



## Audit and Governance Committee

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The Audit and Governance meets in the Court Room of the Town Hall which is located on the ground floor. Entrance is via the main door or access ramp at the front of the Town Hall. Parking bays for blue badge holders are available in front of the Town Hall and in the car park at the rear of the Town Hall.



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**MEMBERS:** Councillor Ungar (Chairman); Councillor Mattock (Deputy-Chairman); Councillors Cooke, Ede, Harris, Heaps, Taylor and Tester

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## Agenda

- 1 Minutes of the meeting held on 25 June 2014 - Previously circulated.**
- 2 Apologies for absence.**
- 3 Declarations of Disclosable Pecuniary Interests (DPIs) by members as required under Section 31 of the Localism Act and of other interests as required by the Code of Conduct.**
- 4 Questions by members of the public.**

On matters not already included on the agenda and for which prior written notice has been given (total time allowed 15 minutes).

**5 Urgent items of business.**

The Chairman to notify the Committee of any items of urgent business to be added to the agenda.

**6 Right to address the meeting/order of business.**

The Chairman to report any requests received to address the Committee from a member of the public or from a Councillor in respect of an item listed below and to invite the Committee to consider taking such items at the commencement of the meeting.

**7 Update: Members and Standards.** (Pages 1 - 4)

Report of Monitoring Officer.

**8 Update: The Regulation of Investigatory Powers Act (RIPA) and related legislation.** (Pages 5 - 8)

Report of Monitoring Officer.

**9 Corporate Fraud.** (Pages 9 - 18)

Report of Internal Audit Manager.

**10 Internal Audit Report to 30th June 2014.** (Pages 19 - 42)

Report of Internal Audit Manager.

**11 Annual Governance Report 2013/14.** (Pages 43 - 78)

Report of External Auditors BDO.

**12 Statement of Accounts 2013/14.** (Pages 79 - 170)

Report of Financial Services Manager.

**Inspection of Background Papers** – Please see contact details listed in each report.

**Councillor Right of Address** - Councillors wishing to address the meeting who are not members of the Committee must notify the Chairman in advance.

**Public Right of Address** – Requests by members of the public to speak on a matter which is listed in this agenda must be **received** in writing by no later than 12 Noon, 2 working days before the meeting e.g. if the meeting is on a Tuesday, received by 12 Noon on the preceding Friday). The request should be made to Local Democracy at the address listed below. The request may be made by letter, fax or e-mail. For further details on the rules about speaking at meetings please contact Local Democracy.

**Disclosure of interests** - Members should declare their interest in a matter at the beginning of the meeting, and again, at the point at which that agenda item is introduced.

Members must declare the existence and nature of any interest.

In the case of a DPI, if the interest is not registered (nor the subject of a pending notification) details of the nature of the interest must be reported to the meeting by the member and subsequently notified in writing to the Monitoring Officer within 28 days.

If a member has a DPI or other prejudicial interest he/she must leave the room when the matter is being considered (unless he/she has obtained a dispensation). If a member has a DPI he/she may not make representations first.

## **Further Information**

Councillor contact details, committee membership lists and other related information is also available from Local Democracy.

**Local Democracy**, 1 Grove Road, Eastbourne, BN21 4TW  
Tel: (01323) 415021/5023 Minicom: (01323) 415111, Fax: (01323) 410322  
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Website at [www.eastbourne.gov.uk](http://www.eastbourne.gov.uk)

For general Council enquiries, please telephone (01323) 410000 or E-mail: [enquiries@eastbourne.gov.uk](mailto:enquiries@eastbourne.gov.uk)

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# Agenda Item 7

|                         |                                                                                                                                                                                                                                                    |
|-------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Body:</b>            | <b>AUDIT AND GOVERNANCE COMMITTEE</b>                                                                                                                                                                                                              |
| <b>Date:</b>            | <b>24 September 2014</b>                                                                                                                                                                                                                           |
| <b>Subject:</b>         | <b>Members and Standards: an update</b>                                                                                                                                                                                                            |
| <b>Report Of:</b>       | <b>LAWYER TO THE COUNCIL AND MONITORING OFFICER</b>                                                                                                                                                                                                |
| <b>Ward(s)</b>          | All                                                                                                                                                                                                                                                |
| <b>Purpose</b>          | To assist the Audit and Governance Committee in fulfilling its obligations in relation to member standards.                                                                                                                                        |
| <b>Recommendations:</b> | That the Committee note the following: <ul style="list-style-type: none"><li>• The information supplied to it regarding complaints against members</li><li>• Other relevant information including an update on Standards-related matters</li></ul> |
| <b>Contact:</b>         | Victoria Simpson, Lawyer to the Council and Monitoring Officer, Telephone 01323 415018 or internally on extension 5018.<br>E-mail address: victoria.simpson@eastbourne.gov.uk                                                                      |

## **1.0 Background**

1.1 Members will recall their longstanding invitation to the Monitoring Officer to provide quarterly updates on Standards-related matters.

## **2.0 Complaints**

2.1 No new formal complaints against members have been received in during this quarter. As none remain outstanding from previous quarters, no complaints await determination at time of writing.

## **3.1 Dispensations**

3.2 No dispensations have been applied for or issued since the last quarterly Report.

## **4.1 Member training**

4.1 No dedicated in-house training on Standards-related issues has taken place during this quarter.

## **5.0 Update on Standards related matters**

5.1 Members will have noted that the general question of how best to regulate the conduct of elected officials has remained on the radar. The Parliamentary Standards Committee's enquiry into the standards system in the House of Commons is ongoing while the House of Lords Privileges and Standards Committee has recently recommended a tightening up of the rules relating to its members.

5.2 In addition the Committee on Standards in Public Life's 3<sup>rd</sup> report on Standards in Public Life has been republished this year. Having first been published in 1997, not all of its recommendations remain live. However it is an indication of ongoing interest – interest kept alive by debate between commentators on local government – in the subject of member conduct. While no legislative change is currently planned, it is to be expected that the Standards regime will be kept under review by future Parliaments.

## **6.0 Consultation**

6.1 There has been no consultation.

## **7.0 Resource Implications**

7.1 None.

## **8.0 Financial**

8.1 None.

## **9.0 Staffing**

9.1 None.

## **10.0 Conclusion**

10.1 Authorities must have in place arrangements to monitor member conduct and to promote effective decision-making. It also a requirement that steps be taken to promote high standards of conduct. This report aims to assist this Committee in discharging its responsibilities in this regard.

**Victoria Simpson**

**LAWYER TO THE COUNCIL AND MONITORING OFFICER**

**Appendices:**

None

**Background Papers:**

Previous reports and minutes of the Committee and Panel.

The Localism Act and related legislation

Resources including articles in the Local Government Lawyer and bulletins issued by Lawyers in Local Government ; the Standards Exchange; also relevant resources on the Department of Communities and Local Government website

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# Agenda Item 8

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|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Body:</b>            | <b>AUDIT AND GOVERNANCE COMMITTEE</b>                                                                                                                                                                                 |
| <b>Date:</b>            | <b>24 September 2014</b>                                                                                                                                                                                              |
| <b>Subject:</b>         | <b>The Regulation of Investigatory Powers Act and related legislation: update on the authority's usage of its powers</b>                                                                                              |
| <b>Report Of:</b>       | <b>LAWYER TO THE COUNCIL AND MONITORING OFFICER</b>                                                                                                                                                                   |
| <b>Ward(s)</b>          | <b>All</b>                                                                                                                                                                                                            |
| <b>Purpose</b>          | <b>To assist the Audit and Governance Committee in monitoring the authority's usage of its powers under the Regulation of Investigatory Powers Act</b>                                                                |
| <b>Recommendations:</b> | That the Committee note that no applications were made by officers of this authority to engage in activity regulated by the Regulation of Investigatory Powers Act during the quarter leading up to 1 September 2014. |
| <b>Contact:</b>         | Victoria Simpson, Lawyer to the Council and Monitoring Officer,<br>Telephone 01323 415018 or internally on extension 5018.<br>E-mail address: victoria.simpson@eastbourne.gov.uk                                      |

## **1.0 Background**

1.1 Members will recall that the Audit and Governance Committee has agreed to receive quarterly reports on the authority's usage of its powers to conduct covert surveillance and to access communications data pursuant to the Regulation of Investigatory Powers Act.

## **2.0 Usage of the powers available to Eastbourne Borough Council to conduct covert surveillance under the Regulation of Investigatory Powers Act**

2.1 The quarterly returns compiled for the period 1/06/2014 to 31/08/2014 include the following data:

### RIPA applications for the use or conduct of a CHIS:

Nil applications by either EBC or by partner organisations with which the authority is working on relevant matters.

### RIPA applications for authorised surveillance:

Nil applications made by either EBC or by partner organisations with which the authority is working on relevant matters.

### RIPA applications for communications data use and acquisition:

Nil applications made by either EBC or by partner organisations with which the authority is working on relevant matters.

2.2 The Committee will note that the returns for this quarter are consistent with EBC's infrequent recourse to the powers available to it under RIPA in recent years.

### **3.0 Update on related legislation and guidance**

**3.1** While the inevitable tensions between the need for effective law enforcement and the rights of the individual continue to be debated in a range of security-related contexts, those are largely outside the remit of this report.

**3.2** While the law in this area remains unchanged, the Information Commissioner last month published a surveillance 'road map', for the first time, in an acknowledgement of the complexity of the law relating to the regulation of surveillance.

[http://ico.org.uk/~media/documents/library/Corporate/Practical\\_application/surveillance-road-map.pdf](http://ico.org.uk/~media/documents/library/Corporate/Practical_application/surveillance-road-map.pdf)

As well as clarifying the roles and responsibilities of the bodies involved in overseeing surveillance in the UK, the Surveillance Road Map includes a table showing the avenues available to the public to complain about or challenge any alleged breach of surveillance legislation. Given its potential usefulness to stakeholders, a link to it will be uploaded to the relevant page on EBC's website.

### **4.0 Consultation**

4.1 None.

### **5.0 Resource Implications**

5.1 None.

### **6.0 Financial**

6.1 None.

### **7.1 Staffing**

7.2 None.

### **8.0 Conclusion**

8.1 This report updates the Committee on the authority's arrangements for the use of its powers to conduct covert surveillance and to access communications data when circumstances merit. The report helps this Committee ensure that the authority applies a robust approach which balances its enforcement responsibilities with the requirement to act at all times in a proportionate and human rights-compliant way.

**Victoria Simpson**

**LAWYER TO THE COUNCIL AND MONITORING OFFICER**

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## **Appendices**

None

### **Background Papers:**

Previous reports and minutes of this Committee and of Cabinet.

Articles in the Local Government Lawyer.

Resources available from the Officer of the Surveillance Commissioner, from the Information Commissioners Office and from the Interception of Communications Commissioner.

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# Agenda Item 9

|                           |                                                                                      |
|---------------------------|--------------------------------------------------------------------------------------|
| <b>Body:</b>              | Audit and Governance Committee                                                       |
| <b>Date:</b>              | 24 <sup>th</sup> September 2014                                                      |
| <b>Subject:</b>           | CORPORATE FRAUD                                                                      |
| <b>Report Of:</b>         | Internal Audit Manager                                                               |
| <b>Ward(s)</b>            | All                                                                                  |
| <b>Purpose</b>            | To update the committee on the move to having a Corporate Fraud team.                |
| <b>Recommendation(s):</b> | To consider the contents of this report and comment on the steps in the action plan. |
| <b>Contact:</b>           | Jackie Humphrey, Internal Audit Manager - 5925                                       |

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## **1.0 Introduction**

- 1.1 In November the Single Fraud Investigation Service (SFIS), run by the DWP, will take over the investigation of Housing Benefit fraud for Eastbourne. With this the staff from the Fraud Investigation team would transfer to the DWP.
- 1.2 At the same time Councils are being actively encouraged to investigate corporate fraud. This is not yet compulsory but it is good governance. However the Council currently has no resources to carry out this work.

