

Financial Report

2011-2012



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GENERAL INFORMATION

PHYSICAL FEATURES

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

The Council owns land amounting to approximately **1,090 hectares**

The length of the coastline is **12 kilometres/7.46 miles**

POPULATION

The Town's estimated population at the June 2001 Census as provided by the Office of National Statistics was **85,029**. The age structure was as follows :-

| Age Range | Males | Females | Total | % |
|-------------|---------------|---------------|---------------|-----|
| 0 - 14 | 8,529 | 8,369 | 16,898 | 20 |
| 15 - 29 | 6,923 | 7,344 | 14,267 | 17 |
| 30 - 44 | 8,996 | 9,154 | 18,150 | 21 |
| 45 - 59 | 8,286 | 8,125 | 16,411 | 19 |
| 60 - 74 | 5,246 | 6,045 | 11,291 | 13 |
| 75 and over | 2,682 | 5,330 | 8,012 | 10 |
| | 40,662 | 44,367 | 85,029 | 100 |

The registered electorate in 2011-12 was : **64,350**

COUNCIL TAX & BUSINESS RATING INFORMATION

| | |
|---|--------------------|
| Rateable value of business premises at 31 March 2012 | £57,789,858 |
| Net Borough Council Revenue Expenditure (excluding capital charges) | £20,125,973 |
| Council Tax Base | 29,461 |
| Council Tax at Band D - includes all preceptors | £1,614.43 |

EMPLOYEES

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

| | NUMBER OF EMPLOYEES | |
|-----------------------------------|---------------------|------------|
| | 2010-11 | 2011-12 |
| Full time | 374 | 333 |
| Part time (full time equivalents) | 68 | 54 |
| Total | 442 | 387 |

The cost of employment during the year was :-

| | £'000 | £'000 |
|-----------------------|---------|---------------|
| | 2010-11 | 2011-12 |
| Wages and Salaries | 11,847 | 10,579 |
| National Insurance | 898 | 799 |
| Pension Contributions | 2,244 | 2,011 |
| Total | 14,989 | 13,389 |

EXPLANATORY FOREWORD

INTRODUCTION

The Council's accounts for the year of 2011-12 are set out on pages 26 to 97. This foreword provides a brief explanation of the financial aspects of the Council's activities and draws attention to the main characteristics of the Council's position.

1. Annual Financial Report

The annual financial report is made up as follows:

(i) Service summaries

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

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

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

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

(ii) Annual Governance Statement

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

(iii) The Statement of Responsibilities

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

(iv) The Independent Auditor's report

(v) The Statement of Accounts.

The Statement of Accounts consists of the following:

(a) The Core Accounting Statements:

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

EXPLANATORY FOREWORD

Movement in Reserves Statement

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

The Comprehensive Income and Expenditure Statement

This shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations, and this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The Balance Sheet

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

The Cash Flow Statement

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

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

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

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

2. Changes to Accounting Policies: International Financial Reporting Standards

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

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

EXPLANATORY FOREWORD

3. Material assets/liabilities

No material assets have been acquired or material liabilities incurred.

4. Pension

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

There has been a decline of the balance sheet since last year. This is principally because financial assumptions at 31 March 2012 are less favourable than they were at 31 March 2011. This has the effect of increasing liabilities. Also the previous 12 months have been worse than expected for most investment returns resulting in a negative impact on the assets. The overall effect is that the pension fund has moved from a deficit of £20 million to a deficit of £27 million

5. Revenue

The service cost for 2011-12 has fallen significantly from the previous year, although this was anticipated last year.

The following table compares the major elements of the budget and actual for general fund services in 2011-12:-

| | 2011-12 Estimate Budget £ | Revised Budget £ | 2011-12 Actual Outturn £ | Variance £ |
|---|------------------------------------|------------------------|-----------------------------------|--------------------|
| Directorates | | | | |
| Corporate Resources | 1,971,650 | 2,303,620 | 2,190,924 | (112,696) |
| Environmental Services | 7,683,630 | 8,492,140 | 7,857,862 | (634,278) |
| Regeneration | 6,586,380 | 6,504,400 | 6,072,846 | (431,554) |
| Contingencies | 400,000 | 228,500 | 61,328 | (167,172) |
| Direct Service Expenditure | 16,641,660 | 17,528,660 | 16,182,960 | (1,345,700) |
| Net Interest (Earnings) / Payments | 257,000 | 116,400 | 9,400 | (107,000) |
| Other operating costs | 457,000 | 462,000 | 462,000 | 0 |
| Net Contribution to / (from) Reserves* | 350,905 | (2,492) | 3,471,613 | 3,474,105 |
| Net Council Expenditure | 17,706,565 | 18,104,568 | 20,125,973 | 2,021,405 |
| Less Government Grant | (10,758,195) | (11,156,198) | (13,177,603) | (2,021,405) |
| Amount to be met by Council Tax Payers | 6,948,370 | 6,948,370 | 6,948,370 | 0 |

The net difference in reserves of £3,474,105 has arisen as a result of changes to accounting practise - £732,000, reduced use of earmarked reserves - £950,000 and the rest attributable to reductions in spend during the year.

The favourable variances between the revised budget and the actual direct service expenditure were approximately £1,000,000, after taking into account reprofiled spend, due to the following:

- vacant posts amounting to approximately £400,000
- recovery of Housing Benefit overpayments amounting to £280,000
- there was an underspend of £158,000 on electricity, severance pay and waste collection costs
- £94,000 higher income from properties; and
- £92,000 savings from a reduction in the provision for bad debts

EXPLANATORY FOREWORD

2012-13 Budget

The table below summarises planned net expenditure on services for 2012-13, compared to 2011-12, and shows how this is funded from government grants and council tax. The Council's target of a balanced budget is being achieved by matching planned expenditure by income from fees, charges, government grants and council tax, while the controlled use of reserves and surplus investment income is used to meet one-off priority spending. The table shows that this closely defined use of earmarked reserves for one-off spending is planned to increase from £2,492 to £1,824,273 between 2011-12 and 2012-13.

| | 2011-12 Revised Budget £ | 2012-13 Estimate Budget £ | Change 2011-12 to 2012-13 £ |
|---|-----------------------------------|------------------------------------|--------------------------------------|
| Directorates | | | |
| Corporate Resources | 2,303,620 | 1,957,860 | (345,760) |
| Environmental Services | 8,492,140 | 8,559,990 | 67,850 |
| Regeneration | 6,504,400 | 7,226,840 | 722,440 |
| Direct Service Expenditure | 17,300,160 | 17,744,690 | 444,530 |
| Contingencies | 228,500 | 400,000 | 171,500 |
| Interest payable | 116,400 | 124,400 | 8,000 |
| Other operating costs | 462,000 | 496,000 | 34,000 |
| Net Contribution to / (from) Reserves | (2,492) | (1,824,273) | (1,821,781) |
| Net Council Expenditure | 18,104,568 | 16,940,817 | (1,163,751) |
| Less Government Grant :- | | | |
| Revenue Support Grant | (7,793,723) | (6,838,765) | 954,958 |
| Transitional Grant | (2,790,056) | (2,137,391) | 652,665 |
| Other general grants | (572,419) | (936,869) | (364,450) |
| Collection Fund Surplus | 0 | (43,337) | (43,337) |
| Amount to be met by Council Tax Payers | 6,948,370 | 6,984,455 | 36,085 |

The budgets for 2012-13 and beyond are heavily restricted by the continuing loss of government support, with formula grant and transition grant being reduced by 15%, amounting to £1.6m. In addition the Council has to bear the additional inflationary pressures in 2012-13, particularly where payments under key contracts are linked to inflation indices. A further budgetary pressure will arise from the ending of the On-Street Car Parking Agreement with East Sussex County Council.

The 2012-13 budget is being balanced partly through the use of the New Homes Bonus Grant and from savings of £225,000 from the senior management restructure (£375,000 in a full year).

EXPLANATORY FOREWORD

6. Current Economic Climate

The Council's spending plans continue to be linked to residents' priorities and the Government's national priorities for all local authorities. The 2012-13 budget has been set against an uncertain economic background. The Council's medium term financial strategy sets out its spending plans for the period 2012-13 to 2014-15. In common with other local authorities a reduction in funding received from Central Government each year has been built in to future spending plans. The Council continues to set a balanced budget without the need to draw down from reserves to support on going expenditure.

The total removal of the Transition Grant in 2013-14 and further reductions in grant funding have major implications for the Council. Throughout the year Directors and Heads of Service have been identifying and implementing efficiency savings to assist in addressing the financial position for 2012-13 and beyond. This is reflected in the outturn position for 2011-12. Work in 2012-13 will look at the savings achieved in 2011-12 and identifying further savings to produce a balanced budget in 2013-14.

7. Capital Expenditure

The Council originally planned to spend £3.137 million on capital projects during 2011-12. Major significant schemes included :-

| | 2011-12 Budget £'000 | 2011-12 Outturn £'000 |
|--|----------------------------|-----------------------------|
| Housing Renewal (including Disabled Facilities Grants) | 1,315 | 1,421 |
| Sea Front (including The Stade Improvements) | 754 | 695 |
| Amenities - including Parks and Playgrounds | 38 | 49 |
| Coast Protection Works | 35 | 17 |
| Buildings-Refurbishment & Improvements | 245 | 188 |
| Conservation and Regeneration schemes | 279 | 102 |
| Local Authority Mortgage Scheme | - | 1,000 |
| Crematorium | 111 | 115 |
| Other Schemes | 360 | 186 |
| Total | 3,137 | 3,773 |

This capital expenditure was financed (indicative) as shown below:-

| | £'000 |
|----------------------------------|--------------|
| Loan | 1,589 |
| Proceeds from the sale of assets | 380 |
| Grants | 1,459 |
| Reserves | 127 |
| Revenue | 218 |
| Total financing | 3,773 |

EXPLANATORY FOREWORD

The Council is planning to spend £5.330 million on capital projects during 2012-13. Significant schemes include :-

| | 2012-13 Budget £'000 |
|--|----------------------------|
| Housing Renewal (including Disabled Facilities Grants) | 2,943 |
| Sea Front (including The Stade Improvements) | 383 |
| Amenities - including Parks and Playgrounds | 194 |
| Coast Protection Works | 35 |
| Buildings-Refurbishment & Improvements | 378 |
| Conservation and Regeneration schemes | 954 |
| CCTV | 140 |
| Car Park | 165 |
| Other Schemes | 138 |
| Total | <u><u>5,330</u></u> |

This capital expenditure will be financed as shown below:-

| | £'000 |
|----------------------------------|----------------------------|
| Loan | 483 |
| Proceeds from the sale of assets | 1,030 |
| Grants | 2,898 |
| Reserves/revenue | 919 |
| Total financing | <u><u>5,330</u></u> |

8. Borrowing Facilities

Total loans outstanding owed to external sources for capital spending amount to £10.5m. Under the prudential code for borrowing the Council assessed its limit for affordable borrowing at £30m and its operational boundary at £30m.

9. Reserves

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

The balance on these reserves at 31st March 2012 is £14.844 million compared with £12.232 million at 31st March 2011.

EXPLANATORY FOREWORD

10. Material write-offs

The Council has spent approximately £5 million on the Stade Improvements project over the years 2007 to 2012. Some of the assets created from this project are on Foreshore Trust land and it is not appropriate to include these within the Council's balance sheet. There has been charge of £2,964,000 as a separate line on the Comprehensive Income and expenditure Statement for this impairment.

There has been an impairment of £1,103,000 in respect of Renaissance House. This has arisen because of a revaluation of the property by Wilks, Head and Eve, our valuers. This has resulted in a charge being made to Corporate and Democratic Core - exceptional item of £1,103,000 as a separate line in the Comprehensive Income and Expenditure Statement.

11. Material events after the balance sheet date

FURTHER INFORMATION

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

N. Dart , CPFA
Director of Corporate Resources

EXPENDITURE SUMMARY

| 2010-11 ACTUAL | | | | 2011-12 REVISED ESTIMATE | 2011-12 ACTUAL | | |
|----------------------------|--------------|-------------|-----------------------------------|--------------------------------|----------------|--------------|-------------|
| EXPEND. £ | INCOME £ | NET £ | | £ | EXPEND. £ | INCOME £ | NET £ |
| CORPORATE RESOURCES | | | | | | | |
| 349,709 | 247 | 349,956 | Director Corporate resources | 456,760 | 459,141 | 72 | 459,213 |
| | | | Corp. Policy, Partnerships & | | | | |
| 333,089 | 0 | 333,089 | Perform. | 308,730 | 304,461 | 0 | 304,461 |
| 383,989 | 0 | 383,989 | Estates Service | 391,100 | 378,103 | 0 | 378,103 |
| 382,785 | (1,461) | 381,324 | Democratic Services | 374,720 | 333,951 | 0 | 333,951 |
| 559,138 | (34,254) | 524,884 | Legal Services | 608,570 | 612,521 | (38,768) | 573,753 |
| 415,269 | (67,872) | 347,397 | Audit & Investigations Division | 370,120 | 427,407 | (67,792) | 359,615 |
| 867,527 | (5,750) | 861,777 | Accountancy & Exchequer Services | 866,440 | 836,386 | (166) | 836,220 |
| 2,626,752 | (153,461) | 2,473,291 | Revenues Division | 2,423,030 | 2,413,327 | (82,750) | 2,330,577 |
| 213,669 | (4) | 213,665 | Projects | 0 | 0 | 0 | 0 |
| 562,178 | (10,494) | 551,684 | Personnel & Organisational | | | | |
| 236,329 | 0 | 236,329 | Development | 563,600 | 530,286 | (5,365) | 524,921 |
| | | | Facilities Management Team | 282,580 | 293,293 | 0 | 293,293 |
| (5,165) | 0 | (5,165) | Admin. Buildings - Century House | 0 | 0 | 0 | 0 |
| | | | Admin. Buildings - Renaissance | | | | |
| 139,945 | (494) | 139,451 | House | 92,900 | 77,024 | (2,135) | 74,889 |
| 164,482 | (1,306) | 163,176 | Admin.Bldgs - Town Hall | 192,040 | 175,290 | (1,913) | 173,377 |
| 619,020 | (566) | 618,454 | Admin. Build. Aquila House | 666,300 | 628,427 | (83) | 628,344 |
| | | | Admin. Buildings - General | | | | |
| 34,505 | (55) | 34,450 | Expenses | 79,700 | 88,378 | 0 | 88,378 |
| (2,583) | 0 | (2,583) | Admin. Buildings - Summerfields | 0 | 0 | 0 | 0 |
| 41,814 | 0 | 41,814 | Admin. Buildings - Bank Buildings | 44,060 | 45,893 | 0 | 45,893 |
| | | | Admin. Bldgs - Corp. Archive, | | | | |
| 40,692 | 0 | 40,692 | Castleham | 45,250 | 68,311 | 0 | 68,311 |
| 305,520 | | 305,520 | Corporate Expenses | 163,040 | 716,425 | 0 | 716,425 |
| (7,941,473) | | (7,941,473) | Less recharges to other accounts | (7,723,220) | (8,189,724) | 0 | (8,189,724) |
| 327,191 | (275,470) | 51,721 | Non-recharged costs | 205,720 | 198,900 | (198,900) | 0 |
| 322,832 | (185,709) | 137,123 | Corporate Personnel Expenses | 138,770 | 130,885 | (1,987) | 128,898 |
| 689,801 | 0 | 689,801 | Corporate Management | 688,990 | 775,672 | 0 | 775,672 |
| | | | Non Distributed Corporate | | | | |
| 167,791 | 0 | 167,791 | Expenses | 182,400 | 173,000 | 0 | 173,000 |
| 63,275,275 | (63,039,387) | 235,888 | Benefits payments and Admin | 418,620 | 64,762,016 | (63,546,063) | 1,215,953 |
| 904,024 | (346,320) | 557,704 | Tax Collection Costs | 538,370 | 912,932 | (329,421) | 583,511 |
| 1,856,410 | (642,827) | 1,213,583 | Concessionary Travel | 134,000 | 122,731 | 0 | 122,731 |
| 321,536 | 0 | 321,536 | Foreshore Trust | 256,900 | 318,426 | 0 | 318,426 |
| 58,162 | (335,200) | (277,038) | Employment Areas | (259,050) | 57,443 | (346,266) | (288,823) |
| 337,569 | (1,388,926) | (1,051,357) | Factory Units | (1,016,830) | 292,962 | (1,335,283) | (1,042,321) |
| 253,253 | (1,740,806) | (1,487,553) | Farms and Other Properties | (1,290,320) | 249,120 | (1,572,279) | (1,323,159) |
| 27,174 | 110 | 27,284 | St Mary in the Castle | 26,140 | 39,339 | 0 | 39,339 |
| 32,187 | 0 | 32,187 | Small Eng. Projects | 0 | 0 | 0 | 0 |
| 167,099 | (127,807) | 39,292 | Other Income/ Exp. | 47,530 | (40,886) | (63,858) | (104,744) |
| 123,718 | (1,814) | 121,904 | Registration of Electors | 114,620 | 117,971 | (1,610) | 116,361 |
| 1,689,749 | 0 | 1,689,749 | Cost of Democracy | 1,728,070 | 1,434,041 | (2,828) | 1,431,213 |
| 329,163 | (96,450) | 232,713 | Election Expenses | 161,120 | 260,081 | (87,744) | 172,337 |
| 48,863 | 0 | 48,863 | Local Strategic Partnership | 44,300 | 51,549 | (7,249) | 44,300 |
| 65,864 | (40,484) | 25,380 | Sustainable Development | 26,360 | 21,805 | 0 | 21,805 |
| 57,050 | 0 | 57,050 | Public Consultation | 42,060 | 37,856 | 0 | 37,856 |
| 90,526 | (21,939) | 68,587 | Future Cities | 74,450 | 92,515 | (64,667) | 27,848 |
| 0 | 0 | 0 | Property searches | 0 | 1,380 | 0 | 1,380 |
| 0 | 0 | 0 | VAT refunds from HMRC | 0 | 51,218 | (265,578) | (214,360) |
| 71,145,237 | (68,243,029) | 2,902,208 | | 2,262,220 | 70,060,956 | (67,823,733) | 2,237,223 |

