			< lower higher >

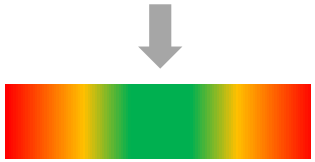
KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
5	Consideration of related parties	We consider if the disclosures in the financial statements concerning related party transactions are complete and adequate and in line with the requirements of the accounting standards. There is a risk that related party transactions disclosures are omitted from the financial statements, or do not accurately reflect the underlying related party transaction.	We have: • Reviewed information concerning any such identified transactions. • Discussed with management and reviewed member's and Senior Management declarations to ensure there are no potential related party transactions which have not been disclosed.	Our work did not identify any issues with the transactions with related parties. We performed Company house searches and we did not identify any undisclosed related parties.
6	Valuation of heritage assets	Where heritage assets are measured at valuation, the carrying amount shall be reviewed with sufficient frequency to ensure the valuations remain current. Heritage Assets are valued by an external valuer by reference to insurance valuations and are also revalued using a rolling programme. There is a risk over the valuation of heritage assets where valuations are not undertaken with sufficient frequency.	We have: • Reviewed the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert. • Confirmed that the basis of valuation for the various classes of heritage assets valued in year is appropriate.	From our review of the instructions provided to the valuer and assessment of the expertise of the valuer, we are satisfied that we can rely on this work. We reviewed the valuation methodology applied and confirmed the basis of valuation for heritage assets valued in year as appropriate.

ESTIMATE		IMPACT
Heritage Assets are valued by an external valuer by reference to insurance valuations and are also revalued using a rolling programme of valuation reviews	The valuer applied a 3% increase on the value of all heritage assets based on his estimate of market movements. This increase appears reasonable based on his report.	

KEY AUDIT AND ACCOUNTING MATTERS

	AUDIT AREA	RISK DESCRIPTION	HOW RISK WAS ADDRESSED BY OUR AUDIT	AUDIT FINDINGS AND CONCLUSION
7	Allowance for non-collection of receivables	The Council makes allowance for the non-collection of receivables relating to housing benefit overpayments, council tax, non-domestic rates and trade receivables. These allowances are management estimates based on historic experience, judgement and benchmarking against other similar authorities. There is a risk that the assumptions used may not be appropriate, which could lead to a misstatement of the allowance made.	We reviewed the provision model for significant income streams and debtor balances to assess whether it appropriately reflects historical collection rates by age of debt or arrears.	We did not identify any issues regarding the provision for the recoverability of receivables.

ESTIMATE		IMPACT
Allowance for non-collection of receivables	**Housing benefit overpayments** The Council has applied a provision rate of 50% to all overpayments, which is a reduction from the 65% used in the prior year. This was based on the Council doing an analysis of the recovery of the overpayments, which came to about 47%. We are satisfied with the provision at 50%. This results in a gain for the year of £435,000 to the CIES. **Council tax arrears** The council tax provision is a 2.8% provision for all Ctax still outstanding from 17/18 and a 100% provision for balances due from before 2008/09. We have considered this to be reasonable based on prior year collection rates and also the prior year provision rates. **NDR arrears** NNDR provision is a 1.5% provision for all NNDR still outstanding from 17/18 and a 100% provision for balances due from before 2012/13. This percentages used have been considered based on the prior year recovery rates and found to be reasonable, given the movements in small percentage changes of the provision. **Trade receivables** The Council has provided for all debts over 120 days and 50% provision for balances older than 90 days. This excludes all other local authorities and public bodies. This is considered reasonable as from prior experience these bodies are often slow to pay each other but do settle their debts in time. There is then a 10% provision against all other balance less than 90 days but greater than 10 days, again excluding other local authorities and public bodies.	

KEY AUDIT AND ACCOUNTING MATTERS

MATTERS REQUIRING ADDITIONAL CONSIDERATION		
We comment below on other matters requiring additional consideration:		
	AUDIT AREA	AUDIT FINDINGS
1	Fraud	Whilst the Chief Financial Officer (Assistant Director Financial Services) and members have ultimate responsibility for prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit procedures did not identify any fraud. We will seek confirmation from those charged with governance on whether you are aware of any known, suspected or alleged frauds.

OTHER REPORTING MATTERS

We comment below on other reporting required to be considered in arriving at the final content of our audit report:

	MATTER	COMMENT
1	We are required to report on whether the financial and non-financial information in the Narrative Report within the Statement of Accounts is consistent with the financial statements and the knowledge acquired by us in the course of our audit.	We are satisfied that the other information in the Statement of Accounts is consistent with the financial statements and our knowledge.
2	We are required to report by exception if the Annual Governance Statement is misleading or inconsistent with other information that is forthcoming from the audit.	We have no matters to report.

CONTROL ENVIRONMENT

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 the Audit Committee.

As the purpose of the audit is for us to express an opinion on the Council's financial statements and use of resources, 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 note that the Council's internal audit function has issued a number of observations and recommendations on the Council's control environment during 2017/18. We have not repeated these recommendations in this report unless we consider them to highlight significant deficiencies in control which we are required to report to you.

We are not aware of any significant deficiencies in the Council's internal controls in 2017/18.

We have identified other deficiencies in controls which have been discussed with management and included in the action plan at Appendix II.

WHOLE OF GOVERNMENT ACCOUNTS

We comment below on other reporting required:

	MATTER	COMMENT
1	Auditors are required to review Whole of Government Accounts (WGA) information prepared by component bodies that are over the prescribed threshold of £500 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure. The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.	Local authorities were required to submit the unaudited DCT to HM Treasury and auditors by 14 June 2018. The Council did not meet this deadline but was granted an extension. We will submit the relevant section of the assurance statement to the National Audit Office (NAO).

USE OF RESOURCES

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) and report to you on an 'except for' basis. This is based on the following reporting criterion:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

There are three sub criteria that we consider as part of our overall risk assessment:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties.

AUDIT RISKS

We have assessed the following as audit risks from our audit planning. We set out how these risks have been addressed and the outcomes of our work.

Key: ■ Significant risk

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	**Sustainable finances**	The Council set a balanced budget for 2017/18 using £0.6 million support from reserves, but with unfunded shortfalls in the medium term. The MTFS reflect further reductions in Government support and requires support from reserves in each year to deliver a balanced budget. While the Council holds significant reserves to support the budget shortfalls in the coming years, it is clear that there is a significant challenge to close the funding gap in the medium term. (continued)	The original budget included £1.496 million of planned draw from reserves although only £0.6 million was required to support revenue costs. The revised budget increased the draw from reserves with £2.615 million required to support revenue costs. The outturn for the year reduced the revenue support from reserves to only £1.003 million as a result of underspends across a number of services. The main areas of underspend were due to increased grants income, disabled facilities spend and a one-off reduction in the housing benefit costs from a reduction in the overpayments provision for non-recovery of arrears. Overspends were reported in relation to the pier closure legal costs and compensation claim.

USE OF RESOURCES

RISK AREA		RISK DESCRIPTION AND WORK PERFORMED	AUDIT FINDINGS AND CONCLUSION
1	Sustainable finances	We have: • Reviewed the assumptions used in the MTFS and assess the reasonableness of the cost pressures and future income levels which have been forecast.	The key assumptions used in the MTFS were found to be reasonable. The 2018/19 and 2019/20 budgets reflect further reductions in Government support and requires £1 million from reserves in each year to deliver a balanced budget. In the medium term, there are budget shortfalls of £1.9 million in 2020/21 and £2.4 million in 2021/22 that will need to be addressed. The Council has planned for significant capital investment in commercial ventures, setting aside £20 million in 2018/19 to be funded from borrowing, with outline headroom to spend up to £50 million on commercial property, housing and energy schemes. This builds on recent commercial property acquisitions to support income growth in the budget.
		• We reviewed the current savings and the budgeted savings together with their plans to assess their reasonability.	The PIER programme delivered £0.7 million of savings in 2017/18 against the original budget of £0.7 million. The savings required in the three years from 2018/19 are £0.5 million, £0.9 million and £1.2 million. Management will need to ensure the budgeted savings are delivered in the coming years. The Council holds significant reserves to support the budget shortfalls in the coming years although there remains a challenge to close the funding gap in the medium term. While there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

APPENDICES

APPENDIX I: 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, and in aggregate, on the financial statements.

ADJUSTED AUDIT DIFFERENCES

Our audit identified no material misstatements that resulted in adjustment to the deficit on provision of services.

However, we found one material misstatement in respect of the disclosure for future minimum lease payments receivable on operating leases due to an error in the formula in the spreadsheet that resulted in an increase in future payments receivable of £7 million. This has been corrected by management.

There is a number of immaterial audit differences identified by our audit work that are being adjusted by management.

UNADJUSTED AUDIT DIFFERENCES

Our audit identified two errors above our reporting threshold that would reduce the deficit for the year by £39,000.