## **2.0 Government Expectations re Corporate Fraud**

- 2.1 In his Autumn Statement dated 5<sup>th</sup> December 2013 the Rt. Hon. Eric Pickles MP stated that "alongside the roll out of the Single Fraud Investigation Service, DCLG and DWP are investing in local government's capacity to tackle non-welfare fraud". He goes on to state that this would include extra funding over 2014-15 and 2015-16 "which will be able to support new fraud investigator posts in councils focussed on tackling corporate fraud".
- 2.2 In the DWP document "The Transfer of Undertaking (Protection of Employment) (Transfer of Staff to the Department for Work and Pensions) Regulations 2014, the government response to one item states "additionally the local authorities need to ensure they have sufficient capability to maintain their Corporate Fraud work."
- 2.3 Every year the Audit Commission publishes a Fraud and Corruption Survey which we are required to complete. They also publish a document annually entitled "Protecting the Public Purse" which reports on the findings of the survey. Each year this contains questions about our counter-fraud work
- 2.4 Fighting Fraud Locally – The Local Government Fraud Strategy begins its introduction "our vision is that by 2015 local government will be better able to protect itself from fraud and have in place a more effective fraud response."

### 3.0 What is Corporate Fraud

- 3.1 Corporate Fraud focusses on areas of fraud risk outside of Housing and Council Tax Benefits. These include Housing Tenancy, Single Person Discount, Procurement, Grants, Employee, Insurance and Right to Buy fraud. By proactively looking for fraud in these areas authorities are able to demonstrate that they are protecting public money.
- 3.2 Whilst Internal Audit reviews have been carried out in these areas these do not proactively look for fraud but look for any weaknesses in controls which could allow frauds to occur.
- 3.3 The role of Corporate Fraud is to proactively look for fraud in the areas listed above by using data matching, other analytic tools, investigations etc.
- 3.4 Most reports from government appear to indicate that Corporate Fraud teams would become self-funding from the savings made through their work.
- 3.5 Fighting Fraud Locally – The Local Government Fraud Strategy, recommends that authorities:
- Acknowledge and understand fraud risks
  - Prevent and detect more fraud
  - Are stronger in punishing fraud and recovering losses

The strategy concludes by suggesting that actions are set to address the recommendations in the strategy and to set up new structures to support the delivery of the strategy.

- 3.6 The reported potential level of fraud at Eastbourne Borough Council, as taken from the NAFN fraud risk tool, is as follows:

| Area                                         | Lower Estimate | Upper Estimate |
|----------------------------------------------|----------------|----------------|
| Council Tax Fraud (discounts and exemptions) | £280k          | £460k          |
| Housing Tenancy Fraud                        | £500k          | £800k          |
| Procurement Fraud                            | £400k          | £670k          |
| Local Council Tax Support                    | £20k           | £40k           |
| Payroll                                      | £20k           | £30k           |
| <b>TOTAL</b>                                 | <b>£1,220k</b> | <b>£2,000k</b> |

### 4.0 Where We Are Currently

- 4.1 It would be wrong to think that we are currently not doing any work which can be considered as part of Corporate Fraud. Both Internal Audit and the Fraud Investigation team are carrying out some work in these areas.

#### Internal Audit

An annual risk-based audit plan is produced and agreed by CMT and the Audit and Governance Committee. An audit review will identify key controls which should prevent or deter fraud or error and will carry out tests to ensure that these controls are in place and working. This work will not proactively look for frauds but will find areas of control weakness and recommendations will be made to

improve these. In addition the Internal Audit team are asked to conduct investigations into allegations of fraud raised by HR.

#### Fraud Investigation Team

The team investigate possible benefit fraud cases raised by both the Benefits team and by the DWP. However, in recent years they have moved away from just investigating benefit fraud and also carry out the following pieces of work:

- Housing Benefit Matching Service - data matches are sent to the Council which need to be investigated.
- Housing - help and advice re homeless applications, e.g. persons from abroad, false statement on applications, failure to notify changes of circumstances etc.
- Business Rates - working with officers to check company status, investigate cases where companies are trying to avoid business rates or attempting to apply for exemptions to which they are not entitled.
- Environmental Health - working with officers to challenge landlords providing inadequate accommodation, or those making false claims. Also work to ensure that HMOs are registered.
- Customer Contact Centre - Support given when officers have difficult customers.
- Eastbourne Homes - working with EHL to tackle tenancy fraud and other issues around occupation, Right to Buy, Benefit queries etc.
- Council Tax - Daily support and assistance when highlighting cases of concern.
- Recovery - working closely with recovery officers, assisting and identifying contact addresses, identifying cases where payments are not being made or are too low. Compliance Officer arranges payment schedules with customers for outstanding debts, monitoring payments and challenging those failing to make payments.
- Brighton Housing Trust - the trust notifies the team of moves etc to help prevent overpayments of benefit.
- East Sussex County Council - undertaking joint visits to vulnerable customers in need of assistance with benefit advice/debt.
- Electoral Service - ensuring that when new adults are added to claims that they are also registered on the Electoral Roll.

#### National Fraud Initiative

This is a biennial exercise, currently hosted by the Audit Commission, whereby data sets are uploaded by local authorities and data matching reports are produced. The reports match data within authorities, between authorities and with other agencies. Each local authority then works through the matches to investigate them for potential frauds. Currently this work is carried out by staff in the relevant departments. This is not ideal since there is a risk that there could be staff involved with fraud who are then checking the entries and are able to further disguise the fraud.

## **5.0 Implications of SFIS**

- 5.1 In November the SFIS will extend to Eastbourne. This would have meant that staff in the Fraud Investigation team would transfer to the DWP. This could have been the manager and two investigators but it could also have included the Compliance and Support Officers.

- 5.2 As described earlier in this report the team carry out far more than just work on benefits and elements of this would remain with the Council. This includes work on the Council Tax Reduction Scheme and Single Person Discounts and other exemptions as well as the other work previously listed. Additionally Universal Credit will not include pensioners who will remain in receipt of Housing Benefit; preventing and detecting fraud and error in this area may remain with the Council. Consideration therefore needs to be given to how these will continue to be investigated and whether the other work is continued.
- 5.3 The DWP expects a there to be a Single Point of Contact (SPOC) in place in the authority that will act as liaison between the DWP and the Council. The officer in this role would need to have knowledge of the benefit system and fraud.

## **6.0 Decisions**

6.1 The Revenues and Benefits Manager took a report to CMT on 24<sup>th</sup> June to consider the ramifications of the implementation of the Single Fraud Investigation Service and the opportunity for creating a Corporate Fraud team.

6.2. The following were the options considered:

Option 1 -Fraud Investigation team to move to DWP

Option 2 – Retain 1 investigator and 1 admin staff

Option 3 – Retain all or majority of the Fraud Investigation team.

Option 3 was to set up a corporate fraud team on a 2 year trial basis and reporting to Internal Audit.

6.3 CMT agreed to retain all the staff and have this team carry out the work not taken over by SFIS and the corporate fraud work.

6.4 This was ratified for the current financial year in consultation with the Leader of the Council and the Portfolio Holder for Finance.

## **7.0 Financial Implications**

7.1 Currently the Fraud Investigations team costs around £270k per annum. This is funded through the Administration Grant. This grant has been paid in full for 14/15 though SFIS comes into effect in November. This grant will be reduced in 15/16 and will cease for 16/17. Therefore the new team can begin work in this financial year at no extra cost.

7.2 With the cutting of the grant in future other funding must be considered. There is some funding available from government for corporate fraud teams, however it is clear that the monies will only be given to those authorities working in collaboration with others. Eastbourne will be working with East Sussex County Council, Lewes, Brighton and Hove, Rother, Hastings and Wealden to bid for a share of this.

7.3 There is an element of income generation from the fraud team as it currently stands plus a future opportunity. Currently Council Tax Reduction (CTR) offences can be subject to up to 50% AdPen. Where a change of circumstance for CTR has

not been reported within 21 days, a penalty of £70 can be imposed. Further failure to supply information can have a further penalty of £280 imposed.

- 7.4 Eastbourne Borough Council now has the powers under "Prevention of Social Housing Fraud Act 2013" to assist them in investigating potential tenancy related frauds in social housing. These powers compel financial, utility and telecommunications companies to provide information to the authorised officers. These powers can also be used by the Council to provide services to other social housing providers, thereby generating income.
- 7.5 There is the possibility of carrying out some counter fraud work for Eastbourne Homes, beyond tenancy fraud, which should also generate some income.
- 7.6 The work should also have other benefits such reclaiming sub-let council houses. While there will be no direct income from this the benefit should be quantified and offset against the cost of the service.

## **8.0 Moving Forward**

- 8.1 From 1<sup>st</sup> November staff from the Benefit Fraud team will become the Corporate Fraud team and begin work on setting up processes and start on carrying out work on trial areas. It should be noted that Eastbourne is not the only authority in the area going down this path; Lewes are also retaining staff for the purposes of corporate fraud work.
- 8.2 A proposal for continuing the work in 15/16 will form part of the Service and Financial Plan which will be taken to Cabinet in December.
- 8.3 Work needs to be carried out on sorting out job descriptions and person specs for the members of staff affected.
- 8.4 The scope of the work for the Corporate Fraud team needs to be considered and agreed.
- 8.5 Consideration needs to be given to carrying out joint work with Internal Audit to consider work with EHL, Towner Trust and the Hippodrome Trust around safeguarding the Council's investments.
- 8.6 A strategy and plan of work for November to the end of March must be put in place. We have no experience of this work so we must research this and decide how best to go about carrying out the work.
- 8.7 Progress on work will be reported quarterly to the Audit and Governance Committee and at the December meeting of this committee there will be an update on the setting up of the section.
- 8.8 A draft action plan of steps necessary in setting up the new section to be addressed is appended to this report.

## **9.0 Other Implications**

- 9.1 None

## **10.0 Summary of Options**

10.1 None

## **11.0 Recommendation**

11.1 To consider the proposed steps to be taken in setting up a Corporate Fraud team and make suggestions re the scope.

**Jackie Humphrey**  
**Internal Audit Manager**

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### **Background Papers:**

The Background Papers used in compiling this report were as follows:

*The Transfer of Undertakings (Protection of Employment) (Transfer of Staff to the Department for Work and Pensions) Regulations 2014*

*Department for Communities and Local Government – Autumn Statement – 5<sup>th</sup> December 2013*

*Protecting the Public Purse Fraud Briefing 2013*

*Fighting Fraud Locally – The Local Government Fraud Strategy*

Action Plan

| <b>Action</b>                                                                                 | <b>Responsible Officer</b> | <b>To be completed by</b> | <b>Progress</b>                       |
|-----------------------------------------------------------------------------------------------|----------------------------|---------------------------|---------------------------------------|
| Thoroughly research corporate fraud and how other authorities are dealing with this           | Internal Audit Manager     | December 2014             |                                       |
| Decide on the scope of corporate fraud work – <i>see note below</i>                           | Internal Audit Manager     | March 2015                |                                       |
| Write strategy                                                                                | Internal Audit Manager     | March 2015                |                                       |
| Develop and agree plan for 14/15 (November to March)                                          | Internal Audit Manager     | 30 October 2014           |                                       |
| Complete Service and Financial Plan proposal for 15/16                                        | Internal Audit Manager     | October 2014              |                                       |
| Complete joint bid for funding (includes Lewes, Wealden and Rother)                           | Internal Audit Manager     | September 2014            | Bid has been completed and submitted. |
| Consider and agree performance indicators, including a means of giving a value to such areas. | Internal Audit Manager     | March 2015                |                                       |
| Develop job descriptions and person specs for the new roles                                   | Internal Audit Manager     | 30 October 2014           |                                       |
| Develop day to day working processes                                                          | Internal Audit Manager     | March 2015                |                                       |
| Develop reporting templates                                                                   | Internal Audit Manager     | March 2015                |                                       |
| Raise awareness of corporate fraud across the authority                                       | Internal Audit Manager     | March 2015                |                                       |

|                                                                                                                                  |                                                         |                               |  |
|----------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|-------------------------------|--|
| Investigate forms of income                                                                                                      | Internal Audit Manager                                  | March 2015 and ongoing        |  |
| Appoint SPOC for DWP                                                                                                             | Internal Audit Manager                                  | 1 <sup>st</sup> November 2014 |  |
| Review Prosecution Policy                                                                                                        | Fraud Investigations Manager                            | November 2014                 |  |
| Carry out fraud risk assessment                                                                                                  | Fraud Investigations Manager                            | January 2015                  |  |
| Consider joint work with Internal Audit looking at Hippodrome Trust, Towner Trust and EHL to safeguard the Council's investment. | Fraud Investigations Manager and Internal Audit Manager | February 2015                 |  |

Note: Likely to include:

Council Tax Reduction

National Fraud Initiative

Other corporate fraud work (tenancy, payroll, purchasing etc)

Single Person Discount fraud

Housing Benefit pensioners fraud

Long term continuing benefit cases

Advice for section:-

Housing support

NNDR

Environmental Health – landlords

Customer contact centre – difficult customers

Council Tax – cases of concern

Recovery – finding addresses and monitoring payment plans

Point of contact for Brighton Housing Trust

Joint visits to vulnerable customers with East Sussex County Council

Electoral Services – helping to ensure new adults added to claims are on the Electoral Register.