EXPENDITURE SUMMARY

| 2010-11 ACTUAL | | | | 2011-12 REVISED ESTIMATE | 2011-12 ACTUAL | | |
|--------------------|--------------------|--------------------|----------------------------------|--------------------------------|--------------------|--------------------|--------------------|
| EXPEND. £ | INCOME £ | NET £ | | £ | EXPEND. £ | INCOME £ | NET £ |
| | | | SERVICES : | | | | |
| | | | REGENERATION | | | | |
| 651,393 | (17,556) | 633,837 | Planning Manage. and Admin | 478,810 | 437,006 | (8,356) | 428,650 |
| 853,752 | (47,590) | 806,162 | Regeneration Admin | 1,119,920 | 1,053,008 | (20) | 1,052,988 |
| 726,235 | (17,261) | 708,974 | Communications and Marketing | 618,670 | 1,078,361 | (4,417) | 1,073,944 |
| 1,777,352 | (10,696) | 1,766,656 | Housing Services - Admin | 1,444,620 | 1,506,706 | (3,209) | 1,503,497 |
| 873,768 | (4,998) | 868,770 | Information Technology | 617,320 | 590,926 | (101) | 590,825 |
| 0 | 0 | 0 | Contact Centre | 571,350 | 636,984 | 8,198 | 645,182 |
| 110,724 | 1,057 | 111,781 | Information Technology Hardware | 124,260 | 136,000 | (535) | 135,465 |
| 5,380 | 0 | 5,380 | Information Technology Reserve | 123,000 | 127,224 | 0 | 127,224 |
| (4,897,814) | | (4,897,814) | Less recharges to other accounts | (4,962,950) | (5,557,775) | 0 | (5,557,775) |
| 100,790 | | 3,746 | Non-recharged costs | 135,000 | 8,440 | (8,440) | 0 |
| 892,978 | (59,519) | 833,459 | Regeneration | 844,720 | 214,072 | (7,650) | 206,422 |
| 666,203 | (329,711) | 336,492 | Planning Policy | 366,180 | 364,780 | (45,840) | 318,940 |
| 0 | 0 | 0 | Employability | (70,360) | 89,784 | (125,201) | (35,417) |
| 42,295 | (24,191) | 18,104 | Cultural Activities | 24,060 | 89,803 | 0 | 89,803 |
| 24,274 | (6,500) | 17,774 | Public Art | 65,410 | 71,021 | 0 | 71,021 |
| 140,026 | (2,305) | 137,721 | Community Cohesion | 54,980 | 78,057 | (5,287) | 72,770 |
| 6,360 | (956) | 5,404 | Area Co-ordination | 15,000 | 193,093 | (5,000) | 188,093 |
| 745 | (745) | 0 | Cultural Development | 28,000 | 98,557 | (80,754) | 17,803 |
| 602,334 | (461,001) | 141,333 | Safer Hastings Partnership | 180,660 | 239,023 | (34,600) | 204,423 |
| 357,602 | (18,800) | 338,802 | Hastings Pier | 104,860 | 220,050 | (95,588) | 124,462 |
| 0 | 0 | 0 | External Funding Initiatives | 10,000 | 64,478 | 0 | 64,478 |
| 0 | 0 | 0 | Answers in the Carbon Economy | 24,100 | 93,453 | (20,129) | 73,324 |
| 18,201 | (445) | 17,756 | Jackson Hall | 0 | (33) | 0 | (33) |
| 1,513 | 0 | 1,513 | Fisheries Local Action Group | 7,000 | 39,589 | (28,137) | 11,452 |
| 0 | 0 | 0 | European Projects | 0 | 0 | 0 | 0 |
| 15,907 | (15,907) | 0 | ECOFAB | 0 | 0 | 1,329 | 1,329 |
| 1,144,818 | (991,493) | 153,325 | Future Jobs Fund | 0 | 580,210 | (579,540) | 670 |
| 2,601,475 | (3,077) | 2,598,398 | Area Based Grant Projects | 220,000 | 335,133 | 0 | 335,133 |
| 33,226 | (89,375) | (56,149) | Coastal Change Pathfinders | 79,560 | 29,038 | 0 | 29,038 |
| 495,266 | (4,212) | 491,054 | Area Based Grant Administration | 0 | 0 | 0 | 0 |
| 479,211 | 0 | 479,211 | Community Action | 573,010 | 646,875 | 0 | 646,875 |
| 0 | 0 | 0 | Older and Younger People | 75,000 | 82,694 | (810) | 81,884 |
| 4,262 | (4,000) | 262 | The Stade | 0 | 0 | 0 | 0 |
| 78,003 | (79,371) | (1,368) | Hastings & Bexhill Task Force | (30) | 41,742 | (34,843) | 6,899 |
| 12,843 | (100) | 12,743 | Youth Activities | 17,710 | 16,236 | 0 | 16,236 |
| 264,700 | (87,621) | 177,079 | 1066 Country Campaign | 195,840 | 265,374 | (96,377) | 168,997 |
| 187,765 | (32,828) | 154,937 | Tourism Marketing | 261,420 | 429,966 | (18,939) | 411,027 |
| 66,770 | (2,725) | 64,045 | Community Awareness | 79,360 | 58,442 | (7,215) | 51,227 |
| 39,685 | (19,009) | 20,676 | Twinning | 19,030 | 31,924 | (14,003) | 17,921 |
| 158,894 | (43,136) | 115,758 | Raising the Profile of Hastings | 94,610 | 189,695 | (32,910) | 156,785 |
| 0 | 0 | 0 | Filming | 0 | 13,626 | (17,622) | (3,996) |
| 0 | 0 | 0 | Stade Improvement | 222,000 | 221,725 | 0 | 221,725 |
| 7,056 | 0 | 7,056 | Meteorological Expenses | 8,030 | 8,328 | 0 | 8,328 |
| 1,092,819 | (660,959) | 431,860 | Hastings Information Centre | 0 | 545,857 | (545,857) | 0 |
| 131,793 | 0 | 131,793 | Civic & Ceremonial Expenses | 120,080 | 93,886 | (1,835) | 92,051 |
| 530,806 | (110,298) | 420,508 | Homelessness | 418,550 | 459,924 | (86,595) | 373,329 |
| 236,830 | (236,830) | 0 | Homelessness Strategy | 204,380 | 252,021 | (43,790) | 208,231 |
| 0 | 0 | 0 | Youth Homelessness | (25,500) | 62,667 | (87,500) | (24,833) |
| 156,266 | 0 | 156,266 | Renovation Grant Administration | 142,960 | 35,149 | (7,500) | 27,649 |
| 492,516 | (26,523) | 465,993 | Housing Renewal | 534,570 | 512,985 | (199,490) | 313,495 |
| 34,744 | (30,000) | 4,744 | Migration Impact Fund | 41,150 | 22,072 | 0 | 22,072 |
| 49,119 | (2,070) | 47,049 | County Housing Co-Ordination | 9,950 | 41,950 | (32,000) | 9,950 |
| 0 | 0 | 0 | Prev. Offenders Accom. Loss | 0 | 115,145 | (84,152) | 30,993 |
| 0 | 0 | 0 | Housing Licensing Team | 34,060 | 163,153 | (118,374) | 44,779 |
| 240,204 | 0 | 240,204 | Housing Advice & Aid | 234,910 | 199,573 | 0 | 199,573 |
| 55,557 | 0 | 55,557 | Liaison-Agencies & Hsng. Assoc. | 54,000 | 76,800 | 0 | 76,800 |
| 169,636 | 0 | 169,636 | Housing Register / Nominations | 166,710 | 206,129 | 0 | 206,129 |
| 0 | 0 | 0 | Central St Leonards Renewal | 0 | 0 | 864 | 864 |
| 0 | 0 | 0 | Local Space - funded by HBC | 0 | 56,740 | 0 | 56,740 |
| 0 | 0 | 0 | Local Space | 0 | 40,000 | (40,000) | 0 |
| 272,362 | (178,184) | 94,178 | Conservation | 108,880 | 108,747 | 0 | 108,747 |
| 1,634,375 | (890,561) | 743,814 | Development Control | 641,480 | 941,973 | (292,534) | 649,439 |
| 319,772 | (232,907) | 86,865 | Building Control Services | 137,470 | 182,989 | (51,273) | 131,716 |
| 127,318 | (205,121) | (77,803) | Local Land Charges Register | (42,260) | 111,196 | (229,609) | (118,413) |
| 44,515 | 0 | 44,515 | Dangerous Structures | 4,000 | 667 | 0 | 667 |
| 116,080 | 0 | 116,080 | Land & Property Systems | 95,860 | 74,437 | 0 | 74,437 |
| 677 | (10,730) | (10,053) | Other | 0 | 30,813 | 0 | 30,813 |
| 14,148,591 | (4,861,210) | 9,190,337 | | 6,516,400 | 9,150,048 | (3,077,201) | 6,072,847 |

EXPENDITURE SUMMARY

| 2010-11 ACTUAL | | | | 2011-12 REVISED ESTIMATE | 2011-12 ACTUAL | | |
|--------------------|--------------------|--------------------|----------------------------------|--------------------------------|--------------------|--------------------|--------------------|
| EXPEND. | INCOME | NET | SERVICES : | EXPEND. | INCOME | NET | |
| £ | £ | £ | <u>ENVIRONMENTAL SERVICES</u> | £ | £ | £ | £ |
| 1,320,939 | (7,373) | 1,313,566 | Environmental Services admin | 1,350,130 | 1,380,601 | (4,643) | 1,375,958 |
| 43,488 | 0 | 43,488 | Emergency Call Out Service | 45,190 | 44,770 | 0 | 44,770 |
| 492,684 | (652) | 492,032 | Waste Management Team | 432,750 | 540,330 | 0 | 540,330 |
| 1,137,659 | (2,675) | 1,134,984 | Amenities & Resorts admin | 1,046,120 | 982,588 | (95) | 982,493 |
| 481,900 | 8 | 481,908 | Highways Services admin. | 76,990 | 99,179 | 0 | 99,179 |
| 144,789 | (1) | 144,788 | Leisure Services admin. | 186,340 | 194,349 | (9) | 194,340 |
| (3,602,287) | 0 | (3,602,287) | Less recharges to other accounts | (3,137,520) | (3,237,071) | 0 | (3,237,071) |
| 19,172 | (10,693) | 8,479 | Non-recharged costs | 0 | 4,746 | (4,747) | (1) |
| 227,411 | (80) | 227,331 | Food Safety/Infectious Diseases | 257,800 | 202,731 | (3,622) | 199,109 |
| 225,970 | 0 | 225,970 | Health & Safety | 256,670 | 199,728 | 0 | 199,728 |
| 331,776 | (4,345) | 327,431 | Environmental Protection | 393,890 | 368,029 | (3,959) | 364,070 |
| 75,551 | (14,840) | 60,711 | Pest Control | 68,380 | 115,045 | (15,826) | 99,219 |
| 118,123 | (145,588) | (27,465) | Local Licence Fees | (9,060) | 93,625 | (148,760) | (55,135) |
| 130,773 | (81,280) | 49,493 | Liquor Licensing | 56,860 | 133,126 | (79,384) | 53,742 |
| 11,415 | (19,068) | (7,653) | Gambling Licensing | (22,710) | 13,100 | (27,972) | (14,872) |
| 62,662 | 0 | 62,662 | Tobacco Control | 98,390 | 57,282 | 0 | 57,282 |
| 517,042 | (31,505) | 485,537 | Environmental Enforcement | 48,260 | 46,636 | (50) | 46,586 |
| 56,604 | (6,249) | 50,355 | Emergency Planning | 48,820 | 55,002 | (7,033) | 47,969 |
| 60,707 | (41,050) | 19,657 | Bulverhythe Depot | 10,760 | 153,193 | (69,932) | 83,261 |
| 508,173 | 0 | 508,173 | Public Conveniences | 521,300 | 529,144 | (3,486) | 525,658 |
| 2,056,686 | (328,245) | 1,728,441 | Waste Collection | 1,854,670 | 2,053,016 | (313,615) | 1,739,401 |
| 1,529,305 | (42,735) | 1,486,570 | Street Cleansing | 1,530,270 | 1,580,046 | (19,317) | 1,560,729 |
| 148,741 | (159,897) | (11,156) | Greenwaste | (27,800) | 158,833 | (182,715) | (23,882) |
| 0 | 0 | 0 | Environmental Enforcement Team | 473,760 | 494,855 | (3,835) | 491,020 |
| 31,009 | (500) | 30,509 | Together Action | 65,900 | 32,965 | 0 | 32,965 |
| 669,528 | (803,570) | (134,042) | Cemetery & Crematorium | (235,720) | 661,829 | (899,633) | (237,804) |
| 580,211 | (1,853,996) | (1,273,785) | Car Parking - Off Street | (1,275,200) | 623,383 | (1,923,288) | (1,299,905) |
| 51,926 | (7,518) | 44,408 | DVLA Powers | 47,280 | 44,871 | (1,465) | 43,406 |
| 1,469,141 | (1,608,302) | (139,161) | Car Parking - On Street | (128,240) | 1,096,071 | (1,244,539) | (148,468) |
| 81,244 | (22,600) | 58,644 | Closed Circuit Television | 84,930 | 153,441 | (75,176) | 78,265 |
| 32,241 | (7,174) | 25,067 | Highways Shelters and Seats | 32,410 | 16,415 | 0 | 16,415 |
| 17,929 | 0 | 17,929 | Naming & Numbering Streets | 17,680 | 28,852 | 0 | 28,852 |
| 391,723 | (459,140) | (67,417) | ESCC Highways Management | 0 | 92,580 | (83,057) | 9,523 |
| 29,848 | 0 | 29,848 | Traffic Management & Calming | 62,500 | 33,370 | 0 | 33,370 |
| 17,298 | 0 | 17,298 | Transport Policy | 13,610 | 10,315 | 0 | 10,315 |
| 49,673 | (717) | 48,956 | Abandoned Vehicles | 42,200 | 37,996 | (367) | 37,629 |
| 123,052 | (145,055) | (22,003) | Coastal Protection | 75,250 | 43,907 | 0 | 43,907 |
| 4,074 | 0 | 4,074 | Navigational Aids | 8,190 | 11,295 | 0 | 11,295 |
| 67,009 | 0 | 67,009 | Watercourses | 64,860 | 69,863 | 0 | 69,863 |
| 10,341 | 0 | 10,341 | Env. Schemes Net Shops | 16,740 | 10,874 | 0 | 10,874 |
| 293,192 | (316,658) | (23,466) | Cliff Railways | (23,570) | 261,375 | (309,611) | (48,236) |
| 34,262 | (79,096) | (44,834) | Castle & Caves | (42,120) | 21,847 | (51,749) | (29,902) |
| 75,153 | (150,672) | (75,519) | Chalets | (78,740) | 79,166 | (163,837) | (84,671) |
| 33,936 | 0 | 33,936 | Travellers Costs | 33,390 | 26,887 | 0 | 26,887 |
| 104,323 | (565) | 103,758 | Decorative Lighting | 107,740 | 92,723 | (2,217) | 90,506 |
| 480,576 | (180,511) | 300,065 | Seafront | 325,890 | 440,884 | (179,091) | 261,793 |
| 42,858 | 0 | 42,858 | Floral Decs Town Centre | 39,790 | 29,076 | 0 | 29,076 |
| 92,438 | (10,933) | 81,505 | Allotments | 71,100 | 112,026 | (11,608) | 100,418 |
| 73,003 | 0 | 73,003 | Ecology | 42,160 | 55,632 | 0 | 55,632 |
| 464,379 | (30,186) | 434,193 | Museums and Art Gallery | 415,640 | 425,113 | (40,119) | 384,994 |
| 68,597 | (68,927) | (330) | Stade Education Project | 35,060 | 56,622 | (16,353) | 40,269 |
| 140,648 | (100) | 140,548 | Arboriculture | 131,870 | 129,797 | (200) | 129,597 |
| 1,757,042 | (236,741) | 1,520,301 | Parks & Gardens | 1,617,520 | 1,782,521 | (214,764) | 1,567,757 |
| 205,942 | (5,417) | 200,525 | Hastings Country Park | 204,650 | 210,886 | (5,814) | 205,072 |
| 19,328 | (1,000) | 18,328 | Pebsham Country Park | 17,480 | 17,759 | 0 | 17,759 |
| 71,635 | (30,691) | 40,944 | Countryside Stewardship | 18,120 | 45,335 | (43,311) | 2,024 |
| 529,930 | 0 | 529,930 | White Rock Theatre | 566,890 | 573,056 | (28,996) | 544,060 |
| 16,033 | (100) | 15,933 | Falaise Fitness Centre | 21,230 | 30,003 | (100) | 29,903 |
| 342 | (375) | (33) | Support for Events | 510 | 0 | 0 | 0 |
| 410,428 | (28,845) | 381,583 | Sports Centres | 69,600 | 131,211 | (27,120) | 104,091 |
| 81,014 | (55,980) | 25,034 | Sports Management | 25,840 | 72,076 | (52,649) | 19,427 |
| 5,000 | 0 | 5,000 | William Parker Athletics Track | 5,000 | 5,000 | 0 | 5,000 |
| 139,100 | (12,718) | 126,382 | Sports Development | 111,900 | 59,045 | 0 | 59,045 |
| 74,940 | (86,132) | (11,192) | Street Games | 42,290 | 51,967 | (28,404) | 23,563 |
| 33,957 | (32,405) | 1,552 | British Heart Foundation Project | (25,170) | 37,426 | (44,707) | (7,281) |
| 16,380 | (11,410) | 4,970 | Fishing 4 U Project | 12,150 | 14,543 | (2,272) | 12,271 |
| 160,428 | (95,902) | 64,526 | Active Hastings | 105,330 | 141,308 | (98,210) | 43,098 |
| 31,479 | (18,506) | 12,973 | Active Leaders Project | (12,020) | 11,237 | (24,643) | (13,406) |
| 97,403 | (8,750) | 88,653 | Play Development | 111,400 | 130,970 | (22,847) | 108,123 |
| 43,574 | (22,770) | 20,804 | Make Way for Play | 0 | 0 | 0 | 0 |
| 0 | (17,900) | (17,900) | Primary Care Trust Play Grant | 17,900 | 4,047 | 0 | 4,047 |
| 77,224 | (2,879) | 74,345 | Play Pathfinder | 49,910 | 43,830 | 0 | 43,830 |
| 0 | (47,020) | (47,020) | Active Women | 47,020 | 96,660 | (82,611) | 14,049 |
| 0 | 0 | 0 | US Girls | (6,870) | 18,124 | (18,124) | 0 |
| 0 | 0 | 0 | Stade Hall | 0 | 20,346 | (666) | 19,680 |
| 15,380,902 | (7,347,336) | 8,033,566 | | 8,511,540 | 14,454,662 | (6,581,801) | 7,872,861 |

EXPENDITURE SUMMARY

| 2010-11 ACTUAL | | | | 2011-12 REVISED ESTIMATE | 2011-12 ACTUAL | | |
|----------------|-------------------------|------------|---|--------------------------------|----------------|--------------|------------|
| EXPEND. £ | INCOME £ | NET £ | SERVICES : | £ | EXPEND. £ | INCOME £ | NET £ |
| 100,674,730 | (80,451,575) | 20,126,111 | DIRECT SERVICE EXPENDITURE | 17,290,160 | 93,665,666 | (77,482,735) | 16,182,931 |
| | | | | | | | |
| 2010-11 | SERVICE MEASURES | | | | | 2011-12 | |
| Numbers of :- | | | | | | | |
| 59,112 | | | Museum visitors | | | 66,166 | |
| 155,514 | | | East Hill Cliff Railway users | | | 134,494 | |
| 207,548 | | | West Hill Cliff Railway users | | | 203,352 | |
| 42,770 | | | Hastings Castle visitors | | | 35,796 | |
| 24 | | | Public Conveniences | | | 23 | |
| 96 | | | Burials | | | 124 | |
| 80,737 | | | Grave spaces | | | 80,861 | |
| 1,260 | | | Cremations | | | 1,316 | |
| 17,848 | | | Kilometres of Street Swept per annum | | | 17,848 | |
| 2.87 million | | | Dustbins Emptied (Bin Equivalents) | | | 3.01 million | |
| 7,788 | | | Recycling tonnage | | | 7,797 | |
| 667 | | | Planning Applications | | | 703 | |
| 3 | | | Conservation Area Projects | | | 2 | |
| 634 | | | Building Regulation Applications | | | 346 | |
| 1,134 | | | Local Land Charges (full searches only) | | | 1,330 | |
| 2,105 | | | Car Parking Spaces (Off-Street) | | | 2,105 | |
| 898,336 | | | Vehicles Parked (Off Street) | | | 940,699 | |
| 23,531 | | | Penalty Charge Notices issued | | | 22,011 | |
| 151 | | | Untaxed & Abandoned Vehicles removed | | | 96 | |
| 2,154 | | | Licences Issued | | | 2,472 | |
| 572 | | | Food Hygiene Inspections | | | 504 | |
| 198 | | | Health & Safety Inspections | | | 85 | |
| 64,400 | | | Local Electorate | | | 63,958 | |
| 98 | | | Number of Factory Units | | | 99 | |
| £1,346,536 | | | Rental Income from Factory Units | | | £ 1,320,824 | |

Hastings Borough Council

Annual Governance Statement 2011/2012

Scope of responsibility

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

The purpose of the governance framework

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

6. The governance framework has been in place for a number of years at Hastings Borough Council and, in particular, for the year ended 31 March 2012, up to the date of approval of the Statement of Accounts.