APPENDIX I: AUDIT DIFFERENCES

		INCOME AND EXPENDITURE		BALANCE SHHET	
		DR	CR	DR	CR
	£'000	£'000	£'000	£'000	£'000
Deficit on provision of services before adjustments	2,214				
DR Property, Plant and Equipment				103	
CR Revaluation Reserve					(103)
(1) Estimate of potential understatement of PPE valuation					
DR Creditors				39	
CR Housing benefits subsidy income	(39)		(39)		
(2) Estimate of additional income due as a result of testing of benefit cases and submission to DWP					
TOTAL UNADJUSTED AUDIT DIFFERENCES	(39)	0	(39)	142	(103)
Deficit on provision of services if adjustments accounted for	2,175				

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

Key: ■ Other deficiency in internal control

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	TIMING
STATEMENT OF ACCOUNTS AND FINANCIAL STATEMENTS					
Fees and charges	Our testing identified items of grant income, which were incorrectly classified as fees and charges in the general ledger.	We recommend that postings to the general ledger should be reviewed by the Chief Accountant on a regular basis to confirm correct classification.	Agreed	S. Jones	Quarterly review to be undertaken
Future minimum lease payments receivable	Our audit has identified an issue with errors on the formulas used to calculate the future minimum lease payment receivable on operating leases which has resulted in a material misstatement on the disclosure note for leases.	We recommend that a review of the future minimum lease payments receivable spreadsheet needs to be performed by the Chief Accountant and the formulas used needs to locked and protected on the schedule to avoid being changed.	This has now been actioned. Review by Chief Accountant undertaken and formulas locked.	S. Jones	Completed

APPENDIX II: RECOMMENDATIONS AND ACTION PLAN

We have followed up on the recommendations that we raised in the prior year:

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	PROGRESS
Variations to Pay Errors	During our testing of overtime and variable hours claim forms, we noted a few cases where small arithmetic errors in completed forms were unnoticed by managers. This can lead to both under and overpayments to employees, and an unnecessary cost to the council This issue was also identified in Internal Audits testing.	We recommend that a secondary check of claim forms is performed either by line managers or by the payroll department before overtime forms are processed.	Agreed	V. Connolly	Payroll carry out a secondary check and will correct and make adjustments. Payroll asked for an extra step to be included in the new ERP system so any claims that are calculated incorrectly can be rejected and returned to the employee for correction.
Retrospective Purchase Orders	Our testing of purchasing controls identified instances where a purchase order was raised in Agresso subsequent to a service being provided to the Council and an invoice being received. Similar cases have been identified by internal audit in the current and prior years. Failure to obtain authorisation prior to orders being placed with the supplier introduces a risk that the Council may be exposed to inappropriate or inefficient expenditure, and reduces the effectiveness of the procurement and three-way matching controls in place.	We are aware that employees are regularly reminded of the need to follow procurement procedures, but that there is currently no system enforced restriction to stop this happening. It is expected that the raising retrospective purchase orders will not be possible in the new system We recommend that management takes action to ensure that all officers are aware of the requirement to obtain authorisation for purchase requisitions prior to orders being placed, and ensures that controls are put in place when the new accounting system is installed.	Agreed	A. Mitchell	Regular reminders to officers continued to be made. Financial Operating Procedures detail the correct process to follow. We are investigating the possibility of producing a report within the new system that details all invoices dated prior to purchase orders being raised so that officers not following the procedure can be identified and trained in the correct procedure. Refresher training will be provided and procedure detailed in the new ERP system procedure notes that are due to be written.

AREA	OBSERVATION AND IMPLICATION	RECOMMENDATION	MANAGEMENT RESPONSE	RESPONSIBLE OFFICER	PROGRESS
Supplier Bank Details Changes	There are still no formal controls in place around changes to supplier bank details. This increases the risk that the Council could fall victim to internal or external fraud.	We recommend that management put into place a formal control mechanism as soon as possible, a system enforced requirement to require authorisation of changes to bank details will lead to a stronger control. We are aware that the creditor's team are currently working with Internal audit to create a procedure and a form. In the new ERP this form should be system generated and authorisation required in line with the system enforced workflow	The Council is working to document existing good practice	S. Conway	Process in new ERP system is part of phase 2 and is yet to be developed and implemented. Suppliers are requested to go through council officer contact when requesting a change. When notified of a change of bank details the Creditors team phone supplier to gain separate confirmation of new account details.
Priority Income and Efficiency Review (PIER) Process	Although PIER savings are planned in detail within the council's annual budget reports, and savings identified in the PIER process are removed from budgets once they have been approved by Cabinet, there is still no formal reporting back to management or Cabinet as to the actual savings achieved compared to the original expectation set for each of the named schemes. This could potentially limit the effectiveness of the process.	We recommend that management considers putting into place a formal process for identifying and reporting actual savings achieved against each PIER scheme following their implementation.	To include in year-end report to Cabinet	P. Grace	Achievement of 2017-18 PIER savings reported to Cabinet on 2nd July 2018 as part of Final Accounts 2017-18 report

APPENDIX III: MATERIALITY

MATERIALITY - FINAL AND PLANNING		
	FINAL	PLANNING
Materiality	£1,680,000	£1,780,000
Clearly trivial threshold	£34,000	£35,000

Planning materiality of £1,780,000 was based on 2% of the prior year gross expenditure.
We revised our materiality to reflect amounts in the current year draft financial statements

APPENDIX IV: INDEPENDENCE

Under ISAs (UK) and the FRC's Ethical Standard, we are required as auditors to confirm our independence.

We have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. Our internal procedures require that audit engagement leads are made aware of any matters which may reasonably be thought to bear on the integrity, objectivity or independence of the firm, the members of the engagement team or others who are in a position to influence the outcome of the engagement. This document considers such matters in the context of our audit for the year ended 31 March 2018.

We provided no non-audit services to the Council during the period and up to the date of this report.

Details of rotation arrangements for key members of the audit team and others involved in the engagement were provided in our Audit Plan.

We have not identified any other relationships or threats that may reasonably be thought to bear on our objectivity and independence.

We confirm that the firm, the engagement team and other partners, directors, senior managers and managers conducting the audit comply with relevant ethical requirements including the FRC's Ethical Standard and are independent of the Council.

Should you have any comments or queries regarding any independence matters we would welcome their discussion in more detail.

APPENDIX V: FEES SCHEDULE

	2017/18 FINAL £	2017/18 PLANNED £	2016//17 FINAL £	EXPLANATION FOR VARIANCES
Code audit fee	46,418	46,418	46,418	N/A
Fee for reporting on the housing benefits subsidy claim	8,844	8,844	12,531	N/A
TOTAL AUDIT AND CERTIFICATION FEES	55,262	55,262	58,949	
Fees for other non-audit services	-	-	-	N/A
TOTAL ASSURANCE SERVICES	55,262	55,262	58,949	

APPENDIX VI: DRAFT LETTER OF REPRESENTATION

TO BE TYPED ON CLIENT HEADED NOTEPAPER
BDO LLP
55 Baker Street
London
WIU 7EU

31 July 2018

Dear Sirs

Financial statements of Hastings Borough Council for the year ended 31 March 2018

We confirm that the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2018 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 2015 and Statement of Responsibilities of Auditors and Audited Bodies within Chapter 2 of the Code of Audit Practice published by the National Audit Office in April 2015, and in particular that the financial statements give a true and fair view of the financial position of the Council as of 31 March 2018 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).

We have fulfilled our responsibilities on behalf of the Council, as set out in the Accounts and Audit Regulations 2015, 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 have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

To the best of our knowledge we are not aware of any fraud or suspected fraud involving management or employees. Additionally, we are not aware of any fraud or suspected fraud involving any other party that could materially affect the financial statements.

To the best of our knowledge we are not aware of any allegations of fraud or suspected fraud affecting the financial statements that have been communicated by employees, former employees, analysts, regulators or any other party.

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 the following significant assumptions made in relation to accounting estimates (including fair value measurements) used in the preparation of the financial statements:

a) Pension fund assumptions

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

- Rate of increase in salaries: 2.8%
- Rate of increase in pensions: 2.4%
- Rate for discounting scheme liabilities: 2.6%
- Longevity at 65 for current pensioners: 22.1 years (men) and 24.4 years (women)
- Longevity at 65 for future pensioners: 23.8 years (men) and 26.3 years (women)

b) Valuation of land, buildings, heritage assets and investment properties

We are satisfied that the useful economic lives of land and buildings, and their constituent components, used in the valuation and the calculation of the depreciation charge for the year, are reasonable.

We confirm that the valuations applied to land and buildings revalued in the year, as provided by the valuer and accounted for in the financial statements, are reasonable and consistent with our knowledge of the business and current market prices.

We are satisfied that heritage assets have been appropriately valued.

We are satisfied that investment properties have been appropriately assessed on the fair value hierarchy for valuation purposes and valued at fair value, based on highest and best use.

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis.

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.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

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

We acknowledge our legal responsibilities regarding disclosure of information to you as auditors and 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. The Chief Finance Officer and each member has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that you are aware of that information.

Yours faithfully

Peter Grace
Chief Finance Officer
31 July 2018

Councillor John Rankin
Audit Committee Chair
Signed on behalf of the Audit Committee
31 July 2018

APPENDIX VII: AUDIT QUALITY

BDO is totally committed to audit quality

It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections.