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# Agenda Item 10

|                           |                                                                                                                                                      |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Body:</b>              | AUDIT AND GOVERNANCE COMMITTEE                                                                                                                       |
| <b>Date:</b>              | 24th SEPTEMBER 2014                                                                                                                                  |
| <b>Subject:</b>           | Internal Audit Report to 30 <sup>th</sup> June 2014                                                                                                  |
| <b>Report Of:</b>         | Internal Audit Manager                                                                                                                               |
| <b>Ward(s)</b>            | All                                                                                                                                                  |
| <b>Purpose</b>            | To provide a summary of the activities of Internal Audit for the first quarter of the financial year 2014/15.                                        |
| <b>Recommendation(s):</b> | That the information in this report be noted and members identify any further information requirement and timescales.                                |
| <b>Contact:</b>           | Jackie Humphrey, Internal Audit Manager, Telephone 01323 415925 or internally on extension 5925.<br>E-mail address jackie.humphrey@eastbourne.gov.uk |

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## 1.0 Introduction

- 1.1 The work of Internal Audit is reported on a quarterly basis to demonstrate work carried out compared to the annual plan and to report on the findings of audit reports issued since the previous meeting of the committee.
- 1.2 The annual audit plan for 2014/15 was agreed by the Audit and Governance Committee in March 2014.

## 2.0 Review of work in the first quarter of the financial year 2014/15.

- 2.1 A list of all the audit reports issued in final from 1<sup>st</sup> April to 30<sup>th</sup> June 2014 is as follows:

|                                          |                        |
|------------------------------------------|------------------------|
| Benefits (Annual 2013/14)                | Performing Well        |
| Cash and Bank (Annual 2013/14)           | Performing Excellently |
| Council Tax (Annual 2013/14)             | Performing Excellently |
| Creditors (Annual 2013/14)               | Performing Excellently |
| Debtors (Annual 2013/14)                 | Performing Excellently |
| Main Accounting (Annual 2013/14)         | Performing Well        |
| NNDR (Annual 2013/14)                    | Performing Excellently |
| Payroll (Annual 2013/14)                 | Performing Excellently |
| Treasury Management (Annual 2013/14)     | Performing Well        |
| IT (Annual 2013/14)                      | Performing Excellently |
| Theatres Reconciliation (Annual 2013/14) | Performing Well        |
| Events                                   | Performing Adequately  |

|                            |                       |
|----------------------------|-----------------------|
| GIS LLPG                   | Performing Adequately |
| Daily Cash Reconciliations | Performing Well       |
| Risk Management            | Performing Well       |

### Levels of Assurance - Key

|                         |                                                                                                                                 |
|-------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Performing inadequately | Major weaknesses. Insufficient controls in place or controls not being applied. Fundamental improvements required. – High risk. |
| Performing adequately   | Some important weaknesses. Key controls need to be improved. – Medium to high risk.                                             |
| Performing well         | Important strengths but some areas for improvement. – Medium to low risk.                                                       |
| Performing excellently  | Major strengths. Minor or no recommendations. A good example of internal control. – Low risk.                                   |

2.2 Appendix A shows the work carried out against the annual plan to the end of June 2014. The following comments explain the main points to be noted from the table:

- Annual audits for BDO – The number of days taken to carry out the work currently refers to work which relates to the last financial year but which was carried out in this year.

2.3 Appendix B is the list of all reports issued in final during the year which were given an assurance level below “Performing Excellently”, with any issues highlighted in the reviews which informed the assurance level given. NB. These are the assurance levels that were given at the time the final report was issued and do not reflect recommendations that have been addressed. Appendix C gives the updated position.

2.4 Appendix C shows the outstanding high and medium priority recommendations from audits and the reasons why they have not been implemented along with the month when the next follow up is due.

2.5 Where the column “priority” in Appendix C shows “High” the outstanding recommendations, and client comments from the report, have been listed at Appendix D. Appendix D is designated as “Confidential” to reduce the risk of opportunities to commit fraud. It should be noted that the recommendations listed were outstanding at the time of the last follow up review. If they have been addressed since this time this will not be noted or reported until the next follow up review is carried out.

### 3.0 Frauds over £10k

3.1 It is a requirement that frauds over £10k are reported to our external auditors. Usually such frauds are only found by the Benefit Fraud section however a request is now also sent quarterly to Eastbourne Homes Ltd to ask them to confirm whether they have been aware of any frauds over £10k within that quarter.

3.2 The Benefit Fraud section now report these frauds to Internal Audit on a quarterly basis and these are passed on to the external auditors.

3.3 No frauds over £10k were reported in the first quarter of 2014/15.

#### **4.0 Resources**

4.1 The IT Auditor handed in her notice and left the Council on 5<sup>th</sup> September. A recruitment process has been undertaken to replace this member of staff. It is known that there is a dearth of IT Auditors in the marketplace and therefore it was decided to advertise the post as an Internal Auditor role but with IT skills/audit as desirable.

4.2 Interviews took place on 18<sup>th</sup> August and a preferred candidate has been contacted. At the time of writing this report the post had been verbally accepted and references were being taken up.

4.3 Whilst it has been endeavoured to replace the post as soon as possible the new postholder is not experienced in audit/IT audit and time will have to be spent in training them. However it is felt that the person will pick up the work quickly. Inevitably the time between the current officer leaving and the new one beginning plus the training to be undertaken will impact on the completion of the audit plan/IT audits. The impact of this will be reported to the committee at the next meeting.

#### **5.0 Auditing Protocol for Shared Services/Joint Contracts**

5.1 With the continuing move toward taking advantage of cost savings local authorities are entering into, or considering, more shared service arrangements or joint contracts. An example of each at Eastbourne is Building Control and the Waste contract.

5.2 With the prospect of more of these being set up in future the subject of auditing these was raised at the Sussex Audit Group. Although it is currently accepted that any audit review will be carried out by the lead authority there is no process or agreement in place around discussing the scope of the review or sharing the findings.

5.3 It was therefore proposed to the group that a protocol be drawn up for auditing shared services/joint contracts so that there was a set process to be followed which would give assurance to Members, managers and audit teams themselves, that such reviews would be carried out with the full knowledge of all involved.

5.4 This idea was agreed by the Sussex Audit Group and a draft protocol was taken back to the group. This was supported by the group. A few authorities, including Rother, Wealden and Lewes, have agreed to adopt the protocol. The remainder of the authorities represented on the group reported that they did not yet have any shared services/joint contracts and therefore will not formally adopt these until such time as they have.

5.5 A copy of the protocol is appended and the Committee is asked to consider this and, if acceptable, to adopt this for Eastbourne.

#### **6.0 Consultation**

6.1 Respective Service Managers and Heads of Service as appropriate.

## **7.0 Resource Implications**

7.1 Financial – Delivered within the approved budget for Internal Audit

7.2 Staffing – None directly as a result of this report.

## **8.0 Other Implications**

8.1 None

## **9.0 Summary of Options**

9.1 None

## **10.0 Recommendation**

10.1 That the information in this report be noted and members identify any further information requirement and timescales.

**Jackie Humphrey**  
**Internal Audit Manager**

### **Background Papers:**

The Background Papers used in compiling this report were as follows:

*None*

|                               |                         |            | Planned<br>days | Actual<br>days | Reason for Variance           |
|-------------------------------|-------------------------|------------|-----------------|----------------|-------------------------------|
| <b>CORE<br/>ANNUAL AUDITS</b> | Benefits                | Governance | 15              | 7.2            | Work relating to 13/14 review |
|                               | Cash and Bank           | Governance | 10              | 0.4            | Work relating to 13/14 review |
|                               | Council Tax             | Governance | 10              | 2              | Work relating to 13/14 review |
|                               | Creditors               | Governance | 15              | 0.2            | Work relating to 13/14 review |
|                               | Debtors                 | Governance | 15              | 0.1            | Work relating to 13/14 review |
|                               | Housing Rents           | Governance | 15              | 4.5            | Work relating to 13/14 review |
|                               | Main Accounting         | Governance | 10              | 5.2            | Work relating to 13/14 review |
|                               | NNDR                    | Governance | 10              | 1              | Work relating to 13/14 review |
|                               | Payroll                 | Governance | 10              | 3.8            | Work relating to 13/14 review |
|                               | Treasury Management     | Governance | 10              | 0.8            | Work relating to 13/14 review |
|                               | IT                      | Governance | 4               | 0.2            | Work relating to 13/14 review |
|                               | Theatres Reconciliation | Governance | 5               | 1.9            | Work relating to 13/14 review |
|                               | Claims work             |            | 80              | 38.4           |                               |

|                                                   |  |    |      |  |
|---------------------------------------------------|--|----|------|--|
| Contingency                                       |  | 25 |      |  |
| NFI                                               |  | 20 | 0.1  |  |
| Special Investigations/advice                     |  | 30 | 5.3  |  |
| Follow ups re audits carried out in previous year |  | 30 | 12.8 |  |
| Consultancy                                       |  | 25 |      |  |

|                 |                            |             |    |     |           |
|-----------------|----------------------------|-------------|----|-----|-----------|
| <b>REQUESTS</b> | Shared Sports Facilities   | Review      | 10 | 0.2 |           |
|                 | Rent Support Loans         | Review      | 10 |     |           |
|                 | Corporate Fraud            | Consultancy | 10 | 3.7 |           |
|                 | Daily Cash Reconciliations | Review      | 5  | 3.1 | COMPLETED |
|                 | Waste                      | Review      | 15 |     |           |
|                 | Petty Cash                 | Review      | 10 |     |           |

Please turn over

|                            |                                      |                    | Planned<br>days | Actual<br>days | Reason for Variance |
|----------------------------|--------------------------------------|--------------------|-----------------|----------------|---------------------|
| <b>MEDIUM RISK REVIEWS</b> | Government Connect                   | IT                 | 10              | 10.6           |                     |
|                            | Software Compliance                  | IT                 | 5               |                |                     |
|                            | Internet Controls                    | IT                 | 10              |                |                     |
|                            | Change Controls                      | IT                 | 5               |                |                     |
|                            | Conference and Group Travel          | Review             | 10              |                |                     |
|                            | Tourist Information Centre           | Review             | 10              | 1.8            |                     |
|                            | Printing                             | Review/Consultancy | 20              | 2.4            |                     |
|                            | Members                              | Review             | 15              | 3.5            |                     |
|                            | CHRIS                                | IT                 | 5               |                |                     |
|                            | Elections Computer System            | IT                 | 5               | 1.2            |                     |
|                            | Homelessness/Temporary Accommodation | Review             | 10              |                |                     |
|                            | BACAS Cemeteries Systems             | IT                 | 5               | 0.3            |                     |
|                            | Customer Contact                     | Review             | 10              | 0.3            |                     |
|                            | Pest control/Public Health Burial    | Review             | 10              | 3.8            |                     |
|                            | Open Spaces                          | Review             | 15              |                |                     |
|                            | Licences                             | Review             | 10              |                |                     |
|                            | Car Parking                          | Review             | 10              | 2.7            |                     |
|                            | Planning System                      | IT                 | 10              |                |                     |
| Risk Management            | Review                               | 10                 | 11.1            | COMPLETED      |                     |

|                    |                       |                             |    |     |  |
|--------------------|-----------------------|-----------------------------|----|-----|--|
| <b>CONTINGENCY</b> | Leasing and Licensing | Brought forward             | 15 |     |  |
|                    | Backup and Storage    | Brought forward             | 5  |     |  |
|                    | Right to Buy          | Requested after plan agreed | 10 | 0.1 |  |

**APPENDIX B****Reasons for original assurance levels given (below Excellent)**

| <b>AUDIT REVIEW</b>     | <b>ASSURANCE LEVEL</b> | <b>ISSUES NOTED</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-------------------------|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Benefits                | Well                   | <ul style="list-style-type: none"> <li>• Performance monitoring could be improved – resource issue</li> <li>• Instances of incorrect percentage of Council Tax liability being entered.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                 |
| Main Accounting         | Well                   | <ul style="list-style-type: none"> <li>• Some reconciliations not being carried out on a monthly basis.</li> <li>• Some reconciliations are not dated nor noted with the name of the person carrying out the reconciliation.</li> </ul>                                                                                                                                                                                                                                                                                                                            |
| Treasury Management     | Well                   | <ul style="list-style-type: none"> <li>• Allowances could not be found for one investment.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Theatres Reconciliation | Well                   | <ul style="list-style-type: none"> <li>• “Tops and tails” (show details) are not signed and dated to demonstrate a check being carried out.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                             |
| Events                  | Adequate               | <ul style="list-style-type: none"> <li>• One instance was found of the contract procedure rules not being followed.</li> <li>• Purchase orders are not being raised at the time the order is placed.</li> <li>• GRNs are not being completed as soon as goods and services are received.</li> <li>• No reconciliation is carried out of car parking tickets to income taken.</li> <li>• No reconciliation is carried out of beer festival tokens to income taken.</li> <li>• Copies of receipts for cash taken from traders at events are not retained.</li> </ul> |
| GIS & LLPG              | Adequate               | <ul style="list-style-type: none"> <li>• Addresses not standardised which could affect implementation of Phase 2 software.</li> <li>• Back-ups are not regularly tested.</li> <li>• There is only one member of staff trained as a system administrator.</li> </ul>                                                                                                                                                                                                                                                                                                |

N.B. The issues noted here may have been addressed since the original report was issued.