The governance framework

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

complaints system is that customer's allegations can be dealt with more efficiently in a structured way.

- Hastings Borough Council's Internal Audit continues to support managers at all levels to give a better understanding of how to enhance risk management in their area of responsibility and to have some understanding of the process throughout the Council. The high-level risk management methodology was reviewed to provide more focus to member and senior officer management of risk. Both the Corporate Risk Register containing the Council's owned strategic risks and the Operational Risk Registers have been heavily refreshed during 2011/12.
- 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 by having regard to a combination of economy, efficiency, and effectiveness as required by the Best Value Duty. The External Auditor passed an unqualified audit opinion on value for money providing assurance to the public over its financial resilience and that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources.
- Financial management in Hastings Borough Council and the reporting of financial standing is undertaken through a general ledger and management information system, Agresso, which integrates the general ledger function with those of budgetary control and payments. These are supported by the Financial Operating Procedures (FOPs) Manual held on the Council's intranet which contains information on financial and business procedures and processes to be followed in all areas of the Council.
- A scheme of delegation which sets out the powers of Directors, the Financial rules and Contract Standing Orders form part of the Constitution. A rigorous system of monthly financial monitoring ensures that any significant budget variances are identified in a timely way, and corrective action is initiated.
- Performance management in Hastings Borough Council and the reporting of performance management continues to show good results. In response to the de-regulation of Performance Management the Council has focussed its quarterly reporting of data on 31 Key Indicators that can be used to assess the 'health' of the organisation. This, together with the reporting on each of the Service's Part II commitments, enables a rounded view of how the Council is performing against key issues of concern to local people. Performance indicators are recorded and monitored using the Performance Plus computer system.
- Hastings Borough Council has now acted as the Trustee for all purposes to the Foreshore Trust for 18 months. 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. A new Chair was appointed in May 2012 following the retirement of his predecessor.

Changes to the Council's Structure and Governance arrangements

8. There have been a number of changes to service provision that have impacted on the governance arrangements at Hastings Borough Council. The key changes are:
- East Sussex County Council has terminated the On Street Parking agreement it has with Hastings Borough Council with effect from 31 March 2013 following a tender exercise.
 - The Council is working on delivering a number of joint services including a joint waste contract with Wealden, Rother and Eastbourne Councils.
 - In September 2011, the Council implemented a joint Building Control service with Rother District Council. Governance of this partnership forms part of the inter authority agreement.
 - The Members Code of Conduct and revised Standards arrangements were approved by Council on 21 June 2012 to meet the requirements of the Localism Act 2011. The new code of conduct is similar to the previous one except that it is based around the '7 Nolan Principles in Public Life' compared to previous '10 General Principles of Conduct'. The Council has chosen to keep a separate Standards Committee and made the necessary changes to comply with the new Act. The Constitution has been updated to accurately reflect this and has received Council's approval.
 - There has been a significant change in the organisational structure of the Council following a senior management structure review. This started with the formation of a 'Staff Commission' chaired by the Council Leader and comprising councillors, trade union representatives and volunteer staff members (who are not part of senior management). The Staff Commission researched and debated alternative senior management structures and put forward proposals for Members' consideration. A management consultant was then engaged by Members to critique and advise them on the chosen structure.
 - The outcome of the senior management restructure was ratified by Cabinet on 22 November 2011 and saw the reduction of five senior management posts, including those of the Chief Executive and Borough Solicitor with significant savings per annum ongoing.

- The responsibilities of Head of Paid Service (previously with the post of Chief Executive) and of the Monitoring Officer (part of the Borough Solicitor's remit) have been transferred to the Director of Corporate Resources and Head of Corporate Services respectively and ratified by Council.

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

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

Review of effectiveness

10. Hastings Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control and effectiveness of Internal Audit. The review of effectiveness is informed by the work of the Corporate Directors within the authority who have responsibility for the development and maintenance of the governance environment, the Audit Committee's annual report to Council and also by comments made by the external auditors and other review agencies and inspectorates.
11. The Council contributes to the delivery of the town's Sustainable Community Strategy through its membership of the Local Strategic Partnership and via targets included in the Corporate Plan. The Council monitors and reports publicly on progress so residents can see how issues that matter to them are being tackled. The plan is monitored on a quarterly basis by Overview and Scrutiny Committees.
12. The Council's constitution, which is reviewed at least annually by the Monitoring Officer, sets out the responsibilities of both Members and their senior managers. In particular, the Council has identified the three statutory posts as follows:
 - Head of Paid Service - Director of Corporate Resources
 - Section 151 Officer - Head of Finance
 - Monitoring Officer - Head of Corporate Services
13. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the CIPFA/SOLACE guidance and has developed a local code of corporate governance.
14. The arrangements for the provision of internal audit are contained within the Council's Financial rules, which are included within the Constitution.

Responsibility of the section 151 officer transferred from the Director of Corporate Resources to the Head of Finance who is now responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2011. The Internal Audit service is managed, independently, by the Head of Finance and operates in accordance with the CIPFA code of practice for Internal Audit in Local Government 2006. The Hastings audit plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Council's corporate governance arrangements, including risk management. The work is further supplemented by reviews around the main financial systems, scheduled visits to Council establishments and fraud investigations. The resulting work plan is discussed and agreed with the Corporate Directors and the Audit Committee and shared with the Council's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. All Hastings Internal Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any areas needing improvement.

15. The Council's review of the effectiveness of the system of internal control is informed by:
 - Directorate assurance based on management and performance information
 - Scrutiny reports covering a planned scrutiny review programme but also any item can be subject to a scrutiny review
 - Work undertaken by Hastings BC Internal Audit during the year and summarised in the Annual Internal Audit Report
 - Work undertaken by the external auditor reported in their Annual Audit Letter and particularly their audit opinion on the Financial Statements and on Value for Money
 - Other work undertaken by independent inspection bodies.
 - Corporate Management Group and Audit Committee review of the Corporate and Operational Risks Registers
16. From the work undertaken by Hastings Audit in 2011/12 the Chief Auditor was able to give the following assurance "I am able to provide a reasonable assurance on the key areas of risk management, corporate governance and financial control". In this context "reasonable assurance" means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts.
17. The Council's management arrangements for securing data quality were reviewed by audit and found to be effective.

Significant governance issues

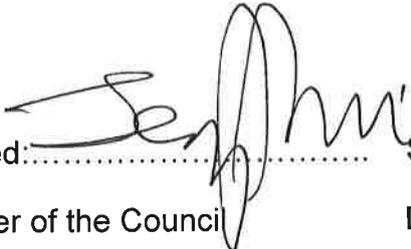
18. There are no significant governance issues and the Council follows the CIPFA/SOLACE guidance entitled 'Delivering Good Governance in Local Government (Guidance Note for English Authorities)'.

Reduction in Government grant funding: For 2011/12 and 2012/13, the Government has significantly reduced funding for local government. Hastings BC saw a reduction of £2.1m and £3.7m respectively. Beyond these years the indications are that funding will continue to be under extreme pressure as the current Government seek to reduce public spending. In response, to meet this challenge the Council commenced on a programme of service prioritisation, informed by consultation with the public, which has enabled a balanced budget for both financial years whilst retaining an appropriate level of reserves.

The Localism Act: The Localism Act, which came into force in 2011, will have a significant impact on the Council. We have already started to review our processes in light of the legislation, for example, we have introduced a pay policy statement in accordance with section 38 of the act and changed the Standards regime as described above in paragraph 8, fourth bullet point.

The Localism Act also raises issues particularly in relation to the planning and housing services. There are still areas that need to be finalised and at the moment the impact on these services is not fully known but we will continue to keep these areas under review.

19. This year has been a period of change and development. There have been continuing financial pressures and we have had to make some tough decisions. Despite this challenging environment there have been significant achievements and continuing improvement in the Council's overall governance arrangements. Where we have identified areas for further improvement we will take the necessary action to implement changes that will further develop our governance framework.

Signed:  Signed: 

Leader of the Council Director of Corporate Resources

STATEMENT OF RESPONSIBILITIES

THE COUNCIL'S RESPONSIBILITIES

The Council is required :-

- (i) To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In Hastings that officer was the Deputy Chief Executive and Director of Corporate Resources for 2011-12, but from the 1 April 2012 is the Head of Finance (referred to as Chief Financial Officer hereafter).
- (ii) To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- (iii) To approve the Statement of Accounts.

RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER

The chief financial officer is responsible for the preparation of the Council's statement of accounts which, in terms of the CIPFA / LASAAC Code of Practice on Local Authority Accounting in United Kingdom (the CODE), is required to present fairly the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2012.

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.

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

Peter Pragnell
Chair of the Audit Committee

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

Opinion on the Authority financial statements

We have audited the financial statements of Hastings Borough Council (the Authority) for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Hastings Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Head of Finance and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Hastings Borough Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

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

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects

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

Respective responsibilities of the Authority and the auditor

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

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

We report if significant matters have come to our attention which prevent us from concluding that the Authority 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, we are satisfied that, in all significant respects, Hastings Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Certificate

We certify that we have completed the audit of the financial statements of Hastings Borough Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature:

Robert Grant
For and on behalf of PKF (UK) LLP
London, UK

20 September 2012

MOVEMENT IN RESERVES STATEMENT

| 2010-11 | General Fund Balance £'000 | Earmarked Reserves £'000 | Capital Receipts reserve £'000 | Capital grants unapplied £'000 | Total usable reserves £'000 | Unusable Reserves £'000 | Total Authority Reserves £'000 |
|--|----------------------------------|--------------------------------|--------------------------------------|--------------------------------------|-----------------------------------|-------------------------------|--------------------------------------|
| Balance at 31 March 2010 | (500) | (12,847) | (328) | (1,878) | (15,553) | (28,680) | (44,233) |
| <u>Movement in Reserves in 2010-11</u> | | | | | | | |
| Surplus (deficit) on the provision of services (accounting basis) | (5,665) | 0 | 0 | 0 | (5,665) | 0 | (5,665) |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | (21,934) | (21,934) |
| Total Comprehensive Income and Expenditure | (5,665) | 0 | 0 | 0 | (5,665) | (21,934) | (27,599) |
| Adjustments between accounting and funding basis under regulation note 7 | 6,280 | 0 | 325 | 988 | 7,593 | (7,593) | 0 |
| Net increase/decrease before transfers to Earmarked reserves | 615 | 0 | 325 | 988 | 1,928 | (29,527) | (27,599) |
| Transfers to/from Earmarked reserves - note 8 | (615) | 615 | 0 | 0 | 0 | 0 | 0 |
| (Increase)/Decrease in Year | 0 | 615 | 325 | 988 | 1,928 | (29,527) | (27,599) |
| Balance at 31 March 2011 | (500) | (12,232) | (3) | (890) | (13,625) | (58,207) | (71,832) |
| <p>Details of Comprehensive Income and Expenditure are given in the Comprehensive Income and Expenditure Statement. A further analysis of adjustments between accounting and funding bases are given in Note 7, and further information on earmarked reserves and unusable reserves is given in note 27.</p> | | | | | | | |

MOVEMENT IN RESERVES STATEMENT

| 2011-12 | General Fund Balance | Earmarked Reserves | Capital Receipts reserve | Capital grants unapplied | Total usable reserves | Unusable Reserves | Total Authority Reserves |
|---|-------------------------|-----------------------|-----------------------------|-----------------------------|--------------------------|----------------------|-----------------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 31 March 2011 | (500) | (12,232) | (3) | (890) | (13,625) | (58,207) | (71,832) |
| <u>Movement in Reserves in 2011-12</u> | | | | | | | |
| Surplus (deficit) on the provision of services (accounting basis) | 4,394 | 0 | 0 | 0 | 4,394 | 0 | 4,394 |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | 3,282 | 3,282 |
| Total Comprehensive Income and Expenditure | 4,394 | 0 | 0 | 0 | 4,394 | 3,282 | 7,676 |
| Adjustments between accounting and funding basis under regulation note 7 | (7,006) | 0 | (1) | 328 | (6,679) | 6,679 | 0 |
| Net increase/decrease before transfers to Earmarked reserves | (2,612) | 0 | (1) | 328 | (2,285) | 9,961 | 7,676 |
| Transfers to/from Earmarked reserves - note 8 | 2,612 | (2,612) | 0 | 0 | 0 | 0 | 0 |
| (Increase)/Decrease in Year | (0) | (2,612) | (1) | 328 | (2,285) | 9,961 | 7,676 |
| Balance at 31 March 2012 | (500) | (14,844) | (4) | (562) | (15,910) | (48,246) | (64,156) |
| <p>Details of Comprehensive Income and Expenditure are given in the Comprehensive Income and Expenditure Statement. A further analysis of adjustments between accounting and funding bases are given in Note 7, and further information on reserves is given in note 8, 9 & 10 and unusable reserves is given in note 27.</p> | | | | | | | |

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

| Restated 2010-11 | | | | 2011-12 | | |
|------------------|------------------|-----------------|--|------------------|-----------------|----------------|
| GROSS EXPEND. | INCOME | NET EXPEND. | SERVICES | GROSS EXPEND. | INCOME | NET EXPEND. |
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| 10,316 | (2,450) | 7,866 | Cultural and Related Services | 8,644 | (2,258) | 6,386 |
| 8,416 | (2,324) | 6,092 | Environmental and Regulatory Services | 8,607 | (2,045) | 6,562 |
| 11,418 | (5,340) | 6,078 | Planning Services | 5,889 | (4,662) | 1,227 |
| 4,751 | (3,585) | 1,166 | Highways, Roads & Transport Services | 1,967 | (3,251) | (1,284) |
| 68,280 | (65,665) | 2,615 | Housing Services | 68,267 | (64,331) | 3,936 |
| 2,082 | (778) | 1,304 | Central Services to the Public | 1,757 | (747) | 1,010 |
| | | | Corporate & Democratic Core | | | |
| 2,775 | (62) | 2,713 | Expenses | 2,738 | (63) | 2,675 |
| 260 | 0 | 260 | Non Distributed Costs | 452 | (68) | 384 |
| 0 | 0 | 0 | Planning Services Exceptional item | 2,964 | 0 | 2,964 |
| | | | Corporate & Democratic Core | | | |
| 0 | 0 | 0 | Expenses - Exceptional Item | 1,103 | 0 | 1,103 |
| | | | Non Distributed Costs Exceptional | | | |
| (11,934) | 0 | (11,934) | Item | 0 | 0 | 0 |
| | | | Total continuing operations, excluding services transferred to East Sussex County Council | 102,388 | (77,425) | 24,963 |
| 96,364 | (80,204) | 16,160 | Concessionary fares (transferred to East Sussex County Council from 1 April 2011) | | | |
| 1,855 | (642) | 1,213 | | 123 | 0 | 123 |
| 98,219 | (80,846) | 17,373 | Cost of Services | 102,511 | (77,425) | 25,086 |
| | | | Other Operating Expenditure - Note 11 | | 32 | 32 |
| 1565 | (499) | 1,066 | Financing and Investment Income and Expenditure - Note 12 | 275 | (468) | (193) |
| | (23,673) | (23,673) | Taxation and non-specific grant income - Note 13 | | (20,531) | (20,531) |
| 99,784 | (105,449) | (5,665) | (Surplus) or Deficit on Provision of Services | 102,786 | (98,392) | 4,394 |
| | | (1,632) | Surplus or deficit on revaluation of non-current assets.* | | | (4,972) |
| | | 887 | Impairment losses on non-current assets charged to the revaluation reserve* | | | 519 |
| | | (21,189) | Actuarial (gains)/losses on pension assets/liabilities | | | 7,735 |
| | | (21,934) | Other Comprehensive Income and Expenditure | | | 3,282 |
| | | (27,599) | Total Comprehensive Income and Expenditure | | | 7,676 |