BDO welcomes feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department) and the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US companies), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as a member firm of the BDO International network we are also subject to a quality review visit every three years.

We have also implemented additional quality control review processes for all listed and public interest audits.

More details can be found in our Transparency Report at www.bdo.co.uk

FOR MORE INFORMATION:

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Agenda Item 7

Report to: Audit Committee

Date of Meeting: 31 July 2018

Report Title: Syrian Refugee Resettlement Programme Report

Report By: Tom Davies
Chief Auditor

Purpose of Report

To inform the Audit Committee of the key findings from the recent Syrian Refugee Resettlement Programme audit.

Recommendation(s)

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

Reasons for Recommendations

This audit assignment was requested by the Audit Committee. The report summarises the findings from the review.

Background

1. PwC carried out a review of the council's financial processes over the Syrian Refugees Resettlement Programme. The review included meeting 2 of the Syrian families - one being one of the first families to have been resettled here and the other, a more recently arrived family.

2. The findings have been reviewed and all accepted by management and action plans been put in place to address them.

3. A full copy of the report can be found at appendix A.

Wards Affected

None

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
Anti-Poverty	No

Additional Information

Appendix A: Internal Audit Report:- Syrian Refugee Resettlement Programme

Officer to Contact

Tom Davies
Email: tdavies@hastings.gov.uk
Telephone: 01424 451524

www.pwc.co.uk

Internal Audit Report 2018/2019

Syrian Refugee Resettlement Programme 18/19/01

Hastings Borough Council

July 2018

Click to launch

pwc

Contents

Distribution list

For action: Simon Finlay (Syrian Refugee Resettlement Programme Manager)

For information: Tom Davies (Chief Auditor)

Executive summary (1 of 3)

Report classification

Medium risk (9 points)

Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	0	0	2	0	0
Operating effectiveness	0	0	1	0	0
Total	0	0	3	0	0

Executive summary (2 of 3)

Background

Hastings Borough Council ("the Council") volunteered to take part in the Syrian Refugees Resettlement Programme ("the programme") which is controlled by the Home Office. As part of this programme families are allocated to the Council and there is a Manager for the programme along with two caseworkers who are responsible for arranging suitable accommodations in time for their arrival. They are also responsible for managing the family requirements for education, health, employment and integration into the community. The team also supports the wider programme around East Sussex and therefore provide support to neighbouring councils (Lewes, Wealden, Eastbourne and Rother). The Council has nine families to date and will stop taking any further families once it reaches 100 people (around 20 families). The programme supports the refugees for five years and would therefore end after five years of the arrival of the last refugee family.

The starting point of the programme is to arrange suitable privately rented accommodation as the Council has taken a decision not to use social housing for the refugees in order to avoid adding to the pressure on existing waiting lists. Once the accommodation is secured the Home Office will allocate a family and the team would start making arrangements for furnishing the property, school places and GP registration, buying groceries, etc. As part of the programme each refugee receives £200 cash subsistence on arrival because it takes around two months for applicable benefits to start. This is just meant for food and toiletries. Other purchases, for example, bus passes are made by credit card by the Programme Manager.

The Council gets reimbursed by the Home Office for all expenditure as long as it is coded to a unique Home Office reference number for each refugee. There is an upper limit of £20,520 per adult refugee over 5 years. There is an additional funding of £4,500 for children between the ages of 5 – 18 and £2,250 for children between the ages of 3 – 4. This funding is paid to the schools/nursery for the additional support provided. For adults there is additional funding of £850 for English for Speaker of Other Languages (ESOL) courses. The timeframe of the main funding is below:

Timeframe	Year 1	Year 2	Year 3	Year 4	Year 5
Rate (£)	8,520	5,000	3,700	2,300	1,000

Due to the upgrade to the financial system in the new financial year, the financial accounting for the scheme is not up to date and therefore the period of our scope has been restricted to the start of the first arrival of refugees in October 2016 to 31st March 2018. Within the period of our scope six families consisting of 28 people arrived and a further three families consisting of 20 people arrived in April 2018.

Executive summary (3 of 3)

It was really encouraging to see the passion and motivation of the team in their roles and for the overall programme. We would like to thank them for all the support they provided during this review.

Summary of findings

We carried out our work per the agreed terms of reference in Appendix B. We also observed two refugee meetings with the case workers at the request of the Chief Auditor which were in addition to the agreed scope of the work. Overall, the programme is being managed effectively and the team have the required knowledge and experience to execute their roles. However, we have noted the following findings which need to be considered going forwards to improve the operation and management of the programme:

- **Financial monitoring**: there is limited granular financial performance monitoring of the programme to understand and review the financial outcomes **(medium risk)**
- **Transaction testing**: we have tested a sample of income and expenditure transactions and noted a number of issues related to weaknesses in systems and processes **(medium risk)**
- **Observations and findings from our meetings with the refugees**: we have made a few observations and recommendations from our meetings with the refugees which can be incorporated to improve the effectiveness of the programme **(medium risk)**

Executive summary (3 of 3)

1	***Financial monitoring*** *– control design*	**Medium**
2	***Transaction testing*** *– operating effectiveness*	**Medium**
3	***Observations and findings from our meetings with the refugees*** *– control design*	**Medium**

Summary of findings by areas of scope:

Area of scope	Number of findings				Finding reference
	Critical	High	Medium	Low	
Cash storage and withdrawal arrangements					
Cash receipting processes			1		2
Controls over corporate credit card expenditure by support workers					
Compliance of spend with the Home Office funding instructions			1		3
Adequacy of record keeping to support expenditure made on the scheme			1		2
Budget monitoring			1		1
Review of the surplus accrued as part of the scheme			1		1
Review of contingency arrangements for the recovery of expenditure incurred as part of the scheme			1		3

Current year findings (1 of 3)

Financial monitoring – *control design*

1

Rating: Medium

Finding and root cause

As required by the Funding Instructions there is a specific cost centre for the programme which is reviewed at a very high level against budget quarterly by the Assistant Director, Housing & Built Environment. The Programme Manager also submits an update every other month to the Assistant Director, Housing & Built Environment giving details of current activity and the key successes and challenges for the programme in East Sussex, however, this does not include financial performance. Lastly, there is an evaluation data spreadsheet submitted to the Home Office every six months with updates on progress with English language courses, employment, etc of the refugees. More granular financial monitoring is not undertaken and we noted the following issues:

- At the end of 2017/18 there was a £29k deficit on the scheme against the reported position of income of £334k with a £21k surplus. This was due to the income accrual for 17-18 being overstated by £50k. As at the end of 2016/17 there was a reported surplus of £36k. The deficit was due to 20 refugees arriving in April 2018 and therefore substantial costs relating to these arrivals (void costs for rent, furnishing, etc) would have been incurred in 2017/18 and will not be claimed until their arrival in 2018/19. Closer financial monitoring may well have identified this discrepancy earlier.
- There are no financial planning contingency arrangements for the recovery of additional expenditure incurred which may not be funded by the programme. This is covered further in finding three.
- The detailed update to the Assistant Director, Housing & Built Environment by the Programme Manager does not include the financial aspects of the programme. The Assistant Director, Housing & Built Environment performs a quarterly review of the programme's cost centre, but this is very high level comparison against the budget which is not updated to reflect the number of refugees. Furthermore, there was no evidence available to confirm these reviews have taken place.
- The quarterly review of the scheme cost centre is very high level and comparison is made with the budget which is not updated to reflect the actual number of refugees.

Current year findings (1 of 3)

Financial monitoring – *control design*

1

Rating: Medium

Implications

If the financial performance of the programme is not being adequately monitored through robust reporting of management information, significant deviations in performance will not be identified which may result in non-compliance with the funding instructions leading to adverse reputational and financial implications for the Council. The scheme may not be achieving financial objectives

Action plan

The Council will design and implement revised financial procedures for monthly financial performance monitoring of the programme. This will be reviewed at an appropriate level for the detail provided and measured against budget and desired financial outcomes. Evidence of these arrangements will be retained.

Responsible person/title:

Simon Finlay (Programme Manager)

Target date:

31 October 2018

Reference number:

18/19/01-01

Management response

The Syrian Refugee Programme Manager will liaise with Finance and Audit to design and implement revised financial monitoring processes. The monitoring reports will be detailed and the income and expenditure aligned with timing of the transactions. This will feed into the performance report that is submitted to the Assistant Director, Housing & Built Environment every other month.

Current year findings (2 of 3)

Transaction testing – *operating effectiveness*

2

Rating: Medium

Finding and root cause

The programme financial information on the ledger is not up to date due to the upgrade in the financial system in the new year. Therefore, we have performed testing over a sample of income and expenditure transactions related to the programme from 1st October 2016 to 31st March 2018. We noted the following issues.

Income testing, out of a total five transactions tested we noted:

- The Home Office portal has no audit trail to confirm when a claim was submitted (in order to recognise revenue correctly) and the date of the claims in the Programme Accountant spreadsheet did not match the actual date of the claim made by Programme Manager.
- An exception of £50k in the accrued income for 2017/18. This meant the income and therefore the surplus for the year was overstated by this amount. This happened as the amount accrued on the ledger was based on the claim dates in the programme accountant spreadsheet which were in 2017/18 financial year. However, this data was different to when the claim was actually made, which was in June 2018 by the programme manager. The actual date of the claim was in line with the Home Office funding instructions but the timeframe is not consistent in the programme manager and accountant's data .