**APPENDIX B****Reasons for original assurance levels given (below Excellent)**

|                                      |      |                                                                                                                                                                                                                                                                                   |
|--------------------------------------|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Risk Management                      | Well | <ul style="list-style-type: none"><li>• Departmental and operation risk registers are not being regularly reviewed.</li><li>• Risks relating to large contracts are not recorded on risk registers.</li><li>• No explanation is given where residual risks remain high.</li></ul> |
| Daily Cash Reconciliations at Venues | Well | <ul style="list-style-type: none"><li>• Recommendations from the previous review have been addressed. However as there were no variances which required investigations it was not possible to ensure that these were carried out and recorded correctly.</li></ul>                |

N.B. The issues noted here may have been addressed since the original report was issued.

## APPENDIX C

MONITORING OF RECOMMENDATIONS AS AT END JUNE 2014

| AUDIT                        | NUMBER OF RECS |        | FOLLOW UP DUE | OUTSTANDING RECS |        | CURRENT POSITION | NOTES RE FOLLOW UP/RECS OUTSTANDING                                                                        | PRIORITY |
|------------------------------|----------------|--------|---------------|------------------|--------|------------------|------------------------------------------------------------------------------------------------------------|----------|
|                              | HIGH           | MEDIUM |               | HIGH             | MEDIUM |                  |                                                                                                            |          |
| Food Safety and Hygiene      | 1              | 3      |               | 0                | 0      |                  | ALL ADDRESSED                                                                                              |          |
| ICON                         | 1              | 5      |               | 0                | 0      |                  | ALL ADDRESSED                                                                                              |          |
| Kiosk                        | 0              | 2      |               | 0                | 0      |                  | ALL ADDRESSED                                                                                              |          |
| Project Management Controls  | 6              | 3      |               | 6                | 3      |                  | O/s recs due to be addressed during the Phase 2 process therefore a new review will be scheduled for 15/16 | Medium   |
| Leaseholders Recharges       | 0              | 3      | May-14        | -                | -      | Outstanding      |                                                                                                            |          |
| IT Policies and Procedures   | 0              | 4      | Jul-14        | 0                | 1      | Not Yet Due      | Work ongoing on outstanding recommendation                                                                 | Medium   |
| Catering                     | 11             | 6      | Jul-14        | 5                | 1      | Not Yet Due      | Work is progressing                                                                                        | High     |
| Corporate Equality           | 0              | 1      | Jul-14        | 0                | 1      | Not Yet Due      | Work is progressing                                                                                        | Medium   |
| Corporate Complaints         | 0              | 5      | Jul-14        | -                | -      | Not Yet Due      |                                                                                                            |          |
| HR Management                | 0              | 4      | Jul-14        | 0                | 3      | Not Yet Due      | Two recs relate to IT                                                                                      | Medium   |
| Community Enforcement        | 1              | 3      | Jul-14        | -                | -      | Not Yet Due      |                                                                                                            |          |
| Penancy Management           | 8              | 5      | Jul-14        | -                | -      | Not Yet Due      |                                                                                                            |          |
| Business Continuity Planning | 0              | 4      | Aug-14        | 0                | 4      | Not Yet Due      | Dependent on IESE/Lewes outcome                                                                            | Medium   |
| QIS & LLPG                   | 1              | 2      | Aug-14        | -                | -      | Not Yet Due      |                                                                                                            |          |
| Records Management           | 6              | 0      | Oct-14        | 6                | 0      | Not Yet Due      | Consultant engaged to review records management to follow up again when consultants recs implemented       | High     |
| Events                       | 6              | 3      | Oct-14        | -                | -      | Not Yet Due      |                                                                                                            |          |

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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## **SUSSEX AUDIT GROUP**

### **AUDITING PROTOCOL FOR SHARED SERVICES/JOINT CONTRACTS**

With a move toward taking advantage of cost savings to Councils, by entering into shared service arrangements or joint contracts, the Sussex Audit Group has considered it timely to agree a protocol for auditing such arrangements.

With an agreed protocol written and formally adopted by authorities, the Internal Audit departments can give assurance to Members and senior management that audit reviews will be carried out and reported and that there will be no confusion over which authority will be responsible for carrying out a review.

This protocol will form a basic framework to which the participating audit teams can align their work. The basic premiss is to use this as guidance when considering the audit work required.

The points are listed first and then given more detail after.

The following are the authorities that have adopted the use of this protocol:

| <b>AUTHORITY</b> | <b>COMMITTEE</b> | <b>DATE</b> |
|------------------|------------------|-------------|
|                  |                  |             |
|                  |                  |             |
|                  |                  |             |
|                  |                  |             |
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|                  |                  |             |
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|                  |                  |             |

## AUDITING PROTOCOL FOR SHARED SERVICES/JOINT CONTRACTS

### **THE PROTOCOL**

1. The lead authority will undertake to review the service provision and the letting of the contract.
2. The lead authority will inform the other participating authorities when they plan to carry out a review.
3. The lead authority will inform the other participating authorities of the proposed scope and will consider any requests/suggestions re the scope from these authorities.
4. The lead authority will share the audit report (and working papers if requested) with the other participating authorities.
5. The lead authority can request, and participating authorities reasonably consider, assistance of resources (staff) in carrying out the review if required.
6. Participating authorities will audit their own specific areas of work.
7. Participating authorities will share reports of their own work if recommendations affect, or refer to, the main provision of service.

### **DETAILS**

1. The lead authority will undertake to review the service provision and the letting of the contract.

As the lead authority in the shared service or the letting of a contract, this authority should be the one to undertake a regular audit review. This should be the default position. However this does not preclude consultation between the participating authorities to undertake this on a rota basis if preferred and agreed by all.

2. The lead authority will inform the other participating authorities when they plan to carry out a review.

This should include the frequency with which the audit will be undertaken and also the year and time within the year. This will allow authorities to plan their work and reduce duplication of work. The committees of participating authorities can also be informed of planned work by the lead authority.

## AUDITING PROTOCOL FOR SHARED SERVICES/JOINT CONTRACTS

3. The lead authority will inform the other participating authorities of the proposed scope and will consider any requests/suggestions re the scope from these authorities.

In order to ensure that any concerns of participating authorities are considered as part of the scope of the proposed review, the lead authority will share the proposed scope in a timely manner. All reasonable requests must be considered and any reasons for non-inclusion fed back to the authority making the request. If the area of work requested is not included in the review to be carried out the participating authority will be at liberty to carry out that piece of work independently.

4. The lead authority will share the audit report (and working papers if requested) with the other participating authorities.

Sharing documents will allow participating authorities to decide whether they are happy to place reliance on the work and to report this on to their committee. The report can also be shared with relevant managers within the participating authorities.

5. The lead authority can request, and participating authorities reasonably consider, assistance of resources (staff) in carrying out the review if required.

In order that the full resource implications do not fall entirely on certain authorities, each participating authority should reasonably consider a request for assistance of staff from the lead authority.

If planned reviews are communicated early then it would be possible for participating authorities to set aside time to give assistance within their own annual plan.

6. Participating authorities will audit their own specific areas of work.

Where certain areas of work in the shared service/joint contract are still handled by a participating authority, that authority will be responsible for auditing that area of work.

## AUDITING PROTOCOL FOR SHARED SERVICES/JOINT CONTRACTS

7. Participating authorities will share reports of their own work if recommendations affect, or refer to, the main provision of service.

When participating authorities audit their own area of work issues may be raised which are as a result of, or have an impact on, the wider service. Where this is the case the report (or relevant part thereof) must be shared with the lead authority and any other participating authorities.

### **DATA SHARING**

Where personal data may be shared across authorities as a result of work carried out using this protocol, all parties must ensure that there are adequate and suitable agreements in place for data sharing.

# EASTBOURNE BOROUGH COUNCIL

FINAL REPORT TO THE AUDIT AND GOVERNANCE COMMITTEE

Audit for the year ended 31 March 2014

15 September 2014



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# OVERVIEW

## Significant audit findings

This summary covers the significant findings from our audit of Eastbourne Borough Council ('Council') for the year ended 31 March 2014. However, you should read the entirety of this report, as there may be other matters raised that you consider important.

| AREA OF AUDIT                      | SUMMARY                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial statements               | <p>Subject to satisfactory completion of the outstanding work shown on the following page, we anticipate issuing an unqualified true and fair opinion on the financial statements for the year ended 31 March 2014.</p> <p>Our final audit materiality is £2 million (see appendix III) and we have reported all non-trivial unadjusted audit differences greater than £40,000.</p> <p>Five material misstatements were identified as a result of our audit, which have been corrected in the revised financial statements and have reduced the deficit for the year by £23.241 million. However, as these corrections all relate to capital items which are subsequently reversed through reserves, there is no impact on the closing general fund balance:</p> <ul style="list-style-type: none"><li>• classification of revaluation movements on council dwellings and other land and buildings</li><li>• classification of write off of replaced council dwellings components and recognition of a prior period adjustment</li><li>• classification of write off of overstated investment property and recognition of a prior period adjustment</li><li>• correction to depreciated replacement cost valuations in prior years property and recognition of a prior period adjustment</li><li>• classification of write off of sea defences.</li></ul> <p>There are four unadjusted audit differences identified by our audit work which would decrease the revised deficit on the provision of services by £748,000 to £1.701 million (from £2.449 million). We identified one further unadjusted audit difference which relates to the Group accounts only. When combined with the unadjusted audit differences on the Council accounts, these would increase the revised surplus on the provision of services in the Group accounts by £706,000 to £5.860 million (from £5.154 million).</p> |
| Control environment                | <p>We did not identify any significant deficiencies in controls. A few areas for improvement were identified which we have discussed with management and recorded in Appendix IV.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Governance reporting               | <p>We are satisfied that the annual governance statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Whole of Government Accounts (WGA) | <p>The Council's WGA is below the threshold for full assurance review. Our review of the Council's WGA Data Collection Tool (DCT) is in progress.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Use of resources                   | <p>We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

We would like to thank staff for their co-operation and assistance during the audit and throughout the period.

# OVERVIEW

## Audit status and timetable to completion

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

### AUDIT STATUS

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

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

- Receipt of final statement of accounts for agreed amendments
- Subsequent events review
- Management representation letter, as attached in Appendix VI, to be approved and signed.