* 2010-11 Restated see note 1.4

BALANCE SHEET

| Restated 2010-11 £'000 | | 2011-12 £'000 |
|------------------------------|--|------------------|
| 84,804 | Property, Plant and Equipment - <i>Note 14</i> | 83,254 |
| 1,168 | Investment Properties - <i>Note 15</i> | 1,138 |
| 59 | Intangible Assets - <i>Note 16</i> | 102 |
| 5,818 | Heritage Assets - <i>Note 18</i> | 5,400 |
| 0 | Long Term Investments | 0 |
| 142 | Long Term Debtors - <i>Note 19</i> | 1,092 |
| 91,991 | LONG TERM ASSETS | 90,986 |
| 109 | Inventories | 86 |
| 1,466 | Assets Held for Sale - <i>Note 17</i> | 810 |
| 3,327 | Short Term Debtors - <i>Note 19</i> | 2,629 |
| 9,000 | Short Term Investments - <i>Note 20</i> | 0 |
| 4,520 | Cash and Cash Equivalents - <i>Note 21</i> | 16,924 |
| 18,422 | CURRENT ASSETS | 20,449 |
| (8,528) | Short Term Creditors - <i>Note 22</i> | (6,313) |
| 0 | Grants Received in advance - <i>Note 43</i> | (1,778) |
| (62) | Short Term Borrowing- <i>Note 23</i> | (66) |
| (299) | Provisions - <i>Note 24</i> | (296) |
| (8,889) | CURRENT LIABILITIES | (8,453) |
| (9,500) | Long Term Borrowing - <i>Note 25</i> | (10,500) |
| (597) | Long Term Creditors - <i>Note 22</i> | (1,163) |
| (19,595) | Other Long Term Liabilities - <i>Note 26</i> | (27,163) |
| (29,692) | LONG TERM LIABILITIES | (38,826) |
| 71,832 | NET ASSETS | 64,156 |

BALANCE SHEET (Cont.)

| Restated 2010-11 £'000 | | 2011-12 £'000 |
|---|---|---|
| (500) | General Fund Balance | (500) |
| (3) | Usable Capital Receipts Reserve-(<i>movement in reserves</i>) | (4) |
| (890) | Capital Grants Unapplied -(<i>movement in reserves</i>) | (562) |
| (12,232) | Earmarked Reserves - <i>Note 8</i> | (14,844) |
| <hr style="width: 100%; border: 0.5px solid black;"/> | Usable reserves | <hr style="width: 100%; border: 0.5px solid black;"/> |
| (13,625) | | (15,910) |
| (18,861) | Revaluation Reserve - <i>Note 27</i> | (22,875) |
| (17) | Deferred Capital Receipts Reserve - <i>Note 27</i> | (12) |
| (58,837) | Capital Adjustment Account - <i>Note 27</i> | (52,307) |
| (326) | Financial Instruments Adjustment Account - <i>Note 27</i> | (275) |
| (43) | Collection Fund Adjustment Account Balance - <i>Note 27</i> | (159) |
| 282 | Accumulated Absences Account - <i>Note 27</i> | 219 |
| 19,595 | Pensions Reserve - <i>Note 27</i> | 27,163 |
| <hr style="width: 100%; border: 0.5px solid black;"/> | Unusable Reserves | <hr style="width: 100%; border: 0.5px solid black;"/> |
| (58,207) | | (48,246) |
| <hr style="width: 100%; border: 0.5px solid black;"/> | | <hr style="width: 100%; border: 0.5px solid black;"/> |
| (71,832) | Total Reserves | (64,156) |
| <hr style="width: 100%; border: 1px solid black;"/> | | <hr style="width: 100%; border: 1px solid black;"/> |

CASH FLOW STATEMENT

| 2010-11 £'000 | | 2011-12 £'000 |
|------------------|--|------------------|
| (7,099) | Taxation | (7,088) |
| (72,182) | Grants - Note 32 | (79,834) |
| (13,634) | Sales of goods and rendering of services | (12,317) |
| (252) | Interest received | (367) |
| (56) | other receipts from operating activities | (48) |
| <u>(93,223)</u> | Cash inflows generated from operating activities | <u>(99,654)</u> |
| | | |
| 13,507 | Cash paid to and on behalf of employees | 11,867 |
| 49,780 | Housing benefit payments | 62,932 |
| | | |
| 23,504 | Cash paid to suppliers of goods and services | 18,457 |
| 407 | Interest paid | 327 |
| 5,104 | Other operating cash payments | 2,723 |
| <u>92,302</u> | Cash outflows generated from operating activities | <u>96,306</u> |
| | | |
| <u>(921)</u> | Net cashflows from operating activities | <u>(3,348)</u> |
| | | |
| (612) | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (375) |
| 6,711 | Purchase of property, plant and equipment, investment property and intangible assets | 1,451 |
| 6,132 | Purchase of short-term and long-term investments | 0 |
| 0 | Other payments for investing activities | 1,000 |
| (16,708) | Proceeds from the sale of short-term and long-term investments | (9,000) |
| (2,481) | Other receipts from investing activities | (289) |
| <u>(6,958)</u> | Net cashflows from investing activities | <u>(7,213)</u> |
| | | |
| 0 | Cash receipts from short term and long term borrowing. | (1,000) |
| 4,506 | Repayments of short term and long term borrowing | 0 |
| (556) | Changes in National Non-Domestic Rates balances held for Central Government | (164) |
| (839) | Changes in Council tax balances held for preceptors | (679) |
| <u>3,111</u> | Net cashflows from financing activities | <u>(1,843)</u> |
| (4,768) | Net (Increase) / decrease in cash | (12,404) |

CASH FLOW STATEMENT (Cont.)

Details of the cash balances are shown below:

| | 1st April 2011 £'000 | 2011-12 £'000 | 31st March 2012 £'000 |
|--|-------------------------|------------------|--------------------------|
| Cash and bank balances | 142 | 3 | 145 |
| Money held in interest- bearing call accounts | 4,378 | 12,401 | 16,779 |
| Total Cash and Cash Equivalents | 4,520 | 12,404 | 16,924 |

NOTES TO THE CORE FINANCIAL STATEMENTS

1 CHANGES TO ACCOUNTING POLICIES AND TO PREVIOUS YEARS FIGURES

1.1 Introduction

This Statement of Accounts has been prepared in accordance with International Financial Reporting Standards (IFRS). Where the 2011-12 Code has changed this has required the Council to re-state the balance sheets as at 1 April 2011 in line with IFRS, and to adjust all of the main accounting statements and the notes accordingly.

Where changes to the accounting policies have resulted in material differences between the amounts reported in the Balance Sheets as at 1 April 2010 and 31 March 2011 and the Comprehensive Income and Expenditure Statement, they are explained below.

Various items on the balance sheet and in the Comprehensive Income and Expenditure Statement have been adjusted for non-material changes to accounting policies.

1.2 Heritage Assets

For 2011-12 the Authority is required to change its accounting policy for Heritage Assets and recognise them at valuation. Under previous accounting rules Heritage Assets were held as Community Assets under Property, Plant and Equipment classification in the Balance Sheet or were not recognised in the Balance Sheet as it was not possible to obtain cost information on the assets. The following adjustments have been made in respect of Heritage assets:-

| | Balance 1 April 2010 | | Balance 1 April 2011 | |
|------------------------------|-----------------------------|------------------------|-----------------------------|------------------------|
| | Published | Adjustment Made | Published | Adjustment Made |
| | £000 | £000 | £000 | £000 |
| Property Plant and Equipment | 5,818 | (5,818) | 5,818 | (5,818) |
| Heritage assets | | 5,818 | | 5,818 |
| | | ----- | | ----- |
| | | - | | - |

1.3 Adjustments to Capital grants and contributions

An adjustment is needed in respect of the previous year as any grants receivable by an authority that are applied to revenue expenditure funded from capital under statute will be accounted for as revenue grants in the Comprehensive Income and Expenditure Statement, even if described as capital grants by the giver of the income. This has given rise to the following adjustments.

| Comprehensive Income and Expenditure | 2009/10 Published | Grant adjustment | 2010/11 Published £000 | Grant adjustment £000 |
|--|------------------------------|-----------------------------|---------------------------------------|--------------------------------------|
| Planning services | 4,497 | 169 | 6,250 | 172 |
| Housing services | 4,183 | 2,504 | 4,671 | 2,056 |
| Taxation and non-specific grant income | (26,134) | (2,672) | (25,901) | (2228) |
| | | ----- | | ----- |
| | | - | | - |

NOTES TO THE CORE FINANCIAL STATEMENTS

1.4 Adjustments to Revaluation of Non-current Assets

Due to a change in code an adjustment is needed to the 2010-11 revaluation of non current assets in the Comprehensive Income and Expenditure Statement, the adjustment is as follows:

| | 2010/11 Published | 2010/11 Restated |
|---|----------------------|---------------------|
| Surplus or deficit on revaluation of non-current assets. | (745) | (1,632) |
| Impairment losses on non-current assets charged to the revaluation reserve. | | 887 |

2 ACCOUNTING POLICIES, CRITICAL JUDGEMENTS AND ESTIMATION TECHNIQUES.

2.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2011-12 financial year and its position at the end of 31 March 2012, the close of the financial year. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which specify that the Statement is prepared in accordance with proper accounting practices. These primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12, and the Service Reporting Code of Practice 2011-12, supported by International Financial Reporting Standards. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets.

2.2 Accruals of Expenditure and Income

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The Council collects income from payers of Non-Domestic Rates on behalf of the Government. As this is categorised as an agency service, the Council does not account for the income or the payment over of business rates within its Income and Expenditure Account, and includes a single creditor or debtor in its balance sheet, representing the net amount of Non-Domestic Rate debtors, adjustments for doubtful debts, income in advance, and amounts due to or from the Government.

Similarly the Council collects income from Council Tax payers, but only part relates to this Council, the balance being on behalf of other major precepting authorities. The amounts of debtors, adjustments for doubtful debts, and income in advance that relate to the precepting authorities are shown as a single net creditor in the balance sheet. The element of the Collection Fund due to preceptors is split between payments due to be made in the following financial year, which are held as Short Term Creditors, and any other amounts, due in succeeding financial years, which are shown as Long Term Creditors. In the event of a deficit, the amounts would be split between Short Term and Long Term Debtors.

2.3 Cash and Cash Equivalents

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

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

2.4 Charges to Revenue for Non-Current Assets

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

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

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

The Council participates in Local Authority Mortgage Scheme (LAMS) using the cash backed option. The mortgage lenders require a 5 year deposit from the local authority to match the 5 year life of the indemnity. The deposit placed with the mortgage lender provides an integral part of the mortgage lending, and is treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of the total indemnity. The deposit is due to be returned in full at maturity, with

NOTES TO THE CORE FINANCIAL STATEMENTS

interest paid either annually or on maturity. Once the deposit matures and funds are returned to the local authority, the returned funds are classed as a capital receipt, and the CFR will reduce accordingly. As this is a temporary (5 year) arrangement and the funds should be returned in full, the Council has considered whether MRP should be made and has determined any amount is trivial and therefore there is no need to set aside a provision to repay the debt liability in the interim period.

2.5 Exceptional Items

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

2.6 Provisions

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

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

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

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

2.7 Contingent Assets

A contingent asset is a possible asset that arises from a past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council. Typically a contingent asset is related to a legal action by the authority, whose outcome is uncertain when the balance sheet is compiled.

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

2.8 Contingent Liabilities

A contingent liability is a possible obligation that arises from a past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council. Typically a contingent liability is related to a legal action against the authority, whose outcome is uncertain when the balance sheet is compiled.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

2.9 Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the accounting year multiplied by an average for pension and National Insurance. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to the General Fund in the financial year in which the holiday absence occurs.

Termination Benefits

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

Post-Employment Benefits

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

- The liabilities of the East Sussex County Council pension scheme attributable to this Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.8% (based on the indicative rate of return on the iBoxx Sterling Corporate Index, AA over 20 years).
- We include the assets of the East Sussex County Council Pension Fund attributable to this Council in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value.

NOTES TO THE CORE FINANCIAL STATEMENTS

- The change in the net pensions liability is analysed into the following components:
 - Current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the service for which the employees worked.
 - Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement.
 - contributions by scheme participants, which reduce plan liabilities, but correspondingly increase plan assets, and are therefore not reflected in the Comprehensive Income and Expenditure Statement
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions
 - benefits paid, which reduce plan assets, but correspondingly reduce its liabilities, and are therefore not reflected in the Comprehensive Income and Expenditure Statement
 - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement
 - gains/losses on settlements and curtailments – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited to the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement
 - expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement.
 - contributions paid to the East Sussex County Council Pension Fund – the employer's contributions to the pension fund for the financial year, not accounted for as an expense.

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

Discretionary Benefits

NOTES TO THE CORE FINANCIAL STATEMENTS

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

2.10 Events after the Balance Sheet date

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

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

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

2.11 Prior period adjustments

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

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

2.12 Changes in accounting estimates

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

2.13 Financial instruments

Financial Liabilities

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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

Financial Assets

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

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

Provision for Impairment on Doubtful Debts re: Trade Debtors

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

Loans and Receivables

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices -the market price.
- other instruments with fixed and determinable payments -discounted cash flow analysis.
- equity shares with no quoted market prices -independent appraisal of company valuations.

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. The exception is where impairment losses have been incurred -these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

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 (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains 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 Comprehensive Income

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and Expenditure Statement, 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).

2.14 Debtors

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

In making a provision an assessment is made based on previous years collection rates and any known large debts that are deemed to be uncollectable based on current information.

The Council's share of the loss is provided for.

Provision for Impairment on Doubtful Debts re: Housing Benefit Overpayments

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

2.15 Foreign Currency Translation

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

2.16 Government Grants and Other Contributions

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

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

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

Grants and contributions towards specific services for revenue purposes are credited against the appropriate line in the Cost of Services, but if grants and contributions are not related to specific services they are credited as Taxation and Non-Specific Grant Income, along with all grants and contributions receivable towards investment in Property Plant and Equipment, Investment Properties or Intangible Assets. As these capital grants and contributions are not legally credits to the General Fund, an equivalent appropriation is

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made from the General Fund into the Capital Grants and Contributions Reserve, which is set aside for the financing of capital investment.

2.17 Heritage assets

The Authority's Heritage Assets are as follows:

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

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

Collection of heritage assets at the Authority's Museum

Ceramics and glass, Porcelain Work and Figurines

- The collection of ceramics, porcelain work and figurines from the history of the local area.

Art Collection

The art collection can be subdivided into General Art collection and Other Art including Oriental, Islamic and Tribal art

- The General Art collection includes paintings (both oil and watercolour) and sketches.
- Other Art, including Oriental, Islamic and Tribal Art includes ceremonial clothing, objects and artefacts with primarily an artistic function.

Miscellaneous including Silver, Pewter, Books and manuscripts

- This category includes items of significant local significance including manuscripts letters and notes of John Logie Baird

Machinery, Equipment and other Artefacts

- Includes clocks watches and scientific instruments

Civic Regalia

- Includes the Mayoral chains and other regalia of office

Hastings Castle and Hastings Caves

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

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

Valuation

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Civic Regalia and Museum Collection

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

The majority of the assets are being valued as at 1st April 2011 by Gorrings, a Fine art and antique auction house and valuers, using methods appropriate to the type of asset

The valuation by Gorrings has not been fully completed. Until the task has been completed the Civic Regalia and Museum are kept at the value as reported in the 2010-11 Statements of Accounts. This value is based on prior insurance values. There is likely to be a revision of value resulting from the finalised report. The level of this adjustment can not be reliably estimated.

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

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

Hastings Castle and Hastings Caves

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

Acquisition Policy

Acquisitions are made by purchase or donation. Purchases are made when an item is deemed to have local significance and are at reasonable cost, these acquisitions are normally made in conjunction with a grant or the proceeds of a bequest (see 2.21 re disposals). 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.

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

Impairments

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Authority's general policies on impairment - see note 2.21.

NOTES TO THE CORE FINANCIAL STATEMENTS

Disposals

The Authority will occasionally dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Authority's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts see notes 2.21.

2.18 Intangible Assets

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

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

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is written down over its useful life, as estimated by the appropriate officer, to the appropriate line in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired, and any losses are posted to the appropriate line in the Income and Expenditure Statement.

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

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

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

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2.19 Investment Properties

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

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

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

2.20 Leases

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

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

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

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

(a) The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

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

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

Operating Leases

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

(b) The Authority as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property -applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the

NOTES TO THE CORE FINANCIAL STATEMENTS

Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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

Operating Leases

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

2.21 Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2011-12 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation,
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

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

2.22 Property, Plant and Equipment

Definition and Categories

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

- Land and buildings – properties owned by the Council, other than those in another category shown below, or Investment Properties.
- Vehicles, plant and equipment – individual items or groupings of items which are purchased from capital resources.

NOTES TO THE CORE FINANCIAL STATEMENTS

- Infrastructure.
- Community assets – properties such as parks, which are used for the community as a whole, with no determinable market value in their present use, and which are not likely to be sold.
- Surplus assets – individual properties which the Council has determined to be surplus to operational requirements, but which are not actively being marketed.
- Assets under construction – capital expenditure on an asset before it is brought into use.

Recognition

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

Measurement

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

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

Revaluation

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Impairment

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

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

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

Disposals

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

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

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

Amounts received for a disposal are categorised as capital receipts. These are credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Account, but an equivalent appropriation is made from the General Fund to the Capital Receipts Reserve. There is a legal requirement that sale proceeds held in this reserve can only be used to reduce debt or to finance capital expenditure.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

written down and a transfer is made from the Deferred Capital Receipts Reserve to the Capital Receipts Reserve.

In this current financial year the Council acquired an empty property and is holding it as an Asset Held for Sale as it is available for immediate sale in its present condition, the sale is highly probable as this is to be sold to Local Space, the sale price has been agreed with Local Space and the sale will take place within one year.

Depreciation

Depreciation is provided for on all assets with a determinable finite life by allocating the value of the asset in the Balance Sheet over the periods expected to benefit from their use. Depreciation is based on the opening net book value, as adjusted by gains or losses arising from revaluations at 1 April each year.

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
- Vehicles, plant and equipment – is depreciated on a straight-line basis over the expected life of the asset
- Infrastructure – is depreciated on a straight-line basis over the expected life of the asset
- Community assets – not subject to depreciation
- Surplus assets - straight-line allocation over the life of the property as estimated by the valuer
- Assets under construction – not subject to depreciation

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

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

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

Changes in accounting estimates

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

NOTES TO THE CORE FINANCIAL STATEMENTS

provides weighted average remaining useful lives for the assets. The value and remaining useful lives of the components are also provided by WH&E.

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

The exercise was undertaken investigating the 20 highest value assets of which the 5 largest assets with established material components were depreciated by actual estimated residual useful lives of the major components against the residual life of the asset. It was found that this resulted in a lower depreciation of £38,000 a year which could have a cumulative effect of £188,000 over the 5 year revaluation cycle. It was decided that this was not a material amount.