Expenditure testing, out of a total of 25 transactions tested we noted:

- One instance of signed receipts for cash received for £700 instead of £1,000 for a family of five.
- Three way match hasn't been enforced by the system and in four cases expenditure transactions have been paid based on the approved purchase order values with no invoice provided.
- In two cases for invoices of £3k and £9.8k for interpreting services by a freelancer, the invoice was broken down between the cost of face to face interpreting, phone interpreting and travel time and ticket costs, however it did not give details of the specific date and time of the services and the clients involved. In one further case, an invoice for £6.3k, back up was retained but the back up was for each individual service and wasn't reconciled back to the invoice value. Therefore, the invoice value is not being reconciled back to any independent record maintained by the team to ensure it is reasonable.

Current year findings (2 of 3)

Transaction testing – *operating effectiveness*

2

Rating: Medium

Finding and root cause

- Two items (£7.8k and £12k) related to recharges based on 5% of the Housing Budget Holder salary costs in 16/17 and 17/18 rather than the actual salaries of the staff who spent time on the programme. Using actual salaries of staff would be a better reflection of the true cost of the programme, especially for financial monitoring purposes.
- Three purchase orders for cash withdrawals, for a total amount of £480 didn't specify that the cash withdrawal was for the programme.

Implications

If income and expenditure is not meticulously accounted for and documented in line with both the Council's procedures and the Home Office requirements then monies could be spent inappropriately and not be recoverable. Income needs to be accounted for in the correct period in order that the true financial position of the programme is understood and accounts are not misstated.

Action plan

- Three way match between the purchase order, invoice and goods received note should be enforced by the system before any payments are made.
- Evidence supporting income and expenditure transactions should be obtained and retained in accordance with Funding Requirements.
- The date of the income claims should be consistent within the Programme Manager and Accountant's data and revenue should be recognised on the ledger based on the actual date of the claim.
- Evidence of the submission of income claim should be retained as there is no audit trail available on the Home Office portal The Funding Instructions do state that "late returns may result in the funding being delayed or refused" so it is important that this audit trail is retained to evidence when claims were submitted.

Responsible person/title:

Simon Finlay (Programme Manager)

Target date:

31 October 2018

Reference number:

18/19/01-02

Current year findings (2 of 3)

Transaction testing – operating effectiveness

2

Rating: Medium

Action plan

Management response

The Syrian Refugee Programme Manager will draw up local documented procedures for the financial administration of the scheme. Internal Audit will periodically review compliance with the procedures to ensure that the management audit trails are effective and operating.

Responsible person/title:

Simon Finlay (Programme Manager)

Target date:

31 October 2018

Reference number:

18/19/01-02

Current year findings (3 of 3)

Observations and findings from our meetings with the refugees – control design

3

Rating: Medium

Finding and root cause

We observed two refugee meetings with case workers. One were first arrivals in October 2016 which was held at the Council and the other with a family who arrived in December 2017, which was held at their home. It was encouraging to see that the staff are really passionate about the work they do and the feedback from the refugees regarding the support provided was very positive. During these meetings we noted the following comments.

The adult men were keen to work, however, at present the language barrier was preventing this. All were attending ESOL courses and had improved their language skills, however, they still need an interpreter for communication. All had existing professions and would benefit from relevant training and work experience in those areas. In July 2018 the adult men commenced the "Concept Training", which is a language and integration skills training programme and is expected to improve language skills required in a work environment.

However, the families are impacted by the benefit cap on housing benefit and for one there is now a rent shortfall of £413 per month which is now paid from the programme budget. Taking this as an average across the nine families, this could add up to £45k additional funding per year from the programme budget to meet rent shortfalls due to reductions in housing benefit. This situation could be improved by adult employment.

Due to this an assessment of the financial sustainability of the programme should be undertaken taking into account the cuts in housing benefits. The assessment should consider that some refugees will gain employment and others for various reasons for e.g. health, language, etc may not be able to work by the end of the programme. The Council should ensure this assessment clearly demonstrates the impact of benefit changes on the financial sustainability of the scheme.

Further focus on skills based training should also be considered, for example, partnerships with local employers, or apprenticeships to help the adult refugees find suitable work easing their dependence on benefits. For the refugees who are not likely to gain employment the focus should be on equipping the refugees with the basic language and social skills to sustain them once the programme support ends (after five years). I.e. many may need to move into social housing unless their rent is supported by housing benefit or universal credit.

Current year findings (3 of 3)

Observations and findings from our meetings with the refugees – control design

3

Rating: Medium

Implications

If the strategic objectives and financial sustainability of the programme are not reassessed regularly to take into account changes such as employability of refugees, changes to benefits and rent shortfalls then the Council may not fully understand the full cost implications of these variables and the scheme may not be affordable or sustainable in the longer term. This could have both financial and reputational impacts to the Council.

Action plan

An overall, longer term financial assessment of the programme needs to be undertaken. This should take into account known variables (at varying levels of impact or "stress testing") to enable the Council to understand and prepare for the point at which the scheme becomes financially unsustainable. This can be used to prepare and plan for this eventuality and, potentially, to make representations the Home Office for more support.

The Council should consider the longer term support provided to assist the adult refugees to find employment detailed above.

Management response

The Syrian Refugee Programme Manager will consider the longer term financial assessment of the programme and document this in an operational document that will be "live" and updated periodically. This approach will more readily assist better scenario planning and preparation.

Responsible person/title:

Simon Finlay (Programme Manager)

Target date:

31 October 2018

Reference number:

18/19/01-03

Appendices

Appendix A: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

- **Critical** impact on operational performance; or
- **Critical** monetary or financial statement impact; or
- **Critical** breach in laws and regulations that could result in material fines or consequences; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability

High

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

Medium

A finding that could have a:

- **Moderate** impact on operational performance; or
- **Moderate** monetary or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences; or
- **Moderate** impact on the reputation or brand of the organisation.

Appendix A: Basis of our classifications

Individual finding ratings

Low

A finding that could have a:

- **Minor** impact on the organisation's operational performance; or
- **Minor** monetary or financial statement impact; or
- **Minor** breach in laws and regulations with limited consequences; or
- **Minor** impact on the reputation of the organisation.

Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

Findings rating	*Points*
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	*Option A*	*Option B*	*Points*
●	Low risk	Satisfactory	6 points or less
●	Medium risk	Satisfactory with exceptions	7 – 15 points
●	High risk	Needs improvement	16 – 39 points
●	Critical risk	Unsatisfactory	40 points and over

Appendix B: Terms of reference

The terms of reference was prepared by Tom Davies (Chief Auditor) and the scope of this review remains the Chief Auditor's responsibility. We designed our testing procedures to address the scope which was provided to us by the Chief Auditor.

Background: Hastings Borough Council ("the Council") volunteered to take part in the Syrian Refugees Resettlement programme which is controlled by the Home Office. As part of this programme families are allocated to the Council and there are two caseworkers within the Council who arrange for suitable housing in time for their arrival, education, health, employment and integration into the community. The council has had nine families so far and will stop taking any further families once it reaches 100 people which would be around 20 families. At present, the Council is half-way through the five year duration of the programme.

As part of the programme each refugee receives £200 cash subsistence on arrival because it takes around two months for their Universal Credit, Housing Benefit payments, etc. to come through. This is just meant for food and toiletries and other purchases, for example, bus passes are made by credit card by the caseworkers.

The Council gets reimbursed by the Home Office for all expenditure as long as it is coded to a unique VIP number for each refugee. There is an upper limit of £20,520 per adult refugee over 5 years. The financial accounts are in good order and a small surplus that has accrued has been put in a reserve account.

Audit Objective: To assess the adequacy of controls over all the financial processes of the Syrian Refugee Resettlement Programme including assurance that all expenditure made is for valid programme needs and is accounted for promptly, accurately and efficiently and completely reclaimed.

The following sub-processes will be examined via walkthrough, review of control design and control testing where appropriate:

- Cash storage and withdrawal arrangements
- Cash receipting processes
- Controls over corporate credit card expenditure by support workers
- Compliance of spend with the guidance for Syrian Refugee Resettlement issued by Local Government Association
- Adequacy of record keeping to support expenditure made on the scheme
- Budget monitoring of monies into and out of the programme
- Review of the surplus accrued as part of the scheme
- Review of contingency arrangements for the recovery of expenditure incurred as part of the scheme

Appendix C: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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Agenda Item 8

Report to: Audit Committee

Date of Meeting: 31 July 2018

Report Title: Chief Auditor's Summary Audit and Risk Report

Report By: Tom Davies
Chief Auditor

Purpose of Report

To inform the Audit Committee of the key findings from the Debtors and Non-Domestic Rates audits.

Recommendation(s)

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

Reasons for Recommendations

To monitor levels of control within the organisation.

Summary report to Audit Committee

Debtors

Background Information

This review was undertaken as part of the agreed audit plan for 2017/18. The last full audit of the Debtors system was in November 2014.