### TIMETABLE TO COMPLETE

The anticipated timetable to complete is as follows:

| ACTIVITY                                       | DATE                 |
|------------------------------------------------|----------------------|
| Complete review of final statement of accounts | by 23 September 2014 |
| Audit and Governance Committee meeting         | 24 September 2014    |
| Signing of financial statements                | 24 September 2014    |
| Submission of WGA assurance report             | 3 October 2014       |

# INDEPENDENCE

## Integrity, objectivity and independence and appropriate safeguards

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

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

| FEES AND NON AUDIT SERVICES                                                                                   |                | OTHER RELATIONSHIPS                                                                                                            | LONG ASSOCIATION THREATS                                                                                                                                        |                       |
|---------------------------------------------------------------------------------------------------------------|----------------|--------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|
| A summary of fees for audit and non-audit services for the period from 1 April 2013 to date is set out below: |                | We are not aware of any financial, business, employment or personal relationships between the audit team, BDO and the Council. | The Audit Commission's Standing Guidance requires that the audit engagement partner should not act for more than five years and the audit manager for 10 years. |                       |
|                                                                                                               | £              |                                                                                                                                | <b>Key audit staff</b>                                                                                                                                          | <b>Years involved</b> |
| Audit fees                                                                                                    | 88,920         |                                                                                                                                | <hr/>                                                                                                                                                           |                       |
| Certification fees (estimate)                                                                                 | 12,592         |                                                                                                                                | Leigh Lloyd-Thomas - Audit engagement partner                                                                                                                   | 2                     |
| Non-audit service fees                                                                                        |                |                                                                                                                                | <hr/>                                                                                                                                                           |                       |
| - Certification of 2012/13 grant statement for decent homes backlog programme                                 | (1) 2,000      |                                                                                                                                | Janine Combrinck - Audit Manager                                                                                                                                | 1                     |
| - Tax subscription                                                                                            | (2) 2,500      |                                                                                                                                | <hr/>                                                                                                                                                           |                       |
| <b>TOTAL FEES</b>                                                                                             | <b>106,012</b> |                                                                                                                                |                                                                                                                                                                 |                       |

(1) This review is no longer covered by the Audit Commission certification regime and we were asked by the Council to undertake a review of the return.

(2) The Council subscribes to a Tax helpline operated by BDO for payroll and construction industry taxes.

### INDEPENDENCE DECLARATION AND APPROPRIATE SAFEGUARDS

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

# AUDIT SCOPE AND OBJECTIVES

## SCOPE AND OBJECTIVES

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

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

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

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

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

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

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

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

# FINANCIAL STATEMENTS

## Key audit and accounting matters

### SIGNIFICANT AND OTHER RISKS OF MATERIAL MISSTATEMENT

We reported our risk assessment, which brought to your attention areas that require additional or special audit consideration and are considered a significant audit risk, in the 2013/14 Audit Plan issued in March 2014. We have since undertaken a more detailed assessment of risk following our review of the draft financial statements, and we have not included any additional significant risks. We report below our findings of the work designed to address these significant risks, our review of significant accounting estimates and management judgements, and any other relevant audit and accounting issues arising.

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

### SIGNIFICANT AUDIT RISK AREAS

| RISK                                   | RELATED CONTROLS / RESPONSE TO RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | WORK PERFORMED                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | CONCLUSION                                                                                                                                                                                                                                                |
|----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>MANAGEMENT OVERRIDE OF CONTROLS</b> | <p>ISA (UK&amp;I) 240 requires us to presume that a risk of management override of controls is present and significant in all entities.</p> <p>By its nature, there are no controls in place to mitigate the risk of management override.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <p>We reviewed the appropriateness of journal entries and other adjustments made in the preparation of the financial statements. We also reviewed accounting estimates for evidence of possible bias.</p>                                                                                                                                                                                                                                                                                                                          | <p>No issues have been identified in our review of the appropriateness of journal entries and other adjustments made in the preparation of the financial statements.</p> <p>Our work on accounting estimates has not identified any evidence of bias.</p> |
| <b>REVENUE RECOGNITION</b>             | <p>The largest component of Council income is annual grant funding which is agreed to notification from Government. Council tax and non-domestic rates income are based on precepts and demands on the collection fund. Remaining significant revenue streams are paid for at the point of service provision, such as license or planning applications, and are recognised at that point. Grants and contributions received are reviewed for conditions by finance staff and only recognised as revenue where there are no remaining conditions. Subsidy income for benefits is calculated based on DWP subsidy calculations and reconciled to underlying benefits paid.</p> <p>Throughout the year budget monitoring meetings are held between finance accountants and the budget holder to discuss the current results of actuals against budget and highlight any areas that look unusual.</p> | <p>We substantively tested an extended sample of income streams to supporting documentation to confirm that income had been accurately recorded and earned in the year.</p> <p>We also tested a sample of receipts either side of the year end to ensure that income was complete and accounted for in the correct period.</p> <p>We also relied on controls in place over invoiced income, by reviewing the work of internal audit and carrying out top-up testing of controls to ensure full coverage of the financial year.</p> | <p>No issues have been identified from our testing of income streams and year end cut off with regard to the recognition of revenue in the relevant financial year.</p>                                                                                   |

# FINANCIAL STATEMENTS

## Key audit and accounting matters (continued)

| SIGNIFICANT AUDIT RISK AREAS                          |                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RISK                                                  | RELATED CONTROLS / RESPONSE TO RISK                                                                                                                                                                                                                                                                                     | WORK PERFORMED                                                                                                                                                                                                                | CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>PROPERTY, PLANT AND EQUIPMENT (PPE) VALUATIONS</b> | <p>The 2013/14 Code amends the requirement for the revaluation of PPE, for these to be carried out with sufficient regularity to ensure the carrying amount does not differ materially from the fair value at the end of the reporting period and for all items in a class of assets to be revalued simultaneously.</p> | <p>We have reviewed management's use of indices for the movement in the market value of council dwellings and selective valuations of other land and buildings, and agreed the adjustments to the carrying values of PPE.</p> | <p>The Council has applied the indices notified by its valuers for the movement in the market price of houses since the last formal valuation of council dwellings in April 2011, and these indices are in line with regional movements. The Council has also adjusted the carrying value of other land and building to reflect the results of the formal valuations obtained for selected properties where there was significant capital expenditure.</p>                                                                                                                                                           |
|                                                       | <p>The Council revalues all its council dwellings and other land and buildings every five years, and obtains a year end desktop review of price movements from its valuer in the intervening years.</p>                                                                                                                 | <p>We have reviewed the accounting adjustments processed for all revaluation movements.</p>                                                                                                                                   | <p>The following issues were identified from our audit of revaluations:</p> <p><b>Accounting for revaluation adjustments</b></p> <p>The revaluations recognised in the draft financial statements were not correctly classified between the revaluation reserve and the Comprehensive Income and Expenditure Statement (CIES). The financial statements have now been amended to transfer £12.095 million of impairment reversals from the revaluations reserve to net cost of services expenditure, with a corresponding transfer to the capital adjustment account through the Movement in reserves Statement.</p> |
|                                                       | <p>In 2013/14, as a result of our audit recommendations in the prior year, the Council has applied indexation to council dwellings to recognise the increase in market prices at year end.</p>                                                                                                                          | <p>We have reviewed the adjustments processed for capital expenditure in recent years.</p>                                                                                                                                    | <p><b>Write off of capitalised expenditure on council dwellings</b></p> <p>The Council had written off all capital expenditure incurred on council dwellings in the last three years as an impairment charge of £18.183 million in the draft financial statements on the grounds that management considered that it did not add any enhanced value to the properties.</p>                                                                                                                                                                                                                                            |
|                                                       | <p>The Council also obtained a desktop valuation for five other land and buildings in 2013/14, where there had been significant capital expenditure, to ensure that the year-end carrying amounts are not materially different from their fair value.</p>                                                               |                                                                                                                                                                                                                               | <p>The Council has not derecognised any of the items replaced in the refurbishment work as these are not separately identifiable. Under IAS 16 <i>Property, plant and equipment</i>, the Council should have estimated the carrying value of the replaced items and removed them from property, plant and equipment balances, recognising a loss on derecognition, rather than impairing the assets.</p>                                                                                                                                                                                                             |
|                                                       | <p>(Continued)</p>                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

# FINANCIAL STATEMENTS

## Key audit and accounting matters (continued)

| SIGNIFICANT AUDIT RISK AREAS                          |                                     |                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-------------------------------------------------------|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RISK                                                  | RELATED CONTROLS / RESPONSE TO RISK | WORK PERFORMED                                                                                                                                             | CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>PROPERTY, PLANT AND EQUIPMENT (PPE) VALUATIONS</b> |                                     | <p>We have reviewed how accumulated depreciation on revalued assets has been cleared to re-set the valuation.</p>                                          | <p>The Council has reclassified the entries in the property, plant and equipment note in the revised financial statements to recognise a loss on derecognition of non-current assets of £7.037 million in the CIES (within operating expenditure rather than an impairment within the cost of services). The remaining £11.146 million has been similarly reclassified by way of a prior period adjustment. This has also involved amendments to the Movement in Reserves Statement, capital adjustment account, HRA and corresponding notes.</p> <p><b>Classification of revaluation adjustments</b></p> <p>The Council had disclosed all current year revaluation movements as movements in gross cost/valuation within the PPE note. Amendments have now been made in the revised financial statements to split out the revaluation movements between cost/valuation and accumulated depreciation.</p> |
|                                                       |                                     | <p>To understand the reason for some of valuation movements, we reviewed the basis of valuations provided by the valuer in the prior and current year.</p> | <p><b>Prior year depreciated replacement cost (DRC) valuations</b></p> <p>During the audit it was noted that prior year DRC valuations by the valuer incorrectly included finance charges. Revised valuations were requested from the valuer and these indicated that that other land and building were overstated by £2.783 million in the 1 April 2011 valuation. This issue has been corrected in the revised financial statements by way of a prior year adjustment to reduce the opening balances on PPE by £2.783 million, revaluation reserve by £1.747 million and capital adjustment account by £1.036 million.</p> <p><b>Impairment of duplicated asset</b></p> <p>PPE was impaired by £596,000 in the draft financial statements as a result of a building that the Council found was double counted in previous years.</p>                                                                    |

(Continued)

# FINANCIAL STATEMENTS

## Key audit and accounting matters (continued)

| SIGNIFICANT AUDIT RISK AREAS                   |                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RISK                                           | RELATED CONTROLS / RESPONSE TO RISK                                                                                                                                                                                                                                                                                                                                                                                | WORK PERFORMED                                                                                                                                                                                                                                                                                                    | CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| PROPERTY, PLANT AND EQUIPMENT (PPE) VALUATIONS |                                                                                                                                                                                                                                                                                                                                                                                                                    | We reviewed the calculation of the indexation gain on assets.                                                                                                                                                                                                                                                     | Had the impairment been recognised at the time that the misstatement arose in previous years, the Council's deficit per the revised financial statements would have been £596,000 lower. This issue is noted in Appendix II.<br><br><b>Indexation calculation</b><br>A minor difference of £61,000 has occurred due to roundings in the calculations, meaning that council dwellings and reversal of impairments to the CIES are understated by £61,000. This is noted as an unadjusted audit difference in appendix II. |
| NON DOMESTIC RATE (NDR) APPEALS PROVISION      | For 2013/14, billing authorities were required to estimate the value of successful NDR rate appeals, including backdated appeals, and to include this in the Collection Fund account. There is significant uncertainty over the estimation of the provision due to incomplete data and likely success rate of appeals. Management has calculated the estimate based on historical appeals up to 30 September 2013. | We have reviewed the reasonableness of the assumptions used by management by agreeing to reports received from the Valuation Office Agency and comparing to information available for recent rate appeals.                                                                                                        | We have verified the source data used within the calculation back to the reports received from the Valuation Office. We have also calculated the success rate of the 27 appeals resolved after year-end, excluding outliers. This has indicated that the year-end provision is reasonable and unlikely to be materially misstated.                                                                                                                                                                                       |
| SEA DEFENCES                                   | There is some uncertainty over the legal ownership of sea defences where previous capital expenditure has been recorded as property, plant and equipment assets by the Council, and the extent of damage caused by the recent storms. The Council reviewed the basis for recognising these as assets and any impairment to valuations.                                                                             | We reviewed the assessment undertaken by the Council including the legal and constructive ownerships, the basis of valuation and the need to recognise any impairment in respect of the coastal sea defences infrastructure. We assessed whether an impairment or derecognition on disposal should be recognised. | The Council has written off the sea defences carrying value of £4.649 million on the grounds that it no longer exists. However, the write off was classified as an impairment in the draft financial statements rather than a loss on derecognition. This has been amended in the revised financial statements.                                                                                                                                                                                                          |