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

2.23 Components depreciation effect

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

2.24 Reserves

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

Usable reserves comprise the following:

- Capital Receipts Reserve: proceeds from the sales of Property, Plant and Equipment are initially credited to the Income and Expenditure Account, but legally can only be used to finance capital expenditure, and so are transferred to the Capital Receipts Reserve and afterwards used for this specific purpose.
- Capital Grants Unapplied: the Council receives grants and contributions towards capital expenditure, and these are credited to the Income and Expenditure Account and immediately transferred into the Capital Grants Unapplied Reserve until required to finance capital investment.
- Earmarked Reserves: the Council may set aside earmarked reserves to cover specific projects or contingencies. These are transferred from the General Fund, and amounts are withdrawn as required to finance such expenditure. The expenditure itself is charged to the appropriate line in the Comprehensive Income and Expenditure Statement. There are no legal restrictions on the use of earmarked reserves, and unspent balances can be taken back to the General Fund in the same way.
- General Fund: this represents all other usable reserves, without legal restrictions on spending, which arise from annual surpluses or deficits.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

2.25 Revenue Expenditure Financed from Capital Under Statute

NOTES TO THE CORE FINANCIAL STATEMENTS

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

2.26 Inventories

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

2.27 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.

2.28 Foreshore Trust

The Authority is sole trustee of Hastings and St Leonards Foreshore Charitable Trust, a charitable organisation which owns portions of the Hastings foreshore.

It has been determined that the Authority does not have control over the Trust and is not a subsidiary of the Authority.

2.29 Carbon Reduction Commitment Allowances

This authority is not participating in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme for 2011-12.

NOTE 3. ROUNDING

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

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

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

Pensions Accounting

For this Council the only balance with a material degree of uncertainty is the liability for future pension costs, which stood at about £27m at 31 March 2012. The estimate of this liability depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes to retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries, Hymans Robertson, is engaged to provide the Council with expert advice about the assumptions to be applied. For example, a 0.5% decrease in the discount rate would result in a decrease in

NOTES TO THE CORE FINANCIAL STATEMENTS

the pension liability of £9,858,000, while an increase of 1 year in life expectancies for pensioners would increase the liability by £3,380,000. All these assumptions are listed in Note 33 , and are re-assessed every year. Changes in any one assumption would be affected by changes in others, so that the effect of a number of changes would be a complex calculation.

In 2011-12 the actuaries advised that the net pensions liability had increased by £4,728,000 as a result of estimates being corrected in the light of experience, and had also increased by £3,006,000 through the updating of assumptions.

Valuations of Property

Valuations of property depend on various assumptions, as set out in detail in Note 2.21 below. In particular, valuers have to determine:

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

NOTE 5. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts were provisionally approved by the Head of Finance on 28th June 2012 and will be considered for approval by the Audit Committee on 20th September 2012. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

NOTE 6. MATERIAL ITEMS OF INCOME AND EXPENSE

The Council has spent approximately £5 million on the Stade Improvements project over the years 2007 To 2012. The valuer Wilks, Head & Eve have valued this asset now that it is complete and impaired it so that the value held on the balance sheet in Property, Plant and Equipment is the cafe valued at £260,000.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

| 2010-11 | General Fund Balance £'000 | Earmarked General Fund Reserves £'000 | Capital Receipts reserve £'000 | Capital grants unapplied £'000 | Movement in unusable reserves £'000 |
|---|----------------------------------|--|--------------------------------------|--------------------------------------|--|
| Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement | | | | | |
| <i>Adjustments primarily involving the capital adjustment account</i> | | | | | |
| Charges for depreciation and impairment of non-current assets | (9,469) | | | | 9,469 |
| Movements in the market value of Investment Properties | 232 | | | | (232) |
| Amortisation of intangible assets | (9) | | | | 9 |
| Revenue expenditure funded from capital under statute | (2,427) | | | | 2,427 |
| 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 | (175) | | | | 175 |
| Reversal of capital repayments of finance leases | 0 | | | | 0 |
| Statutory provision for the financing of capital investment | 647 | | | | (647) |
| <i>Adjustment primarily involving the Capital Grants Unapplied Account:</i> | | | | | |
| Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement | 4,908 | | | (4,908) | |
| Application of grants to capital financing transferred to the Capital Adjustment Account | | | | 5,896 | (5,896) |
| <i>Adjustment primarily involving the Capital Receipts reserve</i> | | | | | |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 606 | | (606) | | |
| Use of the Capital Receipts Reserve to finance new capital expenditure | | | 934 | | (934) |
| <i>Adjustments primarily involving the Deferred Capital Receipts Reserve</i> | | | | | |
| Transfer from Deferred Capital Receipts reserve upon receipt of cash | | | (3) | | 3 |
| <i>Adjustments primarily involving the Financial Instruments Adjustment Account</i> | | | | | |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from the finance costs chargeable in the year in accordance with statutory requirements | (51) | | | | 51 |
| <i>Adjustments primarily involving the Pensions Reserve</i> | | | | | |
| Difference between accounting and statutory pension costs | 10,955 | | | | (10,955) |
| <i>Adjustments primarily involving the Collection Fund Adjustment Account</i> | | | | | |
| Amount by which council tax income charged to the Comprehensive Income and Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements | 38 | | | | (38) |
| <i>Insertion of items not debited or credited to the General Fund</i> | | | | | |
| Capital expenditure charged against the general fund | 1,003 | | | | (1,003) |
| <i>Adjustments primarily involving the Accumulated Absences Account</i> | | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement is different | 22 | | | | (22) |
| | 6,280 | 0 | 325 | 988 | (7,593) |

NOTES TO THE CORE FINANCIAL STATEMENTS

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

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 8. EARMARKED RESERVES

The table below shows the balances for earmarked reserves, and the transfers made to or from the General Fund. Of the balances below £423,000 is being held for capital purposes and the balance for revenue purposes

| | Balance at 31 March 2011 £'000 | Movement £'000 | Balance at 31 March 2012 £'000 |
|---------------------------------------|---|-------------------|---|
| Capital Reserve | (2,779) | (125) | (2,904) |
| General Reserve | (1,690) | (1,407) | (3,097) |
| Area Based Grant Unapplied Reserve | (1,755) | 601 | (1,154) |
| Renewal and Repairs Reserve | (1,720) | (168) | (1,888) |
| Risk Management Reserve | (291) | 20 | (271) |
| Information Technology Reserve | (109) | (25) | (134) |
| Section 106 Reserve | (546) | (19) | (565) |
| Government Grants Reserve | (816) | 6 | (810) |
| VAT reserve | (1,522) | 847 | (675) |
| On-Street Car Parking Surplus Reserve | (140) | (79) | (219) |
| Interest Equalisation Reserve | (207) | 0 | (207) |
| Concessionary Travel Reserve | (290) | 123 | (167) |
| Monuments in perpetuity | (62) | 5 | (57) |
| Ore Valley Reserve | (305) | 0 | (305) |
| Mortgage Reserve | 0 | (5) | (5) |
| Transition Reserve | 0 | (722) | (722) |
| Redundancy Reserve | 0 | (769) | (769) |
| Community Safety Reserve | 0 | (350) | (350) |
| Economic Development Reserve | 0 | (545) | (545) |
| Total | (12,232) | (2,612) | (14,844) |

The reasons for maintaining these earmarked reserves are shown below:

- (i) The Capital Reserve is earmarked to support capital spending.
- (ii) The General Reserve is used to support revenue spending.
- (iii) The Area Based Grant reserve is that proportion of the grant received but not applied during the year of receipt.
- (iv) The Renewal and Repairs Reserve is maintained for the purchase of vehicles, plant, equipment and the repair and redecoration of property
- (v) The Risk Management Reserve is used to cover excesses on claims and certain small risks. The object is to minimise insurance premiums providing sufficient cover.
- (vi) The Information Technology Reserve is for the purpose of financing the purchase of computing equipment and computer systems required by the Council.
- (vii) Section 106 Reserves – these are developers' contributions to be used to finance various projects: normally they would have to be repaid if they cannot be used for the specified purpose.
- (viii) Government Grants and Contribution Reserve contains the equivalent amount of grants provided by the Government or contributions from other bodies during the financial year that cannot be used until after 31 March.
- (ix) VAT reserve holds receipts of windfall VAT reclaim and the monies have been earmarked for use in various revenue and capital schemes
- (x) Surpluses from on-street car parking are shared with East Sussex County Council. Both shares will be spent on traffic management and transportation issues within the borough.
- (xi) The Interest Equalisation reserve has been created to 'smooth' the expected fluctuations in interest rates that would otherwise effect the revenue earnings arising from the substantial short term deposits.
- (xii) The Concessionary Travel reserve has been set up to cover possible liabilities arising from judicial reviews of the scheme of reimbursing bus operators, and for late claims relating to previous years.
- (xiii) The Monuments in Perpetuity reserve has been set up to maintain headstones at the Cemetery.
- (xiv) Ore Valley reserve has been set up to fund activity in the area.
- (xv) Mortgage reserve - interest earned on the deposit on the money invested in the Local Authority Mortgage Scheme is set aside in a ring fenced reserve to be used - to fund future potential liabilities in the event of default and the guarantee being called up.
- (xvi) Transition Reserve - sum put aside to cushion the impact of significant grant reductions in 2013-14.
- (xvii) Redundancy Reserve - sum put aside to help meet expected redundancy costs arising in 2012-13 and beyond.
- (xviii) Community Safety Reserve - is specifically earmarked over the medium term to maintain Community Safety when further grant reductions are anticipated.
- (xix) Economic Development Reserve - is specifically earmarked for significant job creation activity over the medium term.

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 9. CAPITAL RECEIPTS RESERVES

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

| | Balance at 31 March 2011 | Income | Used to finance capital expenditure | Balance at 31 March 2012 |
|---------------------------|---|--------------|--|---|
| | £'000 | £'000 | £'000 | £'000 |
| Council Mortgages | (3) | (5) | 4 | (4) |
| Sale of Land and Property | 0 | (209) | 209 | 0 |
| Repayment of Grant | 0 | (91) | 91 | 0 |
| Sale of Ex Council Houses | 0 | (75) | 75 | 0 |
| Total | (3) | (380) | 379 | (4) |

NOTE 10. UNAPPLIED CAPITAL GRANTS

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

| | Balance at 31 March 2011 | Income | Used to finance capital expenditure | Balance at 31 March 2012 |
|---|---|----------------|--|---|
| | £'000 | £'000 | £'000 | £'000 |
| Townscape Heritage Initiative - Lottery Funding | (60) | (109) | 78 | (91) |
| Public Service Agreement Grant | (149) | 0 | 149 | 0 |
| Play Pathfinder Grant | (29) | 0 | 20 | (9) |
| Local Authority Reward Grant | (87) | 0 | 87 | 0 |
| Heritage Lottery re: Jackson Hall | (92) | 0 | 76 | (16) |
| Regional Housing Board | (423) | 0 | 106 | (317) |
| s106 Monies | 0 | (100) | 0 | (100) |
| Disabled Facilities Grant | 0 | (733) | 733 | 0 |
| Local Space | 0 | (189) | 189 | 0 |
| Other | (50) | 0 | 21 | (29) |
| Total | (890) | (1,131) | 1,459 | (562) |

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 11. OTHER OPERATING EXPENDITURE

| 2010-11 £'000 | | 2011-12 £'000 |
|------------------|--|------------------|
| | Amounts of non-current assets written off on assets held 0 for sale | 389 |
| | (431) (Gains) & Losses on Disposal of non-current assets | (357) |
| | (431) (Gains) & Losses on Disposal of non-current assets | 32 |

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

- * Various parcel of land no longer required
- * Silverhill public toilets

NOTE 12. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

| 2010-11 £'000 | | EXPEND. £'000 | IAS 19 £'000 | INCOME £'000 | 2011-12 £'000 |
|------------------|---|------------------|-----------------|-----------------|------------------|
| | Expenditure: | | | | |
| 494 | Interest payable and similar charges | 370 | 0 | 0 | 370 |
| 1,070 | Pensions interest cost and expected return on pension assets | 0 | (95) | 0 | (95) |
| (185) | Interest receivable and similar income | 0 | 0 | (413) | (413) |
| (313) | Income and expenditure in relation to investment properties and changes in their fair value | 0 | 0 | (55) | (55) |
| 0 | Other investment income | 0 | 0 | 0 | 0 |
| 1,066 | | 370 | (95) | (468) | (193) |

NOTE 13. TAXATION AND NON-SPECIFIC GRANT INCOME

| 2010-11 £'000 | | 2011-12 £'000 |
|------------------|----------------------------------|------------------|
| (6,960) | Income | |
| (9,114) | Council Tax Income | (7,065) |
| (1,323) | Non domestic rates | (5,953) |
| (3,596) | Revenue Support Grant | (1,840) |
| (2,680) | Non-ringfenced government grants | (5,384) |
| | Capital grants and contributions | (289) |
| (23,673) | | (20,531) |

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 14. PROPERTY, PLANT AND EQUIPMENT

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

Operational and Non-operational assets are valued on an open market basis. Infrastructure and community assets are valued on a historic cost basis. (see impairment review below).

Valuations have been carried out by Wilks, Head and Eve (WH&E) Chartered Surveyors of Newlands House, 40 Berners Street, London, W1T 3NA. Valuations carried out are as at 1st April 2011. An impairment review was carried out to review any impairments to the 31st March 2012.

Impairments review (also see note 47)

There was a continuing review of Property plant and equipment including the recent costs of additions. Where these assets were deemed to have no continuing value to the Authority, these assets were impaired to zero.

The capital project Seafront Stade Improvements was for works for the Stade public area, toilets and Community facilities. The costs associated with this project, held under Assets under Construction, suffered material impairments in the year and were written out. The Stade Cafe was valued separately by Wilks, Head and Eve.

This resulted in a write off being recorded in the Impairments of the assets as follows:

| | £'000 | £'000 | £'000 |
|-------------------------------|------------------|--------------|----------------|
| | Gross Book Value | Depreciation | Net book value |
| Other land and buildings | 403 | (13) | 390 |
| Vehicles, Plant and Equipment | 244 | (205) | 39 |
| Assets under construction | 2,964 | 0 | 2,964 |
| | 3,611 | (218) | 3,393 |

The impairments include those impairments which resulted from the rolling revaluation carried out by Wilkes, Head and Eve.

Assets being revalued upwards in the year where there had been impairments in prior periods resulted in £8k being reversed through the provision of service lines in the Comprehensive Income and Expenditure Account.

Included in the impairments is Renaissance House, a building used as an office has that has now been sublet. See note 47 for more details.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

Depreciation

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

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

Capital Commitments

At 31 March 2012 the Council was contractually committed to the payment of £524k under its capital programme, compared to £213k at 31 March 2011.

| | Land & Buildings £'000 | Vehicles, Plant & Equipment £'000 | Infrastructure £'000 | Community £'000 | Surplus £'000 | Assets Under Construction £'000 | Total £'000 |
|--------------------------------------|---------------------------|--|-------------------------|--------------------|------------------|---------------------------------------|-----------------|
| Balance at 1 April 2010: | | | | | | | |
| Gross carrying amount | 57,446 | 3,776 | 21,237 | 21,092 | 50 | 0 | 103,601 |
| Cumulative depreciation & impairment | (757) | (1,565) | (7,981) | (774) | (4) | 0 | (11,081) |
| Total | 56,689 | 2,211 | 13,256 | 20,318 | 46 | 0 | 92,520 |
| Balance at 1 April 2011: | | | | | | | |
| Gross carrying amount | 59,007 | 4,811 | 15,263 | 11,992 | 225 | 4,231 | 95,529 |
| Cumulative depreciation & impairment | (1,664) | (2,591) | (6,182) | (287) | (1) | 0 | (10,725) |
| Total | 57,343 | 2,220 | 9,081 | 11,705 | 224 | 4,231 | 84,804 |
| Balance at 31 March 2012: | | | | | | | |
| Gross carrying amount | 61,280 | 5,148 | 15,341 | 12,515 | 773 | 0 | 95,057 |
| Cumulative depreciation & impairment | (1,863) | (2,933) | (6,705) | (287) | (15) | 0 | (11,803) |
| Total | 59,417 | 2,215 | 8,636 | 12,228 | 758 | 0 | 83,254 |

NOTES TO THE CORE FINANCIAL STATEMENTS

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

Movements in operational assets during the years 2011-12 :-

| | Land & Buildings £'000 | Vehicles, Plant & Equipment £'000 | Infrastructure £'000 | Community £'000 | Surplus £'000 | Assets Under Construction £'000 | Total £'000 |
|---------------------------------|------------------------------|--|-------------------------|--------------------|------------------|---------------------------------------|----------------|
| Balance at 1 April 2010 | 56,689 | 2,211 | 13,256 | 20,318 | 46 | 0 | 92,520 |
| Additions | 1,305 | 0 | 343 | 877 | 0 | 4,231 | 6,756 |
| Revaluations | 492 | 0 | 0 | 0 | 179 | 0 | 671 |
| Impairment losses | (1,062) | 0 | (3,661) | (2,366) | (4) | 0 | (7,093) |
| Impairment loss reversals | 355 | 0 | 0 | 0 | 0 | 0 | 355 |
| Depreciation | (1,055) | (511) | (798) | (51) | 3 | 0 | (2,412) |
| Disposals | (175) | 0 | 0 | 0 | 0 | 0 | (175) |
| Reclassifications | 794 | 520 | (59) | (7,073) | 0 | 0 | (5,818) |
| Balance at 31 March 2011 | 57,343 | 2,220 | 9,081 | 11,705 | 224 | 4,231 | 84,804 |
| Balance at 1 April 2011 | 57,343 | 2,220 | 9,081 | 11,705 | 224 | 4,231 | 84,804 |
| Additions | 261 | 96 | 112 | 24 | 0 | 896 | 1,389 |
| Revaluations | 4,453 | 0 | 0 | 0 | 1 | 0 | 4,454 |
| Impairment losses | (2,064) | (419) | 0 | 0 | 0 | (2,963) | (5,446) |
| Impairment loss reversals | 7 | 0 | 0 | 0 | 0 | 0 | 7 |
| Depreciation | (1,120) | (546) | (534) | 0 | (3) | 0 | (2,203) |
| Disposals | (10) | 0 | 0 | 0 | 0 | 0 | (10) |
| Reclassifications | 547 | 864 | (23) | 499 | 536 | (2,164) | 259 |
| Balance at 31 March 2012 | 59,417 | 2,215 | 8,636 | 12,228 | 758 | 0 | 83,254 |
| Carried at historical cost | | | | | | | |
| valued at fair value as at: | 2,999 | 1,525 | 8,636 | 12,190 | 23 | 0 | 25,373 |
| 31 March 2012 | 13,626 | 569 | 0 | 0 | 0 | 0 | 14,195 |
| 31 March 2011 | 7,375 | 0 | 0 | 0 | 222 | 0 | 7,597 |
| 31 March 2010 | 21,156 | 0 | 0 | 38 | 512 | 0 | 21,706 |
| 31 March 2009 | 13,886 | 0 | 0 | 0 | 1 | 0 | 13,887 |
| 31 March 2008 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 31 March 2007 | 375 | 121 | 0 | 0 | 0 | 0 | 496 |
| Total Cost or Valuation | 59,417 | 2,215 | 8,636 | 12,228 | 758 | 0 | 83,254 |