The level of invoices raised and income received is substantial, although it inevitably varies from year to year. In 2014, the value of invoices raised during the period 1 April 2013 to 31 March 2014 amounted to £8,638,556. For the period from 1 April 2017 to 28 March 2018, invoices raised amounted to £10,869,767.

It is therefore imperative that the Debtors system is administered efficiently and effectively – ensuring invoices are accurately raised for money owed to the Council and that revenue is promptly received.

At the time of the last full audit of the Debtors system in November 2014, the Service was then graded as A: Good and a small number of minor improvement recommendations were made.

Overall Audit Assessment: B – Satisfactory

Most controls are in place and work effectively. Some improvements are recommended to ensure best practice and efficiency. Further changes are recommended in order to provide assurance that the service is fully equipped to support the Council's commercial approach to income generation.

Key Findings

1. In 2014, the value of invoices raised during the period 1 April 2013 to 31 March 2014 amounted to £8,638,556. For the period from 1 April 2017 to 28 March 2018, invoices raised amounted to £10,869,767.

2. The total debt outstanding as at 28 March 2018 is £2,080.724. In comparison, the total debt outstanding as at 31 March 2014 was £715,206.

3. Additionally, aged debt >120 days as at 28 March 2018 amounted to £719,461, whereas the aged debt >120 days as at 31 March 2014, was £257,735.

4. The development of more in-depth debt profiling will result in a greater understanding of outstanding debts and will assist with targeting recovery action more effectively.

5. The main identifiable risk relating to the Debtors service is a failure to maintain a satisfactory level of debt recovery. Internal Audit acknowledges that following completion of its fieldwork, the Debtors function was transferred to Accountancy & Exchequer Services.

6. An integrated Finance, HR and Payroll system was introduced at the beginning of April 2018 and is currently at the phase two implementation stage.

Management Response

We agree the report and have put in place action plans to address the recommendations.

Summary report to Audit Committee

Non-Domestic Rates

Background Information

The audit was undertaken as part of the agreed audit plan for 2017/18. The last full audit of the Non-Domestic Rates (NDR) system was in 2014, when the service was given an overall assessment of A: Good.

In 2013/14, the collectable debt was £21,897,447 from 3,297 rated properties. The collection rate achieved for 2013/14 was 97.8% against a target of 97%.

In June 2016, the District Valuation Office concluded its revaluation of property values within the Borough. The revaluation became effective from April 2017 and consequently, for the period 2017/18, collectable debt had increased to £22,126,038 from 3,556 properties. Nevertheless, the collection rate achieved for 2017/18 was still 98.5%, compared to a target of 98%.

Given the sums involved and the importance of the contribution from business rates to the Council's budget, it is imperative the service is carried out effectively, efficiently and economically. It is equally important that robust internal controls exist for the billing, account management and recovery of outstanding NDR debts.

Overall Audit Assessment: A – Good

Controls are in place and work effectively. Some improvements are recommended to ensure best practice and future efficiency.

Key Findings

1. In 2013/14, the collectable debt was £21,897,447 from 3,297 rated properties. The collection rate achieved for this period was 97.8% against a target 97%.

2. In June 2016, the District Valuation Office concluded its revaluation of property values within the Borough. The revaluation became effective from April 2017 and consequently, for the period 2017/18, collectable debt had increased to £22,126,038 from 3,556 properties. Nevertheless, the collection rate achieved for 2017/18 was still 98.5%, compared to a target of 98%.

3. In April 2017, the Council introduced a Business Improvement District (BID) levy to be used for developing projects that benefit businesses in that local area. The BID is a defined area in which a levy is charged in addition to the business rates bill for non-domestic properties with a rateable value of £5,000 or more. As at 31 March

2018, 502 businesses were included within the BID and the total levy charged was £234,000.

4. Unrecovered NDR debt for the period 1 April 2000 to 31 March 2018 currently stands at £1.18m. Uncollected NDR debt represents a risk and it is therefore imperative that the Revenues section is equipped to robustly pursue both in-year and historical NDR debt. Audit has made recommendations aimed at addressing this risk for the future.

Management Response

We accept the report and its recommendations.

Wards Affected

None

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
Anti-Poverty	No

Additional Information

-

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Agenda Item 9

Report to: Audit Committee

Date of Meeting: 31 July 2018

Report Title: Audit Committee Report 2017/18 to Council

Report By: Tom Davies
Chief Auditor

Purpose of Report

To agree the report from the Audit Committee to Council on its annual review of the effectiveness of Internal Audit.

Recommendation(s)

1. **That the Audit Committee Report 2017/18 is approved for presentation to Council.**

Reasons for Recommendations

Regulation 6 of the Accounts and Audit Regulations (England) 2015 requires relevant bodies to conduct an annual review of the effectiveness of its system of internal audit and for a committee of the body to consider the findings.

Background

1. Background Regulation 6 of the Accounts and Audit Regulations (England) 2015 requires Local Authorities to conduct a review at least once a year of the effectiveness of its system of internal control and publish a statement on internal control each year with the authority's financial statements.

2. This report, which follows the format recommended by the Chartered Institute of Public Finance and Accountancy, sets out the review of internal control and the assurance gathering process as required by the statute and accompanying guidance.

3. In addition, Regulation 6 of the Regulations requires relevant bodies to conduct an annual review of the effectiveness of its system of internal audit and for a committee of the body to consider the findings. Proper practices in relation to internal audit for relevant bodies may be found in the "Public Sector Internal Audit Standards". We are working with the Sussex Audit Group on a reciprocal basis to arrange a "peer" review of Internal Audit.

Principal statutory obligations and organisational objectives

Responsibility for Statutory Obligations

4. The Council has formally established responsibilities for its statutory obligations through the Constitution that sets out individual officer and member responsibilities, delegations to officers and committees, and committee terms of reference. These records are accessible on the Council's website and through the Monitoring Officer.

5. Detailed officer responsibilities are set out in job descriptions and structure charts.

6. Directors are accountable for ensuring that responsibilities, authorities and any limits to authorities are appropriately and clearly established within their directorates. The Audit Committee receives internal and external audit reports and ensures that any non-compliance is remedied through appropriate recommendations, and where necessary, requires assurance that recommendations have been implemented.

Organisational objectives and priorities

7. The multi-functional nature of the Council means that there are a large number of mandatory and discretionary requirements and powers. Hastings Borough Council took action to identify its priority objectives resulting in a list of principles and priorities underpinning the Corporate Plan. The priority areas were then devolved through Directors to Service Managers in the form of Work Plan Summaries.

8. There is a Local Code of Corporate Governance. Audit Committee Terms of Reference clearly assign responsibility for the scrutiny of corporate governance arrangements to the Audit Committee.

Performance against planned outcomes

9. The Authority knows how well it is performing against its planned outcomes through a comprehensive and effective performance management system. This system monitors performance against plans, targets, and financial budgets, with quarterly reports to the Overview and Scrutiny Committee.

Identifying principal risks to achieving the objectives

10. ‘Risk’ is any obstacle, or potential obstacle, to the achievement of the Council’s priority objectives or statutory duties. The purpose of risk management is to ensure the achievement of the Council’s objectives with efficient use of resources.

11. By identifying high-risk groups or areas, corporate policies and service resources can be targeted on those groups or areas.

12. The Council has a formal Risk Management Framework that was approved by Cabinet. The Framework is designed to encourage managers to ‘own’ the risks associated with their areas of responsibility. Managers use a corporately agreed matrix for identifying and assessing risks and controls.

13. The council continues to ensure the identification of key risks from both a strategic and operational perspective. Using a process of self-assessment, senior management re-assessed the strategic risks (those to service provision, statutory compliance, and reputation) and services assessed operational risks (financial, physical and contractual risks).

14. During 2017/18 both the Strategic Risk Register and Operational Risk Registers were regularly updated.

15. Council has approved Terms of Reference for the Audit Committee giving it a clear remit to,

    "Review, evaluate and approve: The effectiveness of the Council's process for assessing significant risk exposures and the measures taken by management to mitigate risks to an acceptable level".

16. A large part of the internal audit plan is risk-driven.

Key controls for managing principal risks

17. To ensure that its controls are fully up to date with the current operating environment, Financial Operating Procedures provide the framework within which Members and Officers must operate and compliance is routinely checked through audit reports to the Audit Committee.

18. In addition, the Council has these controls in place:

    a. The Council has adopted the CIPFA Code on Treasury Management to ensure compliance with the Prudential Code.

    b. An Anti-Fraud and Anti-Corruption Strategy (Fighting Fraud Locally).

c. A Whistle-blowing Policy.

d. Codes of Conduct for Members and Officers.

e. Registers of Interests for Members and Officers.

f. Risk Registers (reviewed by Audit Committee) are updated on an ongoing basis.

g. Performance is monitored through quarterly Performance Reviews.

h. A Corporate Health and Safety system of monitoring and review is in place.

i. A Corporate compliments and complaints procedure operates.