# FINANCIAL STATEMENTS

## Key audit and accounting matters (continued)

| SIGNIFICANT AUDIT RISK AREAS |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RISK                         | RELATED CONTROLS / RESPONSE TO RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | WORK PERFORMED                                                                                                                                                                                | CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| JOINT WASTE SERVICE CONTRACT | Four councils have entered into a joint waste contract where Rother District Council is the lead authority for the joint committee. The lead authority undertook an assessment of whether the contract contains a lease arrangement and the appropriate accounting for refuse vehicle, and has concluded that each council should account only for their share of the revenue expenditure and income on the contract, and that the contract does not contain a lease of the plant and vehicles used by the contractor. | We have reviewed the East Sussex councils' consideration of the accounting requirements for the joint waste contract against IFRIC 4 (arrangements that contain a lease) and IAS 17 (leases). | We are satisfied with management's assessment that this arrangement does not meet the definition of a lease as per IFRIC 4 and IAS 17.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| LIFELINE INVESTMENT          | <p>The Council owns 70% of Welbeing Limited but retains only 49.9% of the voting rights. Management has stated that it does not have significant influence over the organisation and therefore it has not been included in the Council's group accounts.</p> <p>The Council also has 25% of the voting rights of CloudConnx. Management has also stated that it does not have significant influence over this organisation and therefore it has not been included in the Council's group accounts.</p>                 | We reviewed the key tests for control and significant influence under both IAS 27 <i>Separate financial statements</i> and IAS 28 <i>Investments in associates and joint ventures</i> .       | <p>Under IAS 28, the Council does have significant influence over both Welbeing Limited and CloudConnx and therefore these organisations should be accounted for as associates. However, the associates' financial statements are not material to the Council and therefore it is acceptable that they are not included in the Group Accounts. As a result of the audit the Council has now disclosed this reasoning in its revised financial statements.</p> <p>From 1 April 2014 IFRS 10 <i>Consolidated financial statements</i> will apply. This statement considers factors other than current voting rights when assessing whether entities should be consolidated. The Council's agreement with Welbeing Limited states that it has £952,000 of equity loan notes which may become convertible to shares in 7 years, thereby increasing their voting rights to 75%. The Council will need to consider whether it has the ability to control Welbeing Limited, and the need to consolidate as a subsidiary, under the requirements of IFRS 10.</p> |

# FINANCIAL STATEMENTS

## Key audit and accounting matters (continued)

| SIGNIFICANT ACCOUNTING ESTIMATES AND MANAGEMENT JUDGEMENTS |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RISK                                                       | WORK PERFORMED                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| VALUATION OF PROPERTY, PLANT AND EQUIPMENT                 | We have reviewed management's use of indices for the movement in the market value of council dwellings and selective valuations of other land and buildings obtained from the valuers.                                                                                                                                                                                                                                                                                                                                                                                                          | <p>We are satisfied that the valuer is sufficiently independent of the Council, objective and experienced in undertaking this work.</p> <p>The year-end review includes a report on the movement in the average market prices of housing in the area. These reports indicate an increase of 4.2% in the market value of houses. We are satisfied this is in line with regional movements.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| PENSION FUND LIABILITY                                     | <p>The Audit Commission has obtained an independent review of all local government pension scheme actuaries, which includes an assessment of their independence, objectivity and experience, and also the reasonableness of the assumptions used in the calculation of the scheme liabilities. We have reviewed this and checked that the assumptions used for the Council's scheme liabilities are within reasonable levels.</p> <p>We have also sought assurances from the auditor of the pension fund over the information on membership data and scheme assets provided to the actuary.</p> | <p>We are satisfied that the actuary is suitably independent, objective and experienced to undertake this work and that the assumptions used in the calculations are reasonable.</p> <p>We note that that weighted average duration of the defined benefit obligation for scheme members is less than 17 years. In this case the discount rate assumption is lower than expected, which will lead to a higher value than expected being placed on liabilities. However, the 'net discount rate' or the difference between the discount rate and the consumer price index inflation assumption used for pension increases is within an expected range. As it is this difference (rather than the assumptions in isolation) that drives the overall liability figures, we are satisfied that the assumptions when taken together will give a reasonable liability figure.</p> <p>There are adequate controls over the submission of data from the pension fund to the actuary.</p> |

# FINANCIAL STATEMENTS

## Key audit and accounting matters (continued)

| OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES |                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|--------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RISK                                       | WORK PERFORMED                                                                                                                                                                                                                                                      | CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| GROUP ACCOUNTS AND CONSOLIDATION           | We have checked the consolidation of Eastbourne Homes Limited (EHL) financial statements in the Group Accounts and we have reviewed the auditor's report on the financial statements.                                                                               | Our review of EHL's audited financial statements found that a dilapidations provision was being recognised over time rather than full recognition at the start. As a result the provision t 31 March 2014 is understated by £42,000. As the Council has consolidated EHL's financial statements, the Group Accounts are misstated by this amount and we have recorded an unadjusted misstatement in Appendix II.<br><br>All of the unadjusted misstatements noted by EHL's auditors are trivial to the Group Accounts.                                                 |
| EXPENDITURE CUT OFF                        | We performed substantive testing on post year-end cash receipts and payments to gain assurance over the completeness of debtor and creditor accruals.                                                                                                               | Testing of post year-end cash payments identified one amount of £7,000 that was not accrued for at 31 March 2014. When extrapolated this indicates a potential misstatement of £63,000. This has been recorded as an extrapolation misstatement in Appendix II, although we accept that the extrapolation is a very crude measure of total potential misstatements in the untested population.                                                                                                                                                                         |
| INVESTMENT PROPERTY                        | We reviewed the classification of the investment properties by inspecting a sample of lease agreements, and determined whether they continue to meet the definition of an investment property.                                                                      | Our audit found that investment properties include a building with a carrying value of £4.936 million that the Council does not have legal rights to. The asset was built by the lessee who is occupying the land on a 125 year lease. The building was erroneously included in the valuer's valuation of the property several years ago and was brought into the Council's accounts at that stage.<br><br>The Council has now removed this value from its PPE and capital adjustment account by way of a prior period adjustment in the revised financial statements. |
| CAPITAL RECEIPT                            | We reviewed the evidence supporting the initial capital receipt recorded in the Events after the Balance Sheet date note in the draft financial statements.                                                                                                         | The Council reported in its draft financial statements that it received an initial payment of £750,000 in 2014/15 in respect of its claim for costs relating to the building of Towner. As it was received before the draft financial statements were certified in June 2014, the income was certain and should have been accrued for at 31 March 2014. This has been recorded as an unadjusted audit difference in Appendix II.                                                                                                                                       |
| ACCUMULATED ABSENCES PROVISION             | In the prior year we reported an unadjusted error for the classification of the accumulated absences liability. We reviewed the classification in the current year to confirm that this liability is now correctly disclosed as a creditor rather than a provision. | In the draft financial statements the Council had continued to disclose the accumulated absences liability as a provision. Management has now transferred the balance of £63,000 to creditors in the revised financial statements.                                                                                                                                                                                                                                                                                                                                     |

# FINANCIAL STATEMENTS

## Key audit and accounting matters (continued)

| OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES |                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RISK                                       | WORK PERFORMED                                                                                                                                                      | CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| BANK RECONCILIATION                        | We audited the Council's bank reconciliation by agreeing to bank statements and cash book and vouching a sample of reconciling items.                               | The bank reconciliation includes an amount of £138,000 that has been deducted from the bank statement balance in reconciling to the general ledger balance. It relates to cash that has been banked but is not yet recorded in the cashbook or used to reduce the debtor balance. This means that the bank balance in the general ledger is understated and debtors are overstated. This has been recorded as an unadjusted audit difference in Appendix II.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| ACCOUNTS DISCLOSURES                       | We review material accounting disclosures, to confirm that they are correctly stated and in compliance with the requirements of the Code.<br><br><i>(Continued)</i> | The following presentational and disclosure amendments have been made to the draft financial statements: <ul style="list-style-type: none"> <li>- Amendments to the disclosures on the SERCO and Steria credit arrangements to include all the required disclosures on the timing of future payments</li> <li>- Adjustment to split out rental income and investment properties from the trading operations line in the CIES</li> <li>- Amendments to the grants and contributions receivable note to reflect the correct classification of the Council's demand on the collection fund below the cost of services line</li> <li>- Amendments to the Amounts reported for resource allocation decisions note as the directorate income and expenditure note did not reconcile to the subjective analysis in the draft financial statements</li> <li>- Inclusion in the PPE note of fully depreciated assets that are still in use by the Council.</li> <li>- Adjustment to capital commitments disclosure for parks and gardens, to revise the amount from £285,000 to £101,000 as three contracts previously recognised were not signed prior to 31 March 2014</li> <li>- Amendments to the financial instruments disclosures to remove trading operations from interest and investment receivable and payable, include Welbeing Limited investment within loans and receivables, adjust the fair value of trade accounts receivable, include rental debtors in the trade account receivables balance, and include the transformation fund creditor in the short term loans balance</li> </ul> |

# FINANCIAL STATEMENTS

## Key audit and accounting matters (continued)

| OTHER RELEVANT AUDIT AND ACCOUNTING ISSUES |                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|--------------------------------------------|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| RISK                                       | WORK PERFORMED | CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| ACCOUNTS DISCLOSURES                       |                | <ul style="list-style-type: none"><li>- Amendments to the financial instruments disclosure for credit risks to adjust the aged debt analysis and potential maximum exposure table to remove debtors which are not financial instruments (council tax, business rates and housing benefits), and include long term investments and long term debtors</li><li>- Amendments to the financial instruments disclosure for price risks include the equity shares with Welbeing Limited</li><li>- Include disclosure of land charges contingent asset of £404,000</li><li>- Include disclosure of contingent asset in respect of ongoing negotiation of costs relating to the Towner building.</li></ul> |

### FINANCIAL STATEMENTS OPINION

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

# CONTROL ENVIRONMENT

## Significant deficiencies and other observations

We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to you.

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

We have not identified any significant deficiencies, however we have reported below other deficiencies and observations.

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

■ Other deficiency in internal control

■ Other observations

| AREA                       | OBSERVATION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | IMPLICATION                                                                                                                                                                                | RECOMMENDATION                                                                                                                                                                                  |
|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| COUNCIL DWELLING DISPOSALS | <p>The Council has incurred expenditure of £18.183 million on the refurbishment of its housing stock in the last three years. This was written off as impairment as impairment in the current year on the grounds that management considered that it did not add any enhanced value to the properties.</p> <p>IAS 16 <i>Property, plant and equipment</i> requires that components are derecognised from PPE when they are replaced. The Council has not derecognised any of the items replaced in the refurbishment work as these are not separately identifiable.</p> <p>However, the Code Guidance Notes for Practitioners states that if the carrying amount of the replaced part or component cannot be identified, it is usually acceptable under the Code to use the cost of the replacement as a proxy for the deemed carrying amount of the replaced part and to adjust this for depreciation and impairment.</p> | <p>Failure to remove replaced components from council dwellings when capital expenditure is incurred will result in the carrying value of value of council dwellings being overstated.</p> | <p>The Council should review its procedures for accounting for significant capital expenditure on council dwellings, to ensure that replaced components are appropriately removed from PPE.</p> |

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

# GOVERNANCE REPORTING

## Governance matters and quality of reporting

### FINANCIAL STATEMENTS PREPARATION

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

As part of our planning for the audit, we prepared a detailed document request which outlined the information we would require to complete the audit. As in previous years, a comprehensive file of audit working papers has been provided to us on the first day of the audit.

### CONCLUSIONS AND AUDIT ISSUES

We have no significant matters to report.

### ANNUAL GOVERNANCE STATEMENT

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

### CONCLUSIONS AND AUDIT ISSUES

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

### STATEMENT OF ACCOUNTS

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

### CONCLUSIONS AND AUDIT ISSUES

Subject to a few minor inconsistencies which have been corrected in the revised Statement of Accounts, we are satisfied that the information given in the Foreword by the Chief Finance Officer is not inconsistent with the financial statements.

# WHOLE OF GOVERNMENT ACCOUNTS

## Consistency of the Data Collection Tool

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

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

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

### CONCLUSION AND AUDIT ISSUES

The Council's WGA is below the threshold for full assurance review.

Our review of the Council's WGA Data Collection Tool (DCT) is in progress.

### ASSURANCE STATEMENT

Subject to completion of our review, we do not expect to report any issues.

# USE OF RESOURCES

## Scope of the review

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

### AUDIT COMMISSION SPECIFIED CRITERIA

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

This is based on the following two reporting criteria:

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

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

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

### FOCUS OF REVIEW

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

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

- Government continues to reduce funding for local government, and combined with additional pressures arising from demographic and other changes, will have a significant impact on the financial resilience of the Council in the medium term.