NOTE 15. INVESTMENT PROPERTIES

| 2010-11 | 2011-12 |
|--|--------------|
| £'000 | £'000 |
| 82 Rental income from investment property | 84 |
| (1) Direct operating expenses arising from investment property | 0 |
| <u>233 Net gain/(loss)</u> | <u>(29)</u> |
| 313 Total | 55 |
| 2010-11 | 2011-12 |
| £'000 | £'000 |
| 935 Balance at start of the year | 1,168 |
| <u>233 Net gains/losses from fair value adjustments</u> | <u>(30)</u> |
| 1,168 Balance at end of the year | 1,138 |

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 16. INTANGIBLE ASSETS

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

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

| 2010-11 | | | | 2011-12 | | | |
|----------------|--------------------|-------------------|----------------------------------|----------------|--------------------|-------------------|--------------------|
| Gross £'000 | Amortised £'000 | Impaired £'000 | Net Total £'000 | Gross £'000 | Amortised £'000 | Impaired £'000 | Net Total £'000 |
| 1,557 | (1,539) | 0 | 18 | 1,607 | (1,548) | 0 | 59 |
| | | | Balance 1 18 April | | | | |
| 0 | (9) | 0 | (9) | 0 | (19) | 0 | (19) |
| | | | Written down for the year: | | | | |
| 0 | (9) | 0 | (9) | 0 | (19) | 0 | (19) |
| | | | Added during year | | | | |
| 50 | 0 | 0 | 50 | 62 | 0 | 0 | 62 |
| | | | Balance at 59 31 March | | | | |
| 1,607 | (1,548) | 0 | 59 | 1,669 | (1,567) | 0 | 102 |

The intangible assets above are not internally generated

The amortisation was in the following service lines 2011-12 Highways, Roads & Transport Services £9K, Central Services £10K. (2010-11 Highways, Roads & Transport Services £9K)

NOTE 17. ASSETS HELD FOR SALE

| 2010-11 £'000 | | 2011-12 £'000 |
|------------------|--|------------------|
| 1,713 | Balance outstanding at start of year | 1,466 |
| | <i>Assets newly classified as held for sale:</i> | |
| 0 | Property, Plant and Equipment | 253 |
| | <i>Other assets/liabilities in disposal groups</i> | |
| 0 | Revaluation losses | 0 |
| 74 | Revaluation gains | 0 |
| (321) | Impairment losses | (389) |
| | <i>Assets declassified as held for sale:</i> | |
| 0 | Property, Plant and Equipment | (513) |
| | <i>Other assets/liabilities in disposal groups</i> | |
| 0 | Assets sold | (7) |
| <u>1,466</u> | Balance at end of the year | <u>810</u> |

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 18. HERITAGE ASSETS

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

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

All the heritage assets with a value are tangible Heritage Assets with the valuation being based on the applicable insurance value which is seen as an estimate of market value. The valuation for the majority of the assets was carried out historically and updated by inflation up to the introduction of IFRS.

The impairment of Hastings Castle is disclosed within the service cost of Cultural and Related Services.

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

For periods earlier than detailed above information is not available.

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 19. DEBTORS

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

| 2010-11 £'000 | AMOUNTS FALLING DUE WITHIN ONE YEAR: | 2011-12 £'000 |
|---|---|------------------|
| 1,489 | Other trade debtors | 1,371 |
| 783 | Trade Accounts receivable* | 640 |
| 428 | Related parties | 320 |
| 216 | Prepayments | 236 |
| 411 | Other | 62 |
| 3,327 | TOTAL | 2,629 |
| AMOUNTS FALLING DUE GREATER THAN ONE YEAR: | | |
| 142 | Other entities and individuals ** | 1,092 |

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

** The large variation between 2010-11 and 2011-12 is as a result of the £1,000,000 deposit in respect of LAMS

The Council has made a provision for impairment of £324,000, for doubtful debts in this category (£489,000 as at 31st March 2011). The rest of the doubtful debt provision relates to Housing Benefit overpayments and the Council's share of Council tax debts.

| 2010-11 £'000 | AMOUNTS FALLING DUE WITHIN ONE YEAR: | 2011-12 £'000 |
|---|---|------------------|
| 612 | Central government bodies | 468 |
| 631 | Other Local Authorities & Public Bodies | 412 |
| 239 | Public corporations | 0 |
| 1,845 | All other bodies | 1,715 |
| | NHS | 34 |
| 3,327 | TOTAL | 2,629 |
| AMOUNTS FALLING DUE GREATER THAN ONE YEAR: | | |
| 142 | All other bodies** | 1,092 |

NOTE 20. SHORT TERM INVESTMENTS

| 2010-11 £'000 | AMOUNTS FALLING DUE WITHIN ONE YEAR: | 2011-12 £'000 |
|------------------|---|------------------|
| 9,000 | Bank deposits | 0 |
| 0 | Certificates of deposit | 0 |
| 0 | British Government securities | 0 |
| 0 | European Investment Bank | 0 |
| 9,000 | Total | 0 |

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 21. CASH AND CASH EQUIVALENTS

| 2010-11 £'000 | | 2011-12 £'000 |
|------------------|---|------------------|
| 4 | Cash held by the Council | 4 |
| 138 | Bank current accounts | 141 |
| 4,378 | Short term deposits with building societies/banks | 16,779 |
| <u>4,520</u> | | <u>16,924</u> |

NOTE 22. CREDITORS

| 2010-11 £'000 | AMOUNTS FALLING DUE WITHIN ONE YEAR: | 2011-12 £'000 |
|------------------|--------------------------------------|------------------|
| 1,220 | Central government bodies | 1,449 |
| 1,051 | Other Local Authorities | 2,445 |
| 0 | NHS | 0 |
| 726 | Public Corporations | 83 |
| 5,531 | All other bodies | 2,336 |
| <u>8,528</u> | Total | <u>6,313</u> |
| | LONG TERM CREDITORS: | |
| 597 | Other entities and individuals | 367 |
| 0 | Other Local Authorities | 796 |
| <u>597</u> | Total | <u>1,163</u> |

NOTE 23. SHORT TERM BORROWING

| 2010-11 £'000 | AMOUNTS FALLING DUE WITHIN ONE YEAR: | 2011-12 £'000 |
|------------------|--------------------------------------|------------------|
| 62 | Interest payable within 1 year | 66 |
| <u>62</u> | Total | <u>66</u> |

NOTE 24. PROVISIONS

The Council made provisions in 2011-12 for the legal fees relating to the Foreshore Trust land and Storm damage repairs. All provisions, when made are expected to be paid within the year. The costs relating to the legal fees for the Foreshore Trust were not paid due to delays arising from the complicated nature of the legal agreements and leases. The spend on the storm damage repaired was also not realised as it has been re-programmed to maximise benefit in future years.

| | Balance at 1 April 2011 £'000 | Additional Provisions made Year £'000 | Amounts used in Year £'000 | Unused amounts reversed Year £'000 | Balance at 31 March 2012 £'000 |
|--------------------------|-------------------------------------|---|-------------------------------------|--|--------------------------------------|
| Provision for legal fees | 217 | 0 | 0 | 0 | 217 |
| Storm damage repairs | 82 | 0 | 3 | 0 | 79 |
| | <u>299</u> | <u>0</u> | <u>3</u> | <u>0</u> | <u>296</u> |

NOTE 25. LONG TERM BORROWING

| 2010-11 £'000 | AMOUNTS FALLING DUE GREATER THAN ONE YEAR: | 2011-12 £'000 |
|------------------|--|------------------|
| (9,500) | Public Works Loan board | (10,500) |
| <u>(9,500)</u> | Total | <u>(10,500)</u> |

NOTE 26. LONG TERM LIABILITIES

| 2010-11 £'000 | AMOUNTS FALLING DUE GREATER THAN ONE YEAR: | 2011-12 £'000 |
|------------------|--|------------------|
| (19,595) | Pension Liabilities | (27,163) |
| <u>(19,595)</u> | Total | <u>(27,163)</u> |

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 27 UNUSABLE RESERVES

| | Deferred Capital Receipts £'000 | Revaluation Reserve £'000 | Pension Reserve £'000 | Capital Adjustment Account £'000 | Financial Instruments Adjustment £'000 | Accumulated Absences Account £'000 | Collection Fund Adjustment £'000 | Total Unusable Reserves £'000 |
|--|---------------------------------------|------------------------------|--------------------------|--|--|--|--|----------------------------------|
| Balance at 31 March 2010 | (20) | (19,028) | 51,739 | (61,293) | (377) | 304 | (5) | (28,680) |
| (Gains) or Loss on revaluation of assets | | (745) | | | | | | (745) |
| Actuarial (gains)/ losses on pension | | | (21,189) | | | | | (21,189) |
| Total Other Comprehensive | 0 | (745) | (21,189) | 0 | 0 | 0 | 0 | (21,934) |
| Reversal of items debited or credited to Comprehensive Income and Expenditure Statement | | | | | | | | |
| Write down Intangible Assets | | | | 9 | | | | 9 |
| Depreciation and impairment of non-current assets (per segmental analysis) | | | | 9,469 | | | | 9,469 |
| Movements in the market value of Investment Properties | | | | (232) | | | | (232) |
| Gain or (Loss) on sale of non-current assets | | 137 | | 38 | | | | 175 |
| Difference between accounting and statutory finance costs | | | | | 51 | | | 51 |
| Difference between accounting and statutory employee benefit | | | | | | (22) | | (22) |
| Difference between accounting and statutory credit for Council Tax | | | | | | | (38) | (38) |
| Revenue Expenditure financed from Capital under Statute | | | | 2,427 | | | | 2,427 |
| Difference between accounting and statutory pension costs | | | (10,955) | | | | | (10,955) |
| Insertion of items not debited or credited to Comprehensive Income and Expenditure Statement: | | | | | | | | |
| Statutory provision for the financing of capital investment | | | | (647) | | | | (647) |
| Repayment of Council Mortgages | 3 | | | | | | | 3 |
| Capital expenditure financed from revenue | | | | (214) | | | | (214) |
| Financing of capital expenditure directly from reserves | | | | (789) | | | | (789) |
| Revenue expenditure financed from grants and contributions | | | | | | | | 0 |
| Capital expenditure financed from unapplied grants | | | | (5,896) | | | | (5,896) |
| Capital expenditure financed from capital receipts | | | | (934) | | | | (934) |
| Other adjustments | | | | | | | | 0 |
| Depreciation charged to Revaluation | | 775 | | (775) | | | | 0 |
| Adjustments between accounting and funding basis under regulation | 3 | 912 | (10,955) | 2,456 | 51 | (22) | (38) | (7,593) |
| Increase / Decrease in Year | 3 | 167 | (32,144) | 2,456 | 51 | (22) | (38) | (29,527) |
| Balance at 31 March 2011 | (17) | (18,861) | 19,595 | (58,837) | (326) | 282 | (43) | (58,207) |

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 27 UNUSABLE RESERVES (Cont.)

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

* The additional depreciation £430K (2011-12) and £775K (2010-11) which is transferred from the Revaluation Reserve to the Capital Adjustment Account represents a notional charge for the depreciation of the revaluation gain on revalued assets to depreciate the calculated gain over the life of the revalued asset.

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 28. AGENCY SERVICES

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

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

The totals collected on this basis are shown below:

| 2010-11 £'000 | 2010-11 £'000 | | 2011-12 £'000 | 2011-12 £'000 |
|------------------|------------------|-------------------------------------|------------------|------------------|
| | | Council Tax collection | | |
| 33,994 | | East Sussex County Council | 34,125 | |
| 2,402 | | East Sussex Fire and Rescue Service | 2,412 | |
| 4,062 | | Sussex Police Authority | 4,078 | |
| | <u>40,458</u> | Total agency Council Tax collection | | <u>40,615</u> |
| | 18,366 | NNDR collected for Government | | 20,223 |
| | <u>58,824</u> | Total Agency Income | | <u>60,838</u> |

NOTE 29. EXTERNAL AUDIT COSTS

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

| 2010-11 £'000 | | 2011-12 £'000 |
|------------------|---|------------------|
| 99 | Fees payable to PKF (UK) LLP with regard to external audit services carried out | 107 |
| 52 | Fees payable to PKF (UK) LLP for the certification of grant claims and returns | 31 |
| 2 | Fees payable to the Audit Commission in respect of statutory inspection | 0 |
| 1 | Fees payable in respect of other services provided | 1 |
| <u>154</u> | | <u>139</u> |

NOTE 30. CONTINGENT LIABILITIES

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

The Council participates in LAMS using the cash backed option. The mortgage lenders require a 5 year deposit from the local authority to match the 5 year life of the indemnity. The Council is putting aside a sum each year into a mortgage reserve to cover the costs of any mortgage defaults.

The Council served a notice on 16 June 2006 to restrict access to the Pier under Section 78 of the Buildings Act 1984. This action was taken to the extremely dangerous condition of the Pier following the failure by the owners to undertake works to ensure the safety of users. A company (Manolete Partners Plc) is making a claim against the Council as a result of restricting access in the sum of £300,000 plus £1.5 million for loss of goodwill. The Council does not accept that it should be liable to pay any compensation as a result of the action taken to safeguard the public.

NOTE 31. CONTINGENT ASSET

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

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 32 GRANTS AND CONTRIBUTIONS

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

| 2010-11 | | | 2011-12 | | |
|----------|-----------|----------|-----------------|--------------|-----------------|
| Grants | Contribs. | Total | Grants | Contribs. | Total |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| (61,354) | 0 | (61,354) | (63,207) | 0 | (63,207) |
| (1,363) | 0 | (1,363) | 0 | 0 | 0 |
| (165) | 0 | (165) | 0 | 0 | 0 |
| (643) | 0 | (643) | 0 | 0 | 0 |
| 0 | 0 | 0 | 0 | (195) | (195) |
| 0 | 0 | 0 | (109) | 0 | (109) |
| (991) | 0 | (991) | (671) | 0 | (671) |
| (1,083) | 0 | (1,083) | (910) | 0 | (910) |
| <hr/> | | | <hr/> | | |
| (65,599) | 0 | (65,599) | (64,897) | (195) | (65,092) |
| <hr/> | | | <hr/> | | |
| (1,323) | 0 | (1,323) | (1,840) | 0 | (1,840) |
| (9,114) | 0 | (9,114) | (5,953) | 0 | (5,953) |
| (35) | 0 | (35) | 0 | 0 | 0 |
| (3,562) | 0 | (3,562) | 0 | 0 | 0 |
| 0 | 0 | 0 | (1,288) | 0 | (1,288) |
| 0 | 0 | 0 | (195) | 0 | (195) |
| 0 | 0 | 0 | (174) | 0 | (174) |
| 0 | 0 | 0 | (732) | 0 | (732) |
| 0 | 0 | 0 | (2,995) | 0 | (2,995) |
| 2,680 | 0 | 2,680 | 0 | (289) | (289) |
| <hr/> | | | <hr/> | | |
| (11,354) | 0 | (11,354) | (13,177) | (289) | (13,466) |
| <hr/> | | | <hr/> | | |
| (76,953) | 0 | (76,953) | (78,074) | (484) | (78,558) |
| <hr/> | | | <hr/> | | |
| 0 | 0 | 12,359 | (1,760) | 0 | (1,760) |
| <hr/> | | | <hr/> | | |
| (76,953) | 0 | (64,594) | (79,834) | (484) | (80,318) |
| <hr/> | | | <hr/> | | |

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 33. DEFINED BENEFIT PENSION SCHEMES

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

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

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

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

Annual movement in plan obligations and assets

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

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

| 2010-11 | | 2011-12 |
|-----------------|--|----------------|
| £'000 | | £'000 |
| | Comprehensive Income and Expenditure Statement | |
| | <i>Cost of Services</i> | |
| 2,246 | Current Service Cost | 1,805 |
| (11,934) | Past Service Cost | 9 |
| 92 | Curtailements | 373 |
| <u>(9,596)</u> | | <u>2,187</u> |
| | <i>Financing and Investment Income and Expenditure</i> | |
| 6,698 | Interest Cost | 5,679 |
| (5,628) | Expected Return on Assets | (5,774) |
| <u>(8,526)</u> | Total Post Employment Benefit Charged to the Surplus/Deficit on the Provision of Services | <u>2,092</u> |
| (21,189) | Actuarial (Gains) and Losses | 7,735 |
| <u>(29,715)</u> | Total Comprehensive Income and Expenditure Statement | <u>9,827</u> |
| | Movement in Reserves Statement | |
| (8,543) | Reversal of items relating to retirement benefit debited or credited to the Comprehensive Income and Expenditure Statement | 2,092 |
| <u>(2,412)</u> | Employer's pension contributions and direct payments to pensioners payable in the year | <u>(2,259)</u> |
| <u>(10,955)</u> | (Surplus) or Deficit on Provision of Services | <u>(167)</u> |

NOTES TO THE CORE FINANCIAL STATEMENTS

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

| 2010-11 £'000 | Reconciliation of Fair Value of Employer Assets (scheme Assets): | 2011-12 £'000 |
|------------------|---|------------------|
| 79,984 | Value of Assets at 1 April | 84,537 |
| 5,628 | Expected Return on Assets | 5,774 |
| 716 | Contributions by Members | 643 |
| 2,429 | Contributions by the Employer | 2,259 |
| 245 | Actuarial Gains and (Losses) | (3,095) |
| (172) | Unfunded Benefits Paid | (178) |
| (4,293) | Benefits Paid | (4,439) |
| 84,537 | | 85,501 |
| | | |
| 2010-11 £'000 | Reconciliation of Defined Benefit Obligation (scheme Liabilities): | 2011-12 £'000 |
| (131,723) | Value of Liabilities at 1 April | (104,132) |
| (2,246) | Current Service Cost | (1,805) |
| (6,698) | Interest Cost | (5,679) |
| (716) | Contribution by Members | (643) |
| 20,944 | Actuarial Gains and (Losses) | (4,639) |
| 11,934 | Past Service Gains and (Losses) | (9) |
| (92) | (Losses) and Gains on Curtailments | (373) |
| 4,465 | Benefits Paid | 4,616 |
| (104,132) | | (112,664) |
| (19,595) | Asset/Liability at 31st March | (27,163) |

Scheme History

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

| | 2007-08 £'000 | 2008-09 £'000 | 2009-10 £'000 | 2010-11 £'000 | 2011-12 £'000 |
|-----------------------------------|------------------|------------------|------------------|------------------|------------------|
| Present value of liabilities | (86,270) | (84,219) | (131,723) | (104,132) | (112,664) |
| Fair value of assets | 72,395 | 59,186 | 79,984 | 84,537 | 85,501 |
| Surplus / (Deficit) in the scheme | (13,875) | (25,033) | (51,739) | (19,595) | (27,163) |

The actuarial gains identified as movements on the Pension Reserve in 2011-12 can be analysed into the following categories, plan liabilities as a percentage of plan liabilities and on plan assets as a percentage of plan assets at the balance sheet date:

| | 2007-08 £'000 | 2008-09 £'000 | 2009-10 £'000 | 2010-11 £'000 | 2011-12 £'000 |
|---|------------------|------------------|------------------|------------------|------------------|
| Difference between the expected and actual return on assets | (13.08%) | (30.06%) | 21.79% | 0.29% | (3.62%) |
| Experience gains and losses on liabilities | 1.80% | (0.05%) | 0.10% | (8.31%) | 1.45% |

Change in estimation technique

In 2011-12 the actuaries advised that the net pensions liability had increased by £4,728,000 as a result of estimates being corrected in the light of experience, and had also increased by £3,006,000 through the updating of assumptions

NOTES TO THE CORE FINANCIAL STATEMENTS

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

Annual Contribution to fund

The estimated contribution for 2012-13 is £1,895,000 compared with the actual contribution of £2,259,550 for 2011-12

Cumulative Actuarial Gains and Losses

The cumulative amount of actuarial gains and losses recognised in this statement is (£26,184,000). The equivalent figure for 2010-11 was (£18,450,000).