Sources of assurance

19. Sources of assurance on the adequacy and effectiveness of the Council's controls over key risks include:

20. a. An Audit Committee that is a fully constituted Committee of the Council.

b. An Internal Audit and Investigations service that is independent in planning, operating, and reporting, and that reports to the Audit Committee.

c. A Chief Finance Officer with responsibility for ensuring the proper administration of the Council's financial affairs.

d. Processes for maintaining internal control include a framework of regular management information, Financial Rules and Finance Operating Procedures, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability.

e. A performance management system that includes commentary on service-level risk, the setting of targets for service delivery and monitoring of performance against targets and plans.

f. A strategic Corporate Plan setting out the Council's priorities, which cascades to operational plans at service and project level, including consideration of risks.

g. An annual budget and quarterly reviews of actual expenditure to budget.

h. A Local Code of Corporate Governance agreed by Cabinet.

i. A project management methodology for major projects.

j. A Risk Management Framework.

k. Declaration of related party transactions forms for members.

l. Codes of Conduct for Members and Officers.

m. A Staff Health & Safety Group that monitors insurable and public liability risks.

n. A Corporate Risk Management Group that meets periodically.

o. Risk management processes designed to ensure that Directors and Managers retain ownership of the risks and internal controls associated with their areas of responsibility. Directors and Managers are therefore an important source of assurance on the effectiveness of controls for managing risks.

p. The Internal Audit service carries out audit and risk reviews of high-risk areas to provide assurance that major risks have been identified and are being actively managed, and that the internal control environment is adequate.

q. The Assistant Director Financial Services and Revenues in his role provides a source of assurance that the requirements of the Local Government Act 1972 Section 151 are being met.

r. The Monitoring Officer, undertakes the relevant statutory duties and provides a source of assurance that the Council's affairs are conducted in compliance with relevant legislation and Codes of Conduct.

s. External audit provides a source of assurance on the operation of internal controls in that BDO inspects internal audit work at each annual external audit.

Evaluation of assurances and identification of gaps

Internal Audit

21. On the basis of the audits reported to the Audit Committee by Internal Audit, the audit conclusion is that during the year 2016/17, all of the Council's operations that were audited incorporate control systems that are 'Satisfactory' or better.

22. In financial systems, the audit aims to evaluate the strength of controls for ensuring the proper administration of financial resources. In the audit of non-financial areas, the audit aims to evaluate the strength of controls for ensuring that external obligations are met and that the success criteria of the activity under review are achieved. The following table shows the audit conclusion for each of the main audits carried out in 2017/18.

23.

Audit Conclusion	No of Audits
A: Good More than the key controls are in place and work effectively. While improvement may be possible, there are no significant audit concerns	3
B: Satisfactory The key controls are in place and work effectively. Improvement is possible but there are no significant audit concerns	4
C: Adequate but with reservations in some areas Some controls in place are adequate but there are audit concerns in some areas	0
D: Poor Controls are not adequate or not present or not adequately complied with. Improvement is essential	0
Total audits	7

24. This compares with previous years as follows:

Audit Conclusion	2014-15	2015-16	2016-17	2017-2018
	No of audits	No of audits	No of audits	No of audits
A, B: Good / Satisfactory	7	8	5	7
C, D: Adequate / Poor	0	0	0	0

25. The Internal Audit Service was unable to complete the whole audit plan before 31 March 2018 due to long term unanticipated sick leave in the third quarter. The non-completed work has either now been completed or is in progress. It expects to be fully on profile by the end of quarter 2, 2018/19.

26. The audit conclusions are defined in the service's own Internal Audit Manual.

27. Based on the audit work undertaken by Internal Audit, the Authority's overall internal control system is considered to be satisfactory.

External Audit

28. External audit is carried out by BDO and is an important source of assurance on the adequacy of the Council's arrangements for ensuring proper arrangements for its financial affairs. During 2017/18 the Audit Committee received the following reports:

29.

Report Title	Date Issued
Report on Final Accounts (completion report)	September 2017
Housing Benefit Grant Subsidy for year ended 31 March 2017	September 2017
Annual Audit Letter 2016/17	October 2017
External Audit Plan to the Audit Committee	April 2018

30. BDO gave an unmodified opinion on the Council's accounts for 2016/17 and an unmodified opinion on value for money.

Areas of audit concern arising from internally conducted audits

31. There were no major concerns arising from internally conducted audits.

Areas of audit concern arising from External Audit

32. The key findings reported in their Annual Audit Letter (October 2017):

(i) "We issued an unmodified true and fair opinion on the financial statements for the period ended 31 March 2017 on 28 September 2017.

(ii) No material misstatements were identified through the audit. Management did make a number of audit corrections that reduced the deficit for the year and increased net assets by £124,000.

(iii) We issued an unmodified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 28 September 2016.

(iv) While there is a significant savings requirement and continued planned support from reserves, we are satisfied that the council has sufficient balances to support services in the medium term and to remain financially sustainable".

Policy Implications

Risk Management

33. This report has referred to the way that the council manages its risks.

Wards Affected

None

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
Anti-Poverty	No

Additional Information

External Audit Annual Governance Report 2016/17
Annual Audit Letter 2016/17

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Report to: **Audit Committee**

Date of Meeting: **31 July 2018**

Report Title: **Annual Treasury Management Report 2017/18**

Report By: **Peter Grace, Assistant Director of Financial Services and Revenues (Chief Finance Officer)**

Purpose of Report

This report provides the opportunity for the Committee to scrutinise the Treasury Management activities and performance of the last financial year

Recommendation(s)

1. **To consider the report – no recommendations are being made to amend the current Treasury Management Strategy as a result of this particular review**

Reasons for Recommendations

To ensure that members are fully aware of the activities undertaken in the last financial year, that Codes of Practice have been complied with and that the Council's strategy has been effective in 2017-18.

Under the Code adopted the Full Council are required to consider the report and any recommendations made.

Introduction

1. This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2017/18. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

2. The primary requirements of the Code are as follows:

   a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

   b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

   c) Receipt by the Full Council of an annual treasury management strategy report (including the annual investment strategy report for the year ahead, a mid-year review report (as a minimum) and an annual review report of the previous year.

   d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

   e) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Audit Committee.

3. Treasury management in this context is defined as:

   "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

4. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

5. Member training on treasury management issues was last undertaken on 10 January 2017 with further training on the medium term financial strategy in December 2017 in order to support members' scrutiny role.

6. This annual Treasury report covers

a) capital expenditure and financing 2017-18

b) overall borrowing need (the Capital Financing Requirement)

c) treasury position as at 31 March 2018;

d) performance for 2017-18;

e) the strategy for 2017-18;

f) the economy and interest rates in 2017-18;

g) borrowing rates in 2017-18;

h) the borrowing outturn for 2017-18;

i) debt rescheduling;

j) compliance with treasury limits and Prudential Indicators;

k) investment rates in 2017-18;

l) investment outturn for 2017-18;

Capital Expenditure and Financing 2017/18

7. The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

8. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Capital Programme Financing 2017/18	Outturn 2017-18	
	£000's	£000's
Expenditure :		14,341
Borrowing		11,160
Grants:		
Disabled Facilities Grant	1,047	
Coastal Communities	121	
Coastal Space	766	
Other Grants and Contributions	9	
		1,943
Reserves		1,140
Capital Receipts		98
Total		14,341

Overall Borrowing Need (Capital Financing Requirement (CFR))

9. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend.

10. Part of the Council's treasury activities is to address the funding requirements for the Council's borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

11. The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

12. The total CFR can also be reduced by:

    - the application of additional capital financing resources (such as unapplied capital receipts); or
    - charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

13. The Council's 2017/18 MRP Policy was approved as part of the Treasury Management Strategy Report for 2017/18 by Council in February 2017.

14. The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against this scheme.

Table 2 CFR: General Fund	2016/17 Actual £000's	2017/18 Estimate £000's	2017/18 Actual £000's
Opening balance	18,064	29,783	30,078
Add unfinanced capital expenditure	13,225	13,177	11,160
Less repayments (e.g.LAMS)	(1,000)	(1,000)	(1,028)
Less MRP	(505)	(785)	(717)
Less finance lease arrangements	(0)	(0)	(0)
Closing balance	29,783	41,175	39,493

15. Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

16. The Council's long term borrowing must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2017/18 plus the expected changes to the CFR over 2018/19 and 2019/20 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2017/18. The table below highlights the Council's gross borrowing position against the CFR, which provides an indication of affordability for the Council. The Council has complied with this prudential indicator.