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

# USE OF RESOURCES

## Financial resilience

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

### FINANCIAL GOVERNANCE

Clear leadership has been shown on financial governance matters through the work of the Cabinet and the management team to prepare for, and then respond to, the Government's Comprehensive Spending Reviews and known financial settlements. It is important that this is continued as the Council faces the challenge of delivering the change required to remain sustainable into the medium term.

The Council maintains healthy levels of earmarked reserves and balances. Members have agreed a policy to make use of these reserves to fund investment and non-recurring expenditure rather than using these to support ongoing expenditure.

### AUDIT ISSUES AND IMPACT ON CONCLUSION

No areas of concern.

### FINANCIAL PLANNING

The Medium Term Financial Strategy (MTFS) and Capital Strategy identify and direct resources at a strategic level, which are then developed through the service and financial planning and budget setting process.

The MTFS was updated and approved by Cabinet during the year to cover the four year period to 2017/18. This identified a base funding gap of £3.6 million over the period, to be met by a combination of efficiency savings of £2.2 million and procurement savings of £1.4 million.

In 2013/14, the Council originally budgeted to transfer £1.123 million to general reserves to fund investments and the capital programme. The outturn was an underspend of £219,000 against revised budget, a £916,000 transfer to general reserves (excluding items outside of the general fund budget setting process) and a £768,000 increase in the general fund. The general fund balance at 31 March 2014 is £4.687 million. Planned savings of £1.5 million were achieved for the year, of which £1 million related to the waste and street cleaning contract.

The Council has set a balanced budget for 2014/15. It includes a savings requirement of £1.6m which it plans to achieve through a combination of efficiency savings and income generation schemes and reduced contribution to reserves of £0.8 million. The budget indicates a number of financial risks however the Council is planning to manage these without needing to use reserves for recurring expenditure. The general fund balance is forecast at £3.8 million for 31 March 2015 which remains well above the Council's approved minimum level of £2 million. The 2014/15 budget also includes a small contingency allowance for unforeseen risks that may arise.

The MTFS was updated again in July 2014 to cover the four year period to 2018/19. Management has reported that a significant level of savings required for the medium term has already been identified and that the change programmes in place under the Council's transformation programme (DRIVE) and Sustainable service delivery programme (SSDS) are projected to deliver savings in excess of the minimum requirement in order to create headroom for investment in priority services.

### AUDIT ISSUES AND IMPACT ON CONCLUSION

No areas of concern.

## USE OF RESOURCES

### Financial resilience (continued)

#### FINANCIAL CONTROL

The Council continues to operate sound budget monitoring arrangements. It underspent by £219,000 against the revised budget and has increased its general fund balance by £0.8 million. Overall, usable reserves have increased by £2.1 million. There were some overspends in the year but these were offset by a contingency allowance in the budget and underspends in other areas.

Budget monitoring in 2014/5 to date shows a small variance of £17,000 to June 2014. This relates to several areas of minor under and over spends which are being carefully monitored. The contingency fund currently stands at £170,000, of which £5,000 is currently committed, leaving a balance of £165,000 available to fund inflationary increases and any future unforeseen one off areas of expenditure during the year.

The Council incurred a deficit of £3 million on its Collection Fund in 2013/14 respect of business rate for the year. This was largely due to a higher than anticipated provision for outstanding appeals and the fact that the government made changes to small business rate reliefs after the Council had set its collection fund estimates.

#### AUDIT ISSUES AND IMPACT ON CONCLUSION

No areas of concern.

## Challenging economy, efficiency and effectiveness

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

#### PRIORITISING RESOURCES

Members have a clear understanding of the Council's financial challenges and are being supportive of officers in the budgetary process. Key focus areas in the medium term continue to include:

- ensuring that financial benefits continue to be realised from the work being done on Sustainable Service Delivery Strategy
- ensuring that financial benefits are realised from the work being done on rationalising and renegotiating external contracts through the work on procurement
- monitoring both cost and performance to demonstrate to members that despite significant reductions in costs, services continue to deliver services in line with corporate priorities to demonstrate the achievement of value for money.

#### AUDIT ISSUES AND IMPACT ON CONCLUSION

No areas of concern.

## USE OF RESOURCES

### Challenging economy, efficiency and effectiveness (continued)

| IMPROVING EFFICIENCY AND PRODUCTIVITY                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | AUDIT ISSUES AND IMPACT ON CONCLUSION |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|
| <p>Performance towards key projects underpinning achievement of the Council’s four cross cutting themes (a prosperous economy, quality environment, thriving communities and sustainable performance) is regularly monitored by the Cabinet through the quarterly Corporate Performance Report.</p> <p>For the year to 31 March 2014, of the 38 key performance indicators reported in the Corporate Plan, 9 are showing as “Red,” 16 are showing as “Green,” 4 are showing as “Amber” and 9 are “data only” or contextual PIs.</p> <p>The performance delivered during 2013/14 illustrates that while the Council continues to make improvements in some areas, there remains scope to deliver improvement in other areas.</p> <p>Partnership working with other public sector organisations and the voluntary and community sector underpins the Council’s approach to value for money. The Council Plan contains clear commitments to partnership working in providing services to local people.</p> <p>The Council continues to challenge the way services are delivered in response to addressing the medium term financial position. We will continue to monitor the Council’s progress in delivering the ‘Drive’ efficiency programme and the impact that this has on the delivery of sustainable, improving service performance.</p> | <p>No areas of concern.</p>           |

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#### USE OF RESOURCES CONCLUSION

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

# APPENDICES

# APPENDIX I: DEFINITIONS

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

## APPENDIX II: AUDIT DIFFERENCES

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

### CORRECTED AUDIT DIFFERENCES

Management has made corrections to the draft financial statements in respect of:

- classification of revaluation movements on council dwellings and other land and buildings
- classification of write off of replaced council dwellings components and recognition of a prior period adjustment
- classification of write off of overstated investment property and recognition of a prior period adjustment
- correction to depreciated replacement cost valuations in prior years property and recognition of a prior period adjustment
- classification of write off of sea defences
- classification of the accumulated absences liability.

These have reduced the deficit for the year by £23.241 million. However, as these corrections all relate to capital items which are subsequently reversed through reserves, there is no impact on the closing general fund balance. The prior period adjustment has increased the restated deficit for 2012/13 by £7.144 million to £10.450 million but again this has no impact on the general fund balance.

A schedule of corrected audit differences is included on the following pages.

### UNADJUSTED AUDIT DIFFERENCES

There are four unadjusted audit differences identified by our audit work which would decrease the revised deficit on the provision of services by £748,000 to £1.701 million (from £2.449 million). We identified one further unadjusted audit difference which relates to the Group accounts only. When combined with the unadjusted audit differences on the Council accounts, these would increase the revised surplus on the provision of services in the Group accounts by £706,000 to £5.860 million (from £5.154 million).

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

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

There are no remaining misstatements brought forward from the prior year and correction of prior year misstatements has had no impact on in year financial performance.

## APPENDIX II: AUDIT DIFFERENCES

### Corrected audit differences

| CORRECTED AUDIT DIFFERENCES                                                                                                                                                                                             | 2013/14<br>£'000 | 2012/13<br>£'000 | INCOME AND EXPENDITURE |               | BALANCE SHEET |               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|------------------------|---------------|---------------|---------------|
|                                                                                                                                                                                                                         |                  |                  | Dr<br>£'000            | (Cr)<br>£'000 | Dr<br>£'000   | (Cr)<br>£'000 |
| CIES deficit on the provision of services before adjustments                                                                                                                                                            | 25,690           | 3,306            |                        |               |               |               |
| Dr Revaluation reserve                                                                                                                                                                                                  |                  |                  |                        |               | 12,095        |               |
| Cr Local authority housing expenditure                                                                                                                                                                                  | (7,065)          |                  |                        | (7,065)       |               |               |
| Cr Cultural and Related Services                                                                                                                                                                                        | (4,878)          |                  |                        | (4,878)       |               |               |
| Cr Environmental and regulatory services                                                                                                                                                                                | (152)            |                  |                        | (152)         |               |               |
| Dr General Fund through Movement in Reserves Statement (to reverse CIES gain) *                                                                                                                                         |                  |                  |                        |               | 12,095        |               |
| Cr Capital adjustment account                                                                                                                                                                                           |                  |                  |                        |               |               | (12,095)      |
| <i>Reclassification of revaluation increases on council dwellings (£7.065m) and other land and buildings (£5.030m), from revaluation reserve to reversals of impairments in the CIES (factual misstatement)</i>         |                  |                  |                        |               |               |               |
| Dr Council dwellings gross cost/valuation (in year)                                                                                                                                                                     |                  |                  |                        |               | 11,146        |               |
| Cr Council dwellings opening balance (prior period adjustment)                                                                                                                                                          |                  |                  |                        |               |               | (11,146)      |
| Dr Loss on derecognition of non-current assets (in year)                                                                                                                                                                | 7,037            |                  | 7,037                  |               |               |               |
| Dr General fund opening balance (prior period adjustment)                                                                                                                                                               |                  | 7,144            |                        |               | 11,146        |               |
| Cr Local authority housing expenditure (in year)                                                                                                                                                                        | (18,183)         |                  |                        | (18,183)      |               |               |
| Dr General Fund through Movement in Reserves Statement (in year - to reverse CIES gain) *                                                                                                                               |                  |                  |                        |               | 11,146        |               |
| Cr Capital adjustment account (in year)                                                                                                                                                                                 |                  |                  |                        |               |               | (11,146)      |
| Dr Capital adjustment account opening balance (prior period adjustment)                                                                                                                                                 |                  |                  |                        |               | 11,146        |               |
| Cr General Fund opening balance (prior period adjustment)                                                                                                                                                               |                  |                  |                        |               |               | (11,146)      |
| <i>Reclassification of write off of replaced council dwellings components, from impairment charge to loss on derecognition of non-current assets, and recognition of prior period adjustment (factual misstatement)</i> |                  |                  |                        |               |               |               |
| Dr Capital adjustment account opening balance (prior period adjustment)                                                                                                                                                 |                  |                  |                        |               | 4,936         |               |
| Cr Investment property opening balance (prior period adjustment)                                                                                                                                                        |                  |                  |                        |               |               | (4,936)       |
| <i>Reclassification of write off of overstated investment property and recognition of prior period adjustment (factual misstatement)</i>                                                                                |                  |                  |                        |               |               |               |

(Continued)

## APPENDIX II: AUDIT DIFFERENCES

### Corrected audit differences

| CORRECTED AUDIT DIFFERENCES                                                                                                                         | 2013/14<br>£'000 | 2012/13<br>£'000 | INCOME AND EXPENDITURE |                 | BALANCE SHEET |                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|------------------------|-----------------|---------------|-----------------|
|                                                                                                                                                     |                  |                  | Dr<br>£'000            | (Cr)<br>£'000   | Dr<br>£'000   | (Cr)<br>£'000   |
| Dr Revaluation reserve opening balance (prior period adjustment)                                                                                    |                  |                  |                        |                 | 1,747         |                 |
| Dr Capital adjustment account opening balance (prior period adjustment)                                                                             |                  |                  |                        |                 | 1,036         |                 |
| Cr Other land and buildings gross cost/valuation opening balance (prior period adjustment)                                                          |                  |                  |                        |                 |               | (2,783)         |
| <i>Correction to depreciated replacement cost valuations in prior years and recognition of prior period adjustment (factual misstatement)</i>       |                  |                  |                        |                 |               |                 |
| Dr Loss on derecognition of non-current assets                                                                                                      | 4,649            |                  | 4,649                  |                 |               |                 |
| Cr Environmental services expenditure                                                                                                               | (4,649)          |                  |                        | (4,649)         |               |                 |
| <i>Reclassification of write off of sea defences, from impairment charge to loss on derecognition of non-current assets, (factual misstatement)</i> |                  |                  |                        |                 |               |                 |
| Dr Provisions                                                                                                                                       |                  |                  |                        |                 | 63            |                 |
| Cr Creditors                                                                                                                                        |                  |                  |                        |                 |               | (63)            |
| <i>Reclassification of the accumulated absences liability, from provisions to creditors (factual misstatement)</i>                                  |                  |                  |                        |                 |               |                 |
| <b>TOTAL CORRECTED AUDIT DIFFERENCES</b>                                                                                                            | <b>(23,241)</b>  | <b>7,144</b>     | <b>11,686</b>          | <b>(34,927)</b> | <b>76,556</b> | <b>(53,315)</b> |
| CIES deficit on the provision of services after adjustments                                                                                         | 2,449            | 10,450           |                        |                 |               |                 |
| <b>IMPACT ON GENERAL FUND BALANCE</b>                                                                                                               | <b>£'000</b>     | <b>£'000</b>     |                        |                 |               |                 |
| General fund balance before adjustments                                                                                                             | (4,687)          | (3,919)          |                        |                 |               |                 |
| Adjustments to CIES above                                                                                                                           | (23,241)         | 7,144            |                        |                 |               |                 |
| <b>Adjustments via Movement in Reserves Statement *</b>                                                                                             |                  |                  |                        |                 |               |                 |
| Dr Reclassification of revaluation increases on Council dwellings                                                                                   | 12,095           |                  |                        |                 |               |                 |
| Dr Reclassification of write off of replaced council dwellings components                                                                           | 11,146           | (7,144)          |                        |                 |               |                 |
| <b>General fund balance after adjustments</b>                                                                                                       | <b>(4,687)</b>   | <b>(3,919)</b>   |                        |                 |               |                 |