Plan Assets

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

| 2010-11 | | 2011-12 |
|---------|----------|-------------|
| 78% | Equities | 80% |
| 8% | Bonds | 9% |
| 8% | Property | 9% |
| 6% | Cash | 2% |
| 100% | | 100% |

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

The actual return on scheme assets in the year was £2,691,000 compared to £5,487,000 in 2010-11.

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 2010. The main assumptions used in their calculations are:

| 2010-11 | Long term expected rate of return on scheme assets: | 2011-12 |
|---------|--|-------------|
| | Equity Investments | |
| 7.5% | Equities | 6.3% |
| 4.9% | Bonds | 4.4% |
| 5.5% | Property | 4.4% |
| 4.6% | Cash | 3.5% |
| | Mortality assumptions: | |
| | Longevity at 65 for current pensioners | |
| 21.3 | Men | 21.3 |
| 23.4 | Women | 23.4 |
| | Longevity at 65 for future pensioners: | |
| 23.3 | Men | 23.3 |
| 25.7 | Women | 25.7 |
| 2.8% | Rate of inflation | 2.5% |
| 5.1% | Rate of increase in salaries | 4.8% |
| 2.8% | Rate of increase in pensions | 2.5% |
| 5.5% | Rate for discounting scheme liabilities | 4.8% |
| 50% | Take-up of option to convert annual pension into retirement lump sum pre April 2008 in 2011-12 | 50% |
| | Take-up of option to convert annual pension into retirement lump sum post April 2008 | 75% |

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 34. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

| 2010-11 £'000 | | 2011-12 £'000 |
|------------------|---|------------------|
| 14,865 | Opening Capital Financing Requirement 1 April | 15,618 |
| | <i>Capital Investment</i> | |
| 6,660 | Property, Plant and Equipment | 1,200 |
| 0 | Investment Properties | 0 |
| 50 | Intangible Assets | 62 |
| 0 | Assets Held for Sale | 189 |
| 0 | Long Term Debtors | 1,000 |
| 2,427 | Revenue Expenditure Funded from Capital under Statute | 1,322 |
| | <i>Sources of finance</i> | |
| (839) | Capital receipts | (379) |
| (5,896) | Government grants and other contributions | (1,459) |
| (789) | Sums set aside from revenue and reserves | (127) |
| (214) | Direct revenue contributions | (218) |
| (646) | MRP <i>note 40</i> | (685) |
| <u>15,618</u> | Closing Capital Financing Requirement 31 March | <u>16,523</u> |
| | Explanations of movements in year: | |
| 753 | Increase in underlying need to borrow | 905 |
| 0 | Assets acquired under finance leases | 0 |
| <u>753</u> | Increase/(decrease) in Capital Financing Requirement | <u>905</u> |

NOTE 35. CONSTRUCTION CONTRACTS

At 31 March 2012 the Council had no construction contracts in progress.

NOTE 36. MEMBERS ALLOWANCES

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

| 2010-11 £'000 | | 2011-12 £'000 |
|------------------|---|------------------|
| 285 | Members Allowances | 273 |
| 10 | Conferences, Training and Travelling Expenses | 6 |
| <u>295</u> | | <u>279</u> |
| 32 | Number of Councillors | 32 |
| £ 9,219 | Average sum per Councillor | £ 8,719 |

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 37 NATURE AND EXTENT OF RISK ARISING FROM FINANCIAL INSTRUMENTS

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

- Credit Risk the possibility that other parties might fail to pay amounts due to the Council.
- Liquidity risk the possibility that the Council might not have funds available to meet its commitments to make payments.
- Re-financing risk the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Overall procedures for managing risk

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

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

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

The annual treasury management strategy which incorporates the prudential indicators was last approved by Council on 20/02/2011 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2011-12 was set at £30m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £30m. This is the expected level of debt and other long term liabilities during the year.
- The maximum amounts of fixed and variable interest rate exposure were set at 100% and 100% based on the Council's net debt.

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

Credit risk

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

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

The full Investment Strategy for 2011-12 was approved by Full Council on 20/02/11 and is available on the Council's website.

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

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £17.7m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2012 that this was likely to crystallise.

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

| | Amount | Bad Debt Provision | Estimated maximum exposure to default | Amount | Bad Debt Provision | Estimated maximum exposure to default |
|-----------------|--------------|-----------------------|--|------------|-----------------------|--|
| | £000s | £000s | £000s | £000s | £000s | £000s |
| | 31-Mar-11 | 31-Mar-11 | 31-Mar-11 | 31-Mar-12 | 31-Mar-12 | 31-Mar-12 |
| Trade debtors * | 1,272 | (489) | 783 | 886 | (324) | 562 |
| Total | 1,272 | (489) | 783 | 886 | (324) | 562 |

* - Excluding statutory debtors – Council Tax/NNDR

The Council reviews Trade Debtors on a regular basis. In 2011-12 the Council made 100% provision against specific debts and 50% provision on the balance of debts over 90 days. It additionally made a 10% provision against Trade Debtors from 1 to 90 days.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

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

| | 31-Mar-11 | 31-Mar-12 |
|------------------------|--------------|------------|
| | £000s | £000s |
| Less than three months | 496 | 547 |
| More than three months | 776 | 339 |
| Total | 1,272 | 886 |

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

Liquidity risk

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

All of the financial assets of the Council were of less than one year's maturity, both at 31 March 2011 and 31 March 2012 except £1million invested in Lloyds in respect of the Local Authority Mortgage Scheme

The maturity analysis of financial assets is as follows:

| | 31-Mar-11 | 31-Mar-12 |
|---------------------------------------|--------------|--------------|
| | £000s | £000s |
| Less than 1 year | 9,000 | 0 |
| Less than 5 years greater than 1 year | 0 | 1,000 |
| Total | 9,000 | 1,000 |

Refinancing and Maturity risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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

| | Actual 31 March 2011 | Actual 31 March 2012 |
|------------------------|-------------------------|----------------------------|
| | £000s | £000s |
| Less than 1 year * | 62 | 66 |
| Between 1 and 5 years | 0 | 1,000 |
| Between 5 and 10 years | 2,000 | 2,000 |
| More than 10 years | 7,500 | 7,500 |
| Total | 9,562 | 10,566 |

* Includes interest of £66,000 (£62,000 in 2010-11)

Market Risk

Interest rate risk - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

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

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

| | £000s |
|--|--------------|
| Increase in interest payable on variable rate borrowings | 20 |
| Increase in interest receivable on variable rate investments | (177) |
| Impact on Surplus or Deficit on the Provision of Services | <u>(157)</u> |

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

The Council has taken a prudent step in previous years by setting up an Interest Equalisation reserve. The balance on this reserve at 31 March 2012 was £207K and is available to avoid the consequences of sudden unforeseen reductions in investment income on the General Fund in future years.

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

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

NOTE 38 FINANCIAL INSTRUMENTS

Year end balances compared to fair value

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

| 31 March 2011 | | | 31 March 2012 | |
|---------------|---------------|-----------------------------------|---------------|---------------|
| Book Value | Fair Value | | Book Value | Fair Value |
| £0 | £0 | | £0 | £0 |
| 0 | 0 | Investments over one year | 1,000 | 1,094 |
| 0 | 0 | Less interest due within one year | 0 | 0 |
| <u>0</u> | <u>0</u> | Long term Debtors | <u>1,000</u> | <u>1,094</u> |
| 9,000 | 9,018 | Bank deposits | 0 | 0 |
| <u>9,000</u> | <u>9,018</u> | Short term Investments | <u>0</u> | <u>0</u> |
| 783 | 783 | Trade accounts receivable | 562 | 562 |
| <u>783</u> | <u>783</u> | Short Term Debtors | <u>562</u> | <u>562</u> |
| 4,520 | 4,520 | Cash and Cash Equivalents | 16,924 | 16,935 |
| <u>14,303</u> | <u>14,321</u> | Total Financial Assets | <u>18,486</u> | <u>18,591</u> |

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

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 38 FINANCIAL INSTRUMENTS (cont.)

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

| 31 March 2011 | | | 31 March 2012 | |
|-----------------|-----------------|------------------------------------|-----------------|-----------------|
| Book Value | Fair Value | | Book Value | Fair Value |
| £0 | £0 | | £0 | £0 |
| (9,500) | (9,079) | Public Works Loan board | (10,500) | (12,595) |
| (597) | (597) | Long Term Creditors | (1,163) | (1,163) |
| <u>(10,097)</u> | <u>(9,676)</u> | Long Term Liabilities | <u>(11,663)</u> | <u>(13,758)</u> |
| (8,528) | (8,528) | Short Term Creditors | (6,313) | (6,313) |
| <u>(8,528)</u> | <u>(8,528)</u> | Short Term Liabilities | <u>(6,313)</u> | <u>(6,313)</u> |
| <u>(18,625)</u> | <u>(18,204)</u> | Total Financial Liabilities | <u>(17,976)</u> | <u>(20,071)</u> |

Interest Receivable

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

| 2010-11 | | 2011-12 |
|--------------|--|--------------|
| £'000 | | £'000 |
| | Interest receivable | |
| (185) | Interest from loans and receivables | (407) |
| | 0 Other interest receivable | (6) |
| <u>(185)</u> | Total Interest receivable | <u>(413)</u> |
| | Interest payable | |
| 406 | Interest on long term borrowing | 377 |
| 89 | Other interest payable and similar charges | (7) |
| <u>495</u> | Total Interest payable | <u>370</u> |

Valuation Techniques for Fair Value

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

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

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 39. RELATED PARTY TRANSACTIONS

Definition

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

Central Government

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

East Sussex Pension Scheme

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

Members and Senior Officers

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

Members of the Council have direct control over the Council's financial and operating policies. The council also nominates members to sit on outside bodies. Seven members are also members of East Sussex County Council. £217,437 was paid to Hastings and St Leonards Foreshore Charitable Trust of which some members are Trustees. Grants totalling £451,967 (see below) were paid to voluntary organisations in which six members had an interest. The relevant members did not take part in any discussion or decision relating to the grants. There were no other interests in any related party transactions during the year. The register of Member's Interest is held at the Town Hall and is open to public inspection.

| Grant to voluntary organisations | £'000 |
|---|--------------|
| Bridge Community Centre | 32 |
| Hastings Trust | 93 |
| 1066 Enterprise | 297 |
| Other | 30 |
| Total | <u>452</u> |

The Hastings and St Leonards Foreshore Charitable Trust

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

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

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

The delegation to Charity Committee was as follows:-

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

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 39. RELATED PARTY TRANSACTIONS (Cont.)

The Financial statements of the Trust at the 1st April 2011 showed

| | £,000 | £,000 |
|--------------------|-------|--------------|
| Fixed assets | | 214 |
| Current assets | 1,818 | |
| Creditors | (40) | |
| Net current assets | | 1,778 |
| Total Funds | | <u>1,992</u> |

During the year 2011-12 the Trust accrued net income resulting from the activities recorded in the Council's accounts. The net result was made up of income of £1,042k and expenditure of £826k, giving a net figure of £216k within the Council's own Accounts. (net figure 2010-11 was £243k).

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

Local Space

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

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

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

Local Space have provided £2million for the regeneration project. The remaining amount of £1.8million is being held as a grant receipt in advance. Where the Council contracts for the works and pays for them using funds provided by Local Space, the funding provided by Local Space would be regarded as consideration for the eventual freehold or leasehold disposal of the converted properties.

In the event of either of the schemes at the two identified properties not proceeding, the funds will be used to purchase and improve substitute properties.

The Draft Heads of Terms Partnership Agreement confirms that Local Space will be engaged to project manage the conversion works as development agent for the Council.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

From 1 April 2007 the Government introduced new regulations concerned with the treatment of MRP. This places a general duty on the Council to make prudent provision for the repayment of capital debt. The sum assessed in 2009-10 is based on the pre 2007 position that remains a constant sum into the future, plus the effect of new borrowing to finance capital expenditure since the changes were introduced. Prior to 2008-09 the effect of commutation meant that the actual calculation was a 'nil' provision. From then the effect has tapered off to give a positive provision that will increase moving forward.

| 2010-11 | | | | 2011-12 | | |
|------------|------------|--------------|-------------------|--------------|------------|--------------|
| £'000 | £'000 | £'000 | | £'000 | £'000 | £'000 |
| | Notional | | | Notional | | |
| MRP | MRP | Total | | MRP | MRP | Total |
| 523 | 287 | 810 | Balance 1 April | 810 | 462 | 1,272 |
| 434 | 212 | 646 | Provision in year | 646 | 223 | 869 |
| 957 | 499 | 1,456 | Balance 31 March | 1,456 | 685 | 2,141 |

NOTE 41. TERMINATION BENEFITS AND EXIT PACKAGES

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

The Council terminated the contracts of a number of employees in 2011-12, incurring liabilities of £274,00 (£588,000 in 2010-11). Of this total, £78,000 was paid to the Chief Executive and £82,000 to the Borough Solicitor in the form of compensation for loss of office and £18,000 and £23,000 in actuarial pension costs respectively. These costs are charged to the Council's Comprehensive Income and Expenditure Statement in the current year. The remaining £72,000 reflects the charge of other officers as services were rationalised.

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

- The curtailment figure is determined using accounting assumptions at the accounting date (in line with the requirements of the accounting standard). In addition, the methodology used to determine this figure differs slightly from that used to determine the strain contribution.
- The strain cash contribution due from the employer is based on the assumptions at the 2010 actuarial valuation and, as mentioned above, the methodology is slightly different than that applied for the curtailment figure.

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

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

| | Number of compulsory redundancies | | Number of other departures agreed | | Total number of exit packages by cost band | | Total cost of exit packages | |
|--------------------|-----------------------------------|-----------|-----------------------------------|-----------|--|-----------|-----------------------------|----------------|
| | 2010-2011 | 2011-2012 | 2010-2011 | 2011-2012 | 2010-2011 | 2011-2012 | £ | £ |
| £0 - 20,000 | 7 | 0 | 16 | 5 | 23 | 5 | 176,631 | 41,277 |
| £20,001 - 40,000 | 0 | 1 | 7 | 0 | 7 | 1 | 219,231 | 31,490 |
| £40,001 - 60,000 | 1 | 0 | 0 | 0 | 1 | 0 | 41,673 | 0 |
| £60,001 - 80,000 | 2 | 0 | 0 | 0 | 2 | 0 | 150,188 | 0 |
| £80,001 - 100,000 | 0 | 1 | 0 | 0 | 0 | 1 | 0 | 95,854 |
| £100,001 - 150,000 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 105,289 |
| | 10 | 2 | 23 | 6 | 33 | 8 | 587,723 | 273,910 |

NOTES TO THE CORE FINANCIAL STATEMENTS

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

| 2010-11 | | 2011-12 |
|--------------|--|----------------|
| £'000 | | £'000 |
| (5,665) | (Surplus) or deficit on the provision of services | 4,394 |
| (2,412) | Depreciation of Non Current Assets | (2,203) |
| (7,057) | Impairment of Non Current Assets | (5,858) |
| (9) | Amortisation of Intangible Fixed Assets | (19) |
| 10,955 | Pension Fund adjustments | 167 |
| 232 | Movements in the market value of Investment Properties | (29) |
| (175) | Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (17) |
| 0 | Amounts of non-current assets written off on assets held for sale or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (389) |
| 7 | Increase in stocks | (23) |
| (907) | Increase/(Decrease) in Debtors | (762) |
| (593) | (Increase)/Decrease in Creditors | 893 |
| 606 | Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 375 |
| 4,908 | Application of grants to capital financing transferred to the Capital Adjustment Account | 0 |
| (811) | Other non-cash movement* | 122 |
| (921) | Net cash flows from Operating Activities | (3,349) |

* The 2010-11 figure is a restated figure that is made up of (£2,427k) - Revenue funded from capital under statute, £38k - amount by which council tax income charged to the Comprehensive income and Expenditure Statement is different from the council tax income calculated for the year in accordance with statutory requirements and £1,578k - the other non-cash movement figure.

NOTE 43. GRANTS RECEIVED IN ADVANCE

| 2010-11 | | 2011-12 |
|----------|---------|-----------------------|
| £'000 | | £'000 |
| 0 | Capital | (1,771) |
| 0 | Revenue | (7) |
| <u>0</u> | | <u>(1,778)</u> |

Local Space have provided £2million to the Council for a regeneration project to help address the housing, economic and social problems caused in the Borough by poor private sector rented housing. £189,000 has been used to purchase a property in St Leonards-on-Sea. This asset is being held under assets held for sale within property plant and equipment. The property is being renovated and once this is complete will be transferred to Local Space. The unused balance of this grant is being held as capital grant receipts in advance in the balance sheet to finance further property purchases and renovation.