Table 3 Internal Borrowing Level	2016/17 Actual	2017/18 Estimate	2017/18 Actual
	£000's	£000's	£000's
Capital Financing Requirement	29,783	41,175	39,493
External Borrowing	26,469	41,080	41,013
Net Internal Borrowing	3,314	95	(1,520)

Treasury Position as at 31 March 2018

17. The Council's debt and investment position at the beginning and the end of the year was as follows:

Debt	1 April 2017 Principal	Rate	Maturity	31-Mar-18 Principal	Rate
PWLB Loan 1	£7,500,000	4.80%	2033	£7,500,000	4.80%
PWLB Loan 2	£1,000,000	1.63%	2018	£0	1.63%
PWLB Loan 3	£2,000,000	0.40% (Variable)	2019	£2,000,000	0.61% (*Variable)
PWLB Loan 4	£909,027	3.78%	2044	£909,027	3.78%
PWLB Loan 5	£1,788,235	3.78%	2044	£1,788,235	3.78%
PWLB Loan 6 (Annuity)	£272,182	1.66%	2026	£243,901	1.66%
PWLB Loan 7	£1,000,000	2.92%	2056	£1,000,000	2.92%
PWLB Loan 8	£1,000,000	3.08%	2046	£1,000,000	3.08%
PWLB Loan 9	£1,000,000	3.01%	2036	£1,000,000	3.01%
PWLB Loan 10	£1,000,000	2.30%	2026	£1,000,000	2.30%
PWLB Loan 11	£2,000,000	2.80%	2054	£2,000,000	2.80%
PWLB Loan 12	£1,000,000	2.42%	2028	£1,000,000	2.42%
PWLB Loan 13	£2,000,000	2.53%	2057	£2,000,000	2.53%
PWLB Loan 14	£2,000,000	2.50%	2059	£2,000,000	2.50%
PWLB Loan 15	£2,000,000	2.48%	2060	£2,000,000	2.48%
PWLB Loan 16 (Annuity)				£7,221,917	2.53%
PWLB Loan 17 (Annuity)				£8,350,000	2.72%
Total Debt	£26,469,444	3.15%		**£41,013,080**	3.01%

* Rate at January 2018 (rates change every 3 months)

Table 5 **Investments**	31st March 2017 Principal	31st March 2018 Principal
-In-House *	£27.8m	£29.7m
Total Investments*	£27.8m	£29.7m

* excludes deposits held in respect of the Local Authority Mortgage Scheme

Performance Measurement (2017-18)

18. Table 6 below compares the Estimated Interest Payable and Received and associated fees for the year 2017-18.

Table 6	2016 -17 Actual Outturn £000's	2017-18 Revised Budget £000's	2017 -18 Actual Outturn £000's
Gross Interest Payable	686	1022	1090
Gross Interest Received	(301)	(292)	(305)
Fees	17	9	9
Other (e.g. PWLB Discount)	(51)	(19)	(19)
Net Cost	351	720	775

19. The net interest on the Local Authority Mortgage Scheme (LAMS), as detailed below, is being transferred into the Mortgage Reserve. The balance on the Mortgage Reserve has been transferred to the General Reserve at year end.

Table 7	2016 -17 Actual Outturn £000's	2017-18 Revised Budget £000's	2017-18 Actual Outturn £000's
Gross Interest Payable	31	16	16
Gross Interest Received	(54)	(20)	(20)
Net Surplus	(23)	(4)	(4)

20. The Council's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources are detailed below, and were in line with budget expectations.

Table 8 Reserves	31 March 2017	31 March 2018
	£000's	£000's
General Fund Balance	500	500
Earmarked Reserves	12,063	10,374
General Reserve	7,644	7,668
Total	£20,207	£18,542

It should be noted that Earmarked Reserves includes £585,000 (£1,264,000 at 31 March 2017) of Clinical Commissioning Group monies

The Strategy for 2017-18

21. The expectation for interest rates within the Treasury Management Strategy for 2017/18 anticipated that the historically low Bank Rate would be subject to gradual rises in medium and longer term and as such fixed borrowing rates would increase slowly during 2017/18. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis and the uncertainty over the final terms of Brexit promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

22. During 2017/18 longer term PWLB rates were volatile with little overall direction, whereas short term PWLB rates were on a rising trend during the second half of the year.

23. The general aim of the treasury management strategy has been to minimise the costs of borrowing in both the short and longer term. In the short term it can consider avoiding new borrowing and using cash balances to finance new borrowing. However to minimise longer term costs it needs to borrow when rates are a historically low levels. Given also that the Council's ambitions are to generate future income streams, which would involve future borrowing, the opportunities were taken to secure new borrowing in the year. The timing of new borrowing is therefore important to minimise the overall costs to the Council.

The Economy and Interest Rates

24. The outcome of the EU referendum in June 2016 resulted in a gloomy outlook and economic forecasts from the Bank of England based around an expectation of a major slowdown in UK GDP growth, particularly during the second half of 2016, which was expected to push back the first increase in Bank Rate for at least three years. Consequently, the Bank responded in August 2016 by cutting Bank Rate by 0.25% to 0.25% and making available over £100bn of cheap financing to the banking sector up to February 2018. Both measures were intended to stimulate growth in the economy. This gloom was overdone as the UK economy turned in a G7 leading growth rate of 1.8% in 2016, (actually joint equal with Germany), and followed it up with another 1.8% in 2017, (although this was a comparatively weak result compared to the US and EZ).

25. During the calendar year of 2017, there was a major shift in expectations in financial markets in terms of how soon Bank Rate would start on a rising trend. After the UK economy surprised on the upside with strong growth in the second half of 2016, growth in 2017 was disappointingly weak in the first half of the year; quarter 1 came in at +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y), which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this was the sharp increase in inflation caused by the devaluation of sterling after the EU referendum, feeding increases into the cost of imports into the economy. This caused a reduction in

consumer disposable income and spending power as inflation exceeded average wage increases. Consequently, the services sector of the economy, accounting for around 75% of GDP, saw weak growth as consumers responded by cutting back on their expenditure. However, growth did pick up in quarter 3 to 0.5% before dipping slightly to 0.4% in quarter 4.

26. Consequently, market expectations during the autumn rose significantly that the MPC would be heading in the direction of imminently raising Bank Rate. The MPC meeting of 14 September provided a shock to the markets with a sharp increase in tone in the minutes where the MPC considerably hardened their wording in terms of needing to raise Bank Rate very soon. The 2 November MPC quarterly Inflation Report meeting duly delivered on this warning by withdrawing the 0.25% emergency rate cut which had been implemented in August 2016. Market debate then moved on as to whether this would be a one and done move for maybe a year or more by the MPC, or the first of a series of increases in Bank Rate over the next 2-3 years. The MPC minutes from that meeting were viewed as being dovish, i.e. there was now little pressure to raise rates by much over that time period. In particular, the GDP growth forecasts were pessimistically weak while there was little evidence of building pressure on wage increases despite remarkably low unemployment. The MPC forecast that CPI would peak at about 3.1% and chose to look through that breaching of its 2% target as this was a one off result of the devaluation of sterling caused by the result of the EU referendum. The inflation forecast showed that the MPC expected inflation to come down to near the 2% target over the two to three year time horizon. So this all seemed to add up to cooling expectations of much further action to raise Bank Rate over the next two years.

27. However, GDP growth in the second half of 2017 came in stronger than expected, while in the new year there was evidence that wage increases had started to rise. The 8 February MPC meeting minutes therefore revealed another sharp hardening in MPC warnings focusing on a reduction in spare capacity in the economy, weak increases in productivity, higher GDP growth forecasts and a shift of their time horizon to focus on the 18 – 24 month period for seeing inflation come down to 2%. (CPI inflation ended the year at 2.7% but was forecast to still be just over 2% within two years.) This resulted in a marked increase in expectations that there would be another Bank Rate increase in May 2018 and a bringing forward of the timing of subsequent increases in Bank Rate. This shift in market expectations resulted in investment rates from 3 – 12 months increasing sharply during the spring quarter.

    The major UK landmark event of the year was the inconclusive result of the general election on 8 June. However, this had relatively little impact on financial markets. However, sterling did suffer a sharp devaluation against most other currencies, although it has recovered about half of that fall since then. Brexit negotiations have been a focus of much attention and concern during the year but so far, there has been little significant hold up to making progress.

28. The manufacturing sector has been the bright spot in the economy, seeing stronger growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, the manufacturing sector only accounts for around 11% of GDP so expansion in this sector has a much more

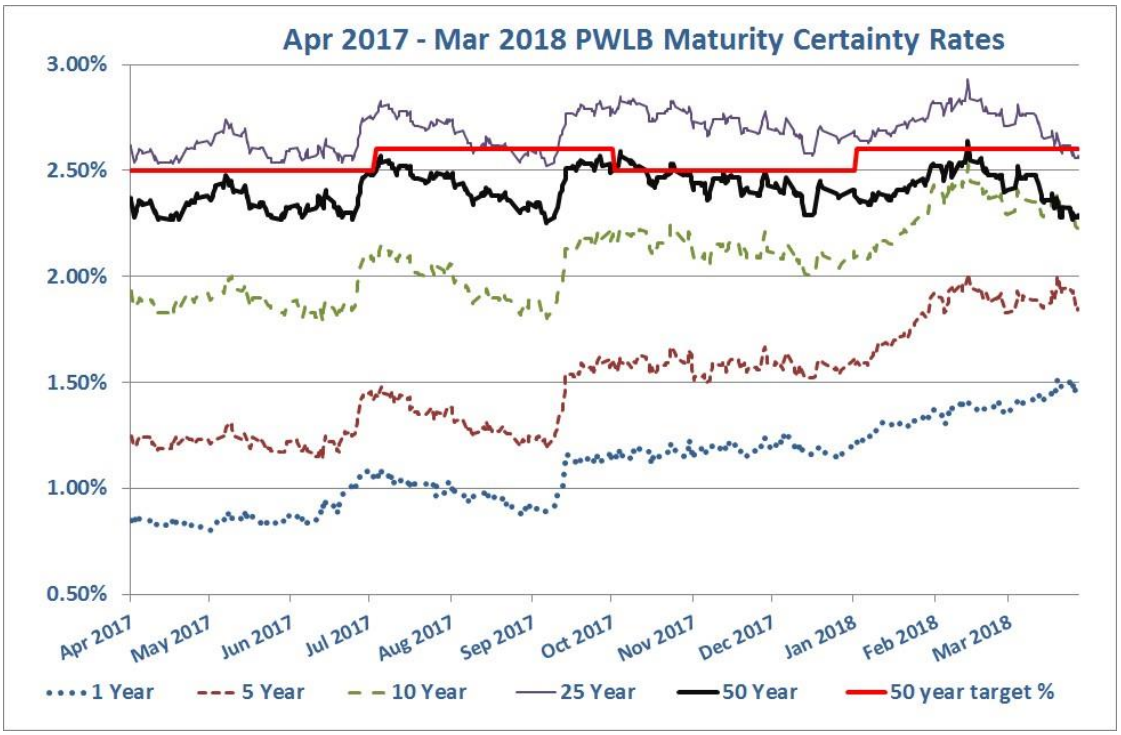
muted effect on the average total GDP growth figure for the UK economy as a whole.