## APPENDIX II: AUDIT DIFFERENCES

### Unadjusted audit differences: Council accounts

| UNADJUSTED AUDIT DIFFERENCES                                                                         | £'000          | INCOME AND EXPENDITURE |               | BALANCE SHEET |                |
|------------------------------------------------------------------------------------------------------|----------------|------------------------|---------------|---------------|----------------|
|                                                                                                      |                | Dr<br>£'000            | (Cr)<br>£'000 | Dr<br>£'000   | (Cr)<br>£'000  |
| <b>CIES deficit on the provision of services after corrected adjustments above</b>                   | <b>2,449</b>   |                        |               |               |                |
| Dr Council dwellings                                                                                 |                |                        |               | 61            |                |
| Cr Reversals of impairments in the CIES                                                              | (61)           |                        | (61)          |               |                |
| Dr General Fund through Movement in Reserves Statement (to reverse CIES gain) *                      |                |                        |               | 61            |                |
| Cr Capital adjustment account                                                                        |                |                        |               |               | (61)           |
| <i>Rounding used to calculate revaluation increases since April 2011 (judgemental misstatement)</i>  |                |                        |               |               |                |
| Dr Debtors                                                                                           |                |                        |               | 750           |                |
| Cr CIES Income                                                                                       | (750)          |                        | (750)         |               |                |
| Dr General Fund through Movement in Reserves Statement (to reverse CIES gain) ) *                    |                |                        |               | 750           |                |
| Cr Capital grants unapplied Capital receipts reserve                                                 |                |                        |               |               | (750)          |
| <i>Understatement of income and debtors for capital receipt relating to the building of Towner</i>   |                |                        |               |               |                |
| Dr CIES expenditure                                                                                  | 63             | 63                     |               |               |                |
| Cr Creditors                                                                                         |                |                        |               |               | (63)           |
| <i>Extrapolated misstatement for £7,000 omitted from creditor accruals (estimation misstatement)</i> |                |                        |               |               |                |
| Dr Cash and cash equivalents                                                                         |                |                        |               | 138           |                |
| Dr Debtors                                                                                           |                |                        |               |               | (138)          |
| <i>Understatement of cash book balances as a result of unmatched receipts transferred to debtors</i> |                |                        |               |               |                |
| <b>TOTAL UNADJUSTED AUDIT DIFFERENCES</b>                                                            | <b>(748)</b>   | <b>63</b>              | <b>(811)</b>  | <b>1,760</b>  | <b>(1,012)</b> |
| <b>CIES deficit on the provision of services if the accounts are adjusted for the above issues</b>   | <b>1,701</b>   |                        |               |               |                |
| <b>IMPACT ON GENERAL FUND BALANCE</b>                                                                | <b>£'000</b>   |                        |               |               |                |
| <b>General fund balance after corrected adjustments above</b>                                        | <b>(4,687)</b> |                        |               |               |                |
| Adjustments to CIES above                                                                            | (748)          |                        |               |               |                |
| <b>Adjustments via Movement in Reserves Statement *</b>                                              |                |                        |               |               |                |
| Dr Reclassification of revaluation increases on Council dwellings                                    | 61             |                        |               |               |                |
| Dr Capital grants and contributions received                                                         | 750            |                        |               |               |                |
| <b>General fund balance if the accounts are adjusted for the above issues</b>                        | <b>(4,687)</b> |                        |               |               |                |

## APPENDIX II: AUDIT DIFFERENCES

### Unadjusted audit differences: Group accounts

| UNADJUSTED AUDIT DIFFERENCES                                                                                               | £'000        | INCOME AND EXPENDITURE |               | BALANCE SHEET |                |
|----------------------------------------------------------------------------------------------------------------------------|--------------|------------------------|---------------|---------------|----------------|
|                                                                                                                            |              | Dr<br>£'000            | (Cr)<br>£'000 | Dr<br>£'000   | (Cr)<br>£'000  |
| CIES surplus on the provision of services after corrected adjustments above                                                | (5,154)      |                        |               |               |                |
| <i>Unadjusted audit differences relating to EBC (entity only) listed above</i>                                             | (748)        | 63                     | (811)         | 1,760         | (1,012)        |
| Dr Expenditure                                                                                                             | 42           | 42                     |               |               |                |
| Cr Dilapidations provision                                                                                                 |              |                        |               |               | (42)           |
| <i>Ivy House dilapidations provision not recognised in full at the point of initial recognition (factual misstatement)</i> |              |                        |               |               |                |
| <b>TOTAL UNADJUSTED AUDIT DIFFERENCES</b>                                                                                  | <b>(706)</b> | <b>105</b>             | <b>(811)</b>  | <b>1,760</b>  | <b>(1,054)</b> |
| CIES surplus on the provision of services if the accounts are adjusted for the above issues                                | (5,860)      |                        |               |               |                |

#### UNADJUSTED DISCLOSURE MATTERS

The Council has written off an amount of £596,000 in the current year in respect of a building that was duplicated in the accounts in prior years. A prior period adjustment has not been made as the amount is not material. However, the current year deficit, opening general fund balance and opening property, plant and equipment balance are all higher than they would have been had the misstatement been detected and corrected in previous years.

## APPENDIX III: MATERIALITY

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

| MATERIALITY               | COUNCIL AND GROUP |
|---------------------------|-------------------|
| Planning materiality      | £2,000,000        |
| Final materiality         | £2,000,000        |
| Clearly trivial threshold | £40,000           |

Planning materiality of £2 million for the Council and the Group was based on 2% of average gross expenditure of the Council per the draft financial statements. We have no reason to revise our final materiality level.

Triviality was based on 2% of final materiality.

## APPENDIX IV: RECOMMENDATIONS AND ACTION PLAN

| CONCLUSIONS FROM WORK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | RECOMMENDATIONS                                                                                                                                                                                                      | MANAGEMENT RESPONSE | RESPONSIBILITY | TIMING |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|----------------|--------|
| <b>FINANCIAL STATEMENTS</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                      |                     |                |        |
| <p>From 1 April 2014 IFRS 10 <i>Consolidated financial statements</i> will apply. This statement considers factors other than current voting rights when assessing whether entities should be consolidated. The Council's agreement with Welbeing Limited states that it has £952,000 of equity loan notes which may become convertible to shares in 7 years, thereby increasing their voting rights to 75%.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <p>Management should formally review its investments in Welbeing Limited and CloudConnx against the requirements of IFRS 10 to assess whether they fall within the definition of control under the new standard.</p> |                     |                |        |
| <b>CONTROL ENVIRONMENT</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                      |                     |                |        |
| <p>The Council has incurred expenditure of £18.183 million on the refurbishment of its housing stock in the last three years. This was written off as impairment in the current year on the grounds that management considered that it did not add any enhanced value to the properties.</p> <p>IAS 16 <i>Property, plant and equipment</i> requires that components are derecognised from PPE when they are replaced. The Council has not derecognised any of the items replaced in the refurbishment work as these are not separately identifiable.</p> <p>The Code Guidance Notes for Practitioners states that if the carrying amount of the replaced part or component cannot be identified, it is acceptable to use the cost of the replacement as a proxy for the deemed carrying amount of the replaced part and to adjust this for depreciation and impairment.</p> | <p>The Council should review its procedures for accounting for significant capital expenditure on dwellings, to ensure that replaced components are appropriately removed from PPE.</p>                              |                     |                |        |

## APPENDIX V: STATUTORY AND PROFESSIONALLY REQUIRED COMMUNICATIONS

| COMMUNICATION REQUIRED                                                                                                | DATE COMMUNICATED | TO WHOM               | METHOD                                      |
|-----------------------------------------------------------------------------------------------------------------------|-------------------|-----------------------|---------------------------------------------|
| Accounting practices, accounting policies, estimates and judgements and financial statement disclosures (ISA 260)     |                   |                       | Financial statements section of this report |
| Significant difficulties encountered during the audit (ISA 260)                                                       |                   | No issues             |                                             |
| Significant matters discussed or subject to correspondence with management (ISA 260)                                  |                   | No issues             |                                             |
| The final draft of the representation letter (ISA 260)                                                                |                   | Appendix VI           |                                             |
| Independence (ISA 260)                                                                                                |                   |                       | Independence section of this report         |
| Fraud and illegal acts (ISA 240)                                                                                      |                   | No issues             |                                             |
| Non compliance with laws and regulations (ISA 250)                                                                    |                   | No issues             |                                             |
| Significant deficiencies in internal control (ISA 265)                                                                |                   | No significant issues |                                             |
| Misstatements, whether or not corrected by the entity (ISA 450)                                                       |                   | Appendix II           |                                             |
| Significant matters in connection with related parties (ISA 550)                                                      |                   | No issues             |                                             |
| Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570) |                   | No issues             |                                             |
| Matters relating to the audit of the group (ISA 600)                                                                  |                   | No significant issues |                                             |
| Expected modifications to our audit report or inclusions of emphasis of matter / other matter (ISA 705 / 706)         |                   | No issues             |                                             |
| Material inconsistencies with other information in documents containing audited financial information (ISA 720)       |                   | No issues             |                                             |
| Objections from the public or exercise of statutory powers under the Audit Commission Act 1998                        |                   | No issues             |                                             |

# APPENDIX VI: DRAFT REPRESENTATION LETTER

TO TYPED ON CLIENT HEADED NOTEPAPER

BDO LLP  
55 Baker Street  
London  
W1U 7EU

24 September 2014

Dear Sirs

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

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

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

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

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

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

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

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

We have considered the risk that the financial statements may be materially misstated due to fraud and have identified no significant risks.

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

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

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

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

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

The following significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.

(a) Pension fund assumptions

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

- |                                                                                          |      |
|------------------------------------------------------------------------------------------|------|
| • Rate of increase in salaries                                                           | 4.4% |
| • Rate of increase in pensions / RPI                                                     | 2.6% |
| • Rate for discounting scheme liabilities                                                | 4.1% |
| • Take up option to convert the annual pension into retirement grant - pre 31 March 2008 | 50%  |
| • Take up option to convert the annual pension into retirement grant - post April 2008   | 75%  |

We also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

(b) Valuation of housing stock

We are satisfied that the useful economic lives of the housing stock and its constituent components, used in the valuation of the housing stock and the calculation of the depreciation charge for the year are consistent with those advised to me by the expert valuer appointed by the Council to provide this information.

We confirm that the indices applied to council dwellings, as provided by the valuer, are reasonable and consistent with our knowledge of the business and current market prices. These rates are:

- 0.4% decrease in 2011/2
- 1.7% increase in 2012/13
- 4.2% increase in 2013/14

(c) Carrying value of land and buildings

We are satisfied that the carrying value of other land and buildings is materially consistent with the fair value at 31 March 2014. We confirm that no further adjustments are required to those assets that were last revalued in April 2011.

(d) Non-domestic rates appeals provision

We are satisfied that the provision recognised for non-domestic rates appeals is materially correct, and the calculation of historical appeals are consistent with those advised to me by the Valuation Office Agency. We confirm that the success rates applied to outstanding appeals as at 31 March 2014 (5.38% change in rateable value) is consistent with our knowledge of the business.

We consider that the Council is able to continue to operate as a going concern and that it is appropriate to prepare the financial statements on a going concern basis. Furthermore, we confirm that the accounting policies disclosed in the financial statements are sufficient.

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

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

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

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

Yours faithfully

**Alan Osborne**  
**Chief Finance Officer**

24 September 2014

**Councillor Ungar**  
**Chair of the Audit and Governance Committee**

For and on behalf of Eastbourne