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 44. EMPLOYEE REMUNERATION

| Post holder information (Post title) | Salary (Inc. fees & Allowances) £ | Bonuses £ | Expense Allowances £ | Compensation for loss of office £ | Benefits in Kind (e.g. leased cars)* £ | Pension Contributions** £ | Total Remuneration £ |
|--------------------------------------|--------------------------------------|--------------|-------------------------|--------------------------------------|---|------------------------------|-------------------------|
| Financial Year: 2010-11 | | | | | | | |
| Chief Executive | 102,888 | 0 | 189 | 0 | 5,895 | 22,430 | 131,402 |
| Director of Corporate Resources | 81,282 | 0 | 189 | 0 | 5,353 | 18,924 | 105,748 |
| Borough Solicitor | 59,466 | 0 | 0 | 0 | 2,472 | 12,711 | 74,649 |
| Director of Regeneration | 73,458 | 0 | 0 | 0 | 5,716 | 16,014 | 95,188 |
| Director of Environmental Services | 78,546 | 0 | 189 | 0 | 7,197 | 17,123 | 103,055 |
| Head of Corporate Services | 52,197 | 0 | 0 | 0 | 1,785 | 11,379 | 65,361 |
| Total | 447,837 | 0 | 567 | 0 | 28,418 | 98,581 | 575,403 |
| Financial Year: 2011-12 | | | | | | | |
| Chief Executive | 101,577 | 0 | 189 | 77,663 | 6,771 | 40,639 | 226,839 |
| Director of Corporate Resources | 81,282 | 0 | 189 | 0 | 5,562 | 19,184 | 106,217 |
| Borough Solicitor | 59,466 | 0 | 0 | 81,836 | 2,417 | 36,288 | 180,007 |
| Director of Regeneration | 73,458 | 0 | 0 | 0 | 5,976 | 16,234 | 95,668 |
| Director of Environmental Services | 73,458 | 0 | 189 | 0 | 7,868 | 16,234 | 97,749 |
| Head of Corporate Services | 52,487 | 0 | 0 | 0 | 2,703 | 11,555 | 66,745 |
| Total | 441,728 | 0 | 567 | 159,499 | 31,297 | 140,135 | 773,225 |

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

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

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

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

| 2009-10 | 2010-11 | | 2011-12 |
|---|---|---------------------|---|
| 5 | 4 | £50,000 - 54,999 | 4 |
| 6 | 5 | £55,000 - 59,999 | 4 |
| 5 | 6 | £60,000 - 64,999 | 6 |
| 2 | 3 | £65,000 - 69,999 | 3 |
| 0 | 0 | £70,000 - 74,999 | 0 |
| 3 | 1 | £75,000 - 79,999 | 1 |
| 0 | 1 | £80,000 - 84,999 | 1 |
| 2 | 1 | £85,000 - 89,999 | 1 |
| 0 | 0 | £90,000 - £94,999 | 0 |
| 0 | 0 | £95,000 - £99,999 | 0 |
| 0 | 0 | £100,000 - £104,999 | 0 |
| 1 | 1 | £105,000- £109,999 | 1 |
| <hr style="width: 100%; border: 0.5px solid black;"/> | <hr style="width: 100%; border: 0.5px solid black;"/> | | <hr style="width: 100%; border: 0.5px solid black;"/> |
| 24 | 22 | | 21 |
| <hr style="width: 100%; border: 0.5px solid black;"/> | <hr style="width: 100%; border: 0.5px solid black;"/> | | <hr style="width: 100%; border: 0.5px solid black;"/> |

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 45 AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

| | Corporate Services | Regeneration | Environmental Services | Cost of Services | Corporate Items | Total |
|--|--------------------|----------------|------------------------|------------------|-----------------|------------------|
| Directorate Income and Expenditure | | | | | | |
| 2010-11 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Fees, Charges and Other Service Income | (4,407) | (1,914) | (6,777) | (13,098) | (235) | (13,333) |
| Gain on disposal non-current assets | 0 | 0 | 0 | 0 | (431) | (431) |
| Interest and Investment Income | 0 | 0 | 0 | 0 | (185) | (185) |
| Income from Council tax | 0 | 0 | 0 | 0 | (6,960) | (6,960) |
| Government Grants and contributions | (63,630) | (3,969) | (228) | (67,827) | (16,713) | (84,540) |
| Total Income | (68,037) | (5,883) | (7,005) | (80,925) | (24,524) | (105,449) |
| Employee expenses | 5,357 | 5,842 | 5,565 | 16,764 | (10,977) | 5,787 |
| Interest payments | 0 | 0 | 0 | 0 | 495 | 495 |
| Revenue expenditure funded from capital under statute | 0 | 0 | 0 | 0 | 2,427 | 2,427 |
| Depreciation and impairment | 0 | 0 | 0 | 0 | 9,480 | 9,480 |
| Support Services | 77 | (417) | (59) | (399) | 0 | (399) |
| Other service expenses | 65,552 | 7,372 | 9,540 | 82,464 | (470) | 81,994 |
| Total operating expenses | 70,986 | 12,797 | 15,046 | 98,829 | 955 | 99,784 |
| Surplus or Deficit on provision of services | 2,949 | 6,914 | 8,041 | 17,904 | (23,569) | (5,665) |
| Reconciliation of Expenditure Summaries to Comprehensive Income and Expenditure Cost of Services | | | | | | |
| | | | | | | £'000 |
| Management Cost of Services | | | | | | 20,132 |
| Depreciation and impairments | | | | | | 9,480 |
| Add Revenue expenditure funded from capital under statute | | | | | | 2,427 |
| Adjustment for pensions and accumulated absences | | | | | | (12,048) |
| Finance lease payments | | | | | | (255) |
| Income and expenditure in relation to investment properties | | | | | | 80 |
| Funding of capital expenditure | | | | | | (215) |
| Surplus or Deficit on provision of services | | | | | | 19,601 |
| Grant Income | | | | | | (25,901) |
| Other Operating Expenditure - Note 17 | | | | | | (431) |
| Financing and Investment Income and Expenditure - Note 9 | | | | | | 1,066 |
| Cost of services per Comprehensive Income and Expenditure | | | | | | (5,665) |

NOTES TO THE CORE FINANCIAL STATEMENTS

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 46 LEASES

Finance leases – Council acting as lessee

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

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

| 2010-2011 | | 2011-2012 |
|-----------|--|-----------|
| £'000 | | £'000 |
| 253 | Other Land and Buildings | 251 |
| 552 | Vehicles, Plant, Furniture and Equipment | 313 |
| 805 | | 564 |

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

| 2010-2011 | | 2011-2012 |
|-----------|--|-----------|
| £'000 | | £'000 |
| 786 | Finance lease liabilities (net present value of minimum lease payments): | 562 |
| 249 | current | 244 |
| 537 | non-current | 318 |
| 828 | Finance costs payable in future years | 797 |
| 1,614 | | 1,359 |

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

| 2010-2011 | | 2011-2012 |
|-----------|---|-----------|
| £'000 | | £'000 |
| 255 | Not later than one year | 251 |
| 355 | Later than one year and not later than five years | 113 |
| 1004 | Later than five years | 995 |
| 1,614 | | 1,359 |

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

| 2010-2011 | | 2011-2012 |
|-----------|---|-----------|
| £'000 | | £'000 |
| 223 | Not later than one year | 231 |
| 309 | Later than one year and not later than five years | 77 |
| 254 | Later than five years | 254 |
| 786 | | 562 |

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

46.2 Operating Leases

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

| 2010-2011 | 2011-2012 |
|--|-----------|
| £'000 | £'000 |
| 158 Not later than one year | 144 |
| 72 Later than one year and not later than five years | 86 |
| 0 Later than five years | 0 |
| 230 | 230 |

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

| 2010-2011 | 2011-2012 |
|----------------------------|-----------|
| £'000 | £'000 |
| 204 Minimum lease payments | 191 |
| 0 Contingent rents | 0 |
| 204 | 191 |

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

Authority as Lessor

Finance leases:

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

Operating Leases:

The Authority leases out property under operating leases for the following purposes:

- for economic development purposes to provide suitable affordable accommodation for local businesses.
- for the provision of community services, and leisure services

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

| 2010-2011 | 2011-2012 |
|---|-----------|
| £'000 | £'000 |
| 2,132 Not later than one year | 2,173 |
| 5,394 Later than one year and not later than five years | 5,399 |
| 48,650 Later than five years | 48,020 |
| 56,176 | 55,592 |

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 2011/12 contingent rents £65,149K were receivable by the Authority. In 2010/11 the figure was £64,948K.

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 2011/12 the amount of rental income received was £3,663K including contingent rents of £937K by the Authority. In 2010/11 the amount received was £3,695K and contingent rents of £986K.

NOTES TO THE CORE FINANCIAL STATEMENTS

NOTE 47. EXCEPTIONAL ITEMS

There are several exceptional items on the face of the Comprehensive Income and Expenditure Statement.

There has been an impairment loss of £2,964,000 in respect of the Stade Improvement capital project. This has arisen because a substantial amount of this newly constructed asset is not on Council owned land. This has resulted in a charge being made to Planning services - exceptional item as a separate line in the Comprehensive Income and Expenditure Statement.

There has been an impairment of £1,103,000 in respect of Renaissance House. This has arisen because the property which had been leased by Hastings Borough Council on a 125 year lease, has been sublet by the Council for the remainder of the outstanding lease period at similar rental to that paid by the Council. This change has led to revaluation of the property by Wilks, Head and Eve our valuers. This has resulted in a charge being made to Corporate and Democratic Core - exceptional item of £1,103,000 as a separate line in the Comprehensive Income and Expenditure Statement

In 2010-11 calculations for pensions have been based on future pension increases being linked to the Consumer Prices Index (CPI) and not the Retail Prices Index (RPI). The effect of this change comes through as a negative past service cost item in the revenue account. This credit is reversed out for Council Tax purposes. This has resulted in a change to past service costs of £11,934,000, showing as notional income in the Comprehensive Income and Expenditure Statement.

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

The adoption of amendments to IFRS 7 Financial Instruments: Disclosures (issued October) 2010 by the code will result in a change in accounting policy that requires disclosure.

The amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including the possible effects of any risks that may remain with the entity that transferred the assets. It also includes additional disclosure requirements where there is a disproportionate amount of transfer transactions around the end of the reporting period. The effective date of the standard was 1 July 2011 but we are not required by the code to implement this amended disclosure requirement until 1 April 2012.

Following a review of the Authority's financial assets and liabilities at 31 March 2012, it is considered unlikely that the IFRS 7 accounting standard will have any impact on the financial statements of the Council.

COLLECTION FUND INCOME & EXPENDITURE ACCOUNT

| 2010-11 £'000 | INCOME | 2011-12 £'000 |
|------------------|--|------------------|
| 37,232 | Income from Council Taxpayers | 37,578 |
| | Transfers from General Fund re Council Tax | |
| 11,467 | Council Tax Benefit awarded | 11,456 |
| | Sums recovered from Preceptors re previous year's Collection Fund deficit | |
| 0 | East Sussex County Council | 0 |
| 0 | East Sussex Fire & Rescue Authority | 0 |
| 0 | Sussex Police Authority | 0 |
| 0 | Hastings Borough Council | 0 |
| 48,699 | Total from Council Tax | 49,034 |
| 18,366 | Income collectable from Business Ratepayers - <i>Note 2</i> | 20,223 |
| 67,065 | | 69,257 |
| | EXPENDITURE | |
| | Business Rate - <i>Note 2</i> | |
| 18,241 | Payment to National Pool | 20,099 |
| 125 | Cost of Collection | 124 |
| 0 | Prior year community charge | 0 |
| 33,994 | East Sussex County Council Precept on Collection Fund - <i>Note 3</i> | 34,125 |
| 4,062 | Sussex Police Authority Precept on Collection Fund - <i>Note 3</i> | 4,078 |
| 2,402 | East Sussex Fire & Rescue Authority Precept on Collection Fund - <i>Note 3</i> | 2,412 |
| 6,922 | Hastings Borough Council Demand on Collection Fund - <i>Note 3</i> | 6,948 |
| | Bad & Doubtful Debts | |
| 933 | Write offs of uncollectable Council Tax | 551 |
| 122 | Provision for uncollectable Council Tax-addition / (reduction) to the sum required | 125 |
| 66,801 | | 68,462 |
| (264) | Movement on Fund Balance - (surplus) / deficit | (795) |
| | FUND BALANCE - <i>Note 4</i> | |
| (32) | Balance brought forward | (296) |
| (264) | (Surplus) / deficit for year | (795) |
| (296) | Balance - (surplus) / deficit carried forward | (1,091) |

COLLECTION FUND INCOME & EXPENDITURE ACCOUNT

NOTE 1. GENERAL

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

NOTE 2. INCOME FROM BUSINESS RATES (NNDR)

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

| 2010-11 £'000 | | 2011-12 £'000 |
|------------------|---|------------------|
| (22,667) | Non-Domestic rates billed at uniform business rate of 42.6p (2010-11 : 40.7p) | (24,289) |
| 4,301 | Less adjustments to charges, voids, reliefs and other non-collectable sums | 4,066 |
| (18,366) | Amount Collectable | (20,223) |
| 125 | Less allowance for the Cost of Collection | 124 |
| (18,241) | Net contribution to National Pool | (20,099) |
| <hr/> | | |
| £9,113,374 | Redistribution from National Pool - credited to General Fund | £5,953,484 |
| £57,840,381 | Rateable Value of Business Premises at 31 March | £57,789,858 |
| 41.4p | NDR multiplier | 43.3p |
| 40.7p | NDR small business multiplier | 42.6p |

NOTE 3. COUNCIL TAX BASE

| Band & Value | Number of Properties | Relationship to Band D | Annual Amount |
|---|---|---------------------------|------------------|
| Band A - up to £40,000 | 14,354 | 6/9 | £1,076.28 |
| Band B - over £40,000 up to £52,000 | 11,888 | 7/9 | £1,255.67 |
| Band C - over £52,000 up to £68,000 | 7,296 | 8/9 | £1,435.04 |
| Band D - over £68,000 up to £88,000 | 5,489 | - | £1,614.43 |
| Band E - over £88,000 up to £120,000 | 2,169 | 11/9 | £1,973.19 |
| Band F - over £120,000 up to £160,000 | 773 | 13/9 | £2,331.95 |
| Band G - over £160,000 up to £320,000 | 183 | 15/9 | £2,690.71 |
| Band H - over £320,000 | 43 | 18/9 | £3,228.86 |
| | <hr/> | | |
| | 42,195 | | |
| | <hr/> | | |
| Council Tax Base and amount originally expected for 2011-12 | | | = 29,461 |
| | East Sussex County Council share | | £34,124,677 |
| | Sussex Police Authority share | | £4,077,991 |
| | East Sussex Fire & Rescue Authority share | | £2,411,677 |
| | Hastings Borough Council share | | £6,948,370 |
| | | | <hr/> |
| | | | £47,562,715 |

COLLECTION FUND INCOME & EXPENDITURE ACCOUNT

NOTE 4. COUNCIL TAX SURPLUSES & DEFICITS

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

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

| | 2010-11 Council Tax | 2011-12 Council Tax |
|-----------------------------|------------------------|------------------------|
| | £'000 | £'000 |
| Balance brought forward :- | | |
| East Sussex County Council | (23) | (213) |
| Sussex Police Authority | (3) | (25) |
| East Sussex Fire Authority | (2) | (15) |
| Hastings Borough Council | (4) | (43) |
| (Surplus) / Deficit | <u>(32)</u> | <u>(296)</u> |
| Movement on Fund Balance :- | | |
| East Sussex County Council | (190) | (571) |
| Sussex Police Authority | (22) | (68) |
| East Sussex Fire Authority | (13) | (40) |
| Hastings Borough Council | (39) | (116) |
| (Surplus) / Deficit | <u>(264)</u> | <u>(795)</u> |
| Balance carried forward :- | | |
| East Sussex County Council | (213) | (784) |
| Sussex Police Authority | (25) | (93) |
| East Sussex Fire Authority | (15) | (55) |
| Hastings Borough Council | (43) | (159) |
| (Surplus) / Deficit | <u>(296)</u> | <u>(1,091)</u> |
| Total of Council Tax | <u>(296)</u> | <u>(1,091)</u> |

| | Hastings Borough Council | East Sussex County Council | Sussex Police Authority Share | East Sussex Fire and Rescue |
|---|--------------------------------|----------------------------------|--|-----------------------------------|
| Council Tax Arrears | 780,693 | 3,834,122 | 458,188 | 270,967 |
| Impairment Allowance for doubtful debts | (685,424) | (3,366,240) | (402,275) | (237,901) |
| Council Tax overpayments | (84,688) | (543,278) | (64,923) | (38,395) |
| Council Tax prepayments | (72,562) | (356,363) | (42,586) | (25,185) |
| Collection Fund (surplus)/deficit | (159,553) | (783,409) | (93,619) | (55,374) |
| Collection Fund Adjustment Account | (159,553) | | | |
| (Owed to)/Owed From Preceptors | | (1,215,168) | (145,215) | (85,888) |

GLOSSARY

ACCRUALS

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

ACTUARIAL GAINS & LOSSES

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

AMORTISATION

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

BALANCE SHEET

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

BUDGET

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

CAPITAL EXPENDITURE

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

CAPITAL RECEIPTS

The proceeds from the sale of fixed assets.

COMMUNITY ASSETS

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

CREDITORS

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

CODE

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

CONTINGENT

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

CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all

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

CURRENT SERVICE COSTS (PENSIONS)

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

CURTAILMENT

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

DEBTORS

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

DEFINED BENEFIT SCHEME

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

DEPRECIATION

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

EXCEPTIONAL ITEMS

Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

EXTRAORDINARY ITEMS

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

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. In simple terms it covers both financial assets and financial liabilities such as trade debtors and trade creditors, to the more complex derivatives e.g. swaps and embedded derivatives.

GLOSSARY

GENERAL FUND

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

GOVERNMENT GRANTS

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

IMPAIRMENT

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

INFRASTRUCTURE ASSETS

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

INVESTMENT PROPERTIES

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

NATIONAL BUSINESS RATE POOL

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

PAST SERVICE COST

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

PRECEPT

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

PROJECTED UNIT METHOD

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

PROJECTED UNIT METHOD (con't)

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

- (a) the benefits for pensioners and deferred pensioners and their dependants, allowing where appropriate for future increases, and
- (b) the accrued benefits for members in service on the valuation date.

PROVISIONS

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

PROPERTY PLANT AND EQUIPMENT (PPE)

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

PUBLIC WORKS LOAN BOARD (PWLb)

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

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

EARMARKED RESERVES

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

REVENUE EXPENDITURE

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

REVENUE SUPPORT GRANT

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

SETTLEMENT (PENSION)

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