29. EU. Economic growth in the EU, (the UK's biggest trading partner), was lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of quantitative easing to stimulate growth. However, growth eventually picked up in 2016 and subsequently gathered further momentum to produce an overall GDP figure for 2017 of 2.3%. Nevertheless, despite providing this massive monetary stimulus, the ECB is still struggling to get inflation up to its 2% target and in March, inflation was still only 1.4%. It is, therefore, unlikely to start an upswing in rates until possibly towards the end of 2019.

Borrowing Rates in 2017-18

30. PWLB borrowing rates - the graphs and table for PWLB maturity rates below show, for a selection of maturity periods, the high and low points in rates, the average rates, spreads and individual rates at the start and the end of the financial year.

Table 9: PWLB rates



31. The table above highlights the fluctuation in borrowing rates throughout the year for different borrowing periods (in years).

Borrowing Outturn for 2017/18

32. Additional long term borrowing of £14.543m was undertaken in 2017/18, resulting in a total balance outstanding with the PWLB of £41,013,080 as at 31 March 2018.

33. The final PWLB loan in respect of the Local Authority Mortgage scheme was repaid (after 5 years) in March 2018 (£1million). This loan was taken out to fund the second tranche of the Local Authority Mortgage scheme and was matched with a deposit of £1m with Lloyds Bank .

Debt Rescheduling

34. The Council examined the potential for making premature debt repayments in order to reduce borrowing costs as well as reducing counterparty risk by reducing investment balances. No rescheduling was undertaken during the year as the differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable. When last reviewed on the 27 September 2017 the early repayment cost of the £7.5m PWLB loan, maturing in 2033, would have amounted to £3,177,343.

Compliance with Treasury Limits

35. During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Appendix 1.

Investment Rates in 2017-18

36. Investment rates for 3 months and longer have been on a rising trend during the second half of the year in the expectation of Bank Rate increasing from its floor of 0.25%, and reached a peak at the end of March 2018.

37. The Bank Rate was raised from 0.25% to 0.50% on 2 November 2017 and remained at that level for the rest of the year. However, further increases are expected over the next few years. Deposit rates continued into the start of 2017/18 at previous depressed levels due, in part, to a large tranche of cheap financing being made available under the Term Funding Scheme to the banking sector by the Bank of England; this facility ended on 28 February 2018.

38. The funds invested during the year were often available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

Investment Strategy

39. The strategy was agreed at the Council meeting in February 2017, enabling investments to be made in the CCLA Property Fund (£2m invested in April 2017). The Investment strategy did not change during the year, other than Investment returns being lower and for a longer period than previously anticipated.

Investment Outturn for 2017-18

40. Investments held by the Council - the Council maintained an average balance in the year of £31.3m. The average rate of return for the year was 0.63% (0.67% including LAMS scheme deposits). The comparable performance indicator is the

average 7-day LIBID rate (un-compounded), which was 0.21%.

41. The table below provides a snapshot of the investments/deposits held at 31 March 2018.

Counterparty	Rate/ Return (%)	Start Date	End Date	Principal (£)	Term
NatWest	0.05			6,105	Call
Lloyds Bank	0.65	16/11/2017	16/05/2018	5,000,000	Fixed
London Borough of Sutton	0.60	29/03/2018	05/04/2018	3,000,000	Fixed
Suffolk County Council	0.75	29/03/2018	29/05/2018	5,000,000	Fixed
South Ayrshire Council	0.55	13/12/2017	13/06/2018	5,000,000	Fixed
North Lincolnshire Council	0.47	13/02/2018	03/04/2018	3,000,000	Fixed
Dumfries and Galloway Council	0.85	23/03/2018	23/05/2018	3,000,000	Fixed
Barclays	0.40			698,678	Call
Lloyds Gen	0.40			5,059,353	Call
CCLA	4.3614%*	27/04/17		1,935,806	Call
			Total	31,699,942	

*CCLA interest is variable and this was the rate on 31 March 2018.

42. In addition to the investments the Council has a few loans in place, namely as at 31 March 2018:-

Counterparty	Rate/ Return (%)	Start Date	End Date	Principal (£)	Term
Amicus	3.78	04/09/2014	02/09/2044	1,788,235	Fixed
The Source	2.43	17/12/2015	17/12/2025	20,471	Fixed
Foreshore Trust	1.66	21/03/2016	20/03/2026	243,900	Annuity

43. It should be noted that the Council agreed on 9 April 2018 to lend monies (£134,037.60) to Freedom leisure for investments in the Council's leisure centre. The loan to be for a period of 5 years at 7%.

44. No institutions in which investments were made during 2017/18 had any difficulty in repaying investments and interest in full during the year.

Other Issues

45. Markets in Financial Instruments Directive II (MiFID II)

The EU set the date of 3 January 2018 for the introduction of regulations under MIFID II. These regulations govern the relationship that financial institutions

conducting lending and borrowing transactions will have with local authorities from that date. This has had little effect on this Authority apart from having to fill in forms sent by each institution dealing with this Authority and for each type of investment instrument we use, apart from for cash deposits with banks.

46. Revised CIPFA Codes

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code.

A particular focus of these revised codes was how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the Authority at a much higher level than can be attained by treasury investments. One recommendation was that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the Authority have been apportioned between treasury and non-treasury investments. Officers will report to members when the implications of these new codes have been assessed as to the likely impact on this Authority.

47. Investment Guidance

48. The MHCLG investment guidance was issued on 2 February 2018. This focused particularly on non-financial asset investments. This has a significant number of implications for the Council which will result in a revised Treasury Management Strategy being presented to the Council before the end of the financial year.

49. The effective definition of a short-term investment as being repayable ‘within 12 months’ in the 2010 investment guidance, has been removed from the 2018 guidance. A long term investment is therefore one now for in excess of 365 days.

50. Minimum Revenue Provision (MRP) guidance

The MHCLG MRP guidance was issued on 2 February 2018. This has focused particularly on expenditure on purchasing non-financial asset investments. There are impacts for 2018-19 onwards.

Financial Implications

51. The security of the Council’s monies remains the top priority within the strategy. Investment rates available in the market have continued at historically low levels during the last year. There has been new borrowing of £14.543m on which the borrowing costs are more than offset by the rental income received.

Wards Affected

Ashdown, Baird, Braybrooke, Castle, Central St. Leonards, Conquest, Gensing, Hollington, Maze Hill, Old Hastings, Ore, Silverhill, St. Helens, Tressell, West St. Leonards, Wishing Tree

Implications

Relevant project tools applied? N/A

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
Anti-Poverty	No

Additional Information

Treasury Management and Annual Investment Strategy 2017/18
CIPFA - Treasury Management Code of Practice
CIPFA - The Prudential Code

Appendix 1 – Prudential Indicators

Officer to Contact

Officer Name Peter Grace
Officer Email Address pgrace@hastings.gov.uk
Officer Telephone Number 01424 451503

APPENDIX 1 Prudential Indicators

The Council's Capital expenditure plans are the key driver of treasury management activity. The output of the Capital expenditure plans (detailed in the budget) is reflected in the prudential indicators below. The Authorised limit for external borrowing in 2017/18 was changed to £80m at the February Council meeting.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2017/18*	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
Borrowing	£75,000	£85,000	£95,000	£95,000	£95,000
other long term liabilities	£5,000	£5,000	£5,000	£5,000	£5,000
TOTAL	£80,000	£90,000	£100,000	£100,000	£100,000
Operational Boundary for external debt -					
borrowing	£65,000	£75,000	£85,000	£85,000	£85,000
other long term liabilities	£5,000	£5,000	£5,000	£5,000	£5,000
TOTAL	£70,000	£80,000	£90,000	£90,000	£90,000

2017/18* - revision to authorised boundary from £70m to £80m. Operational boundary unaltered.

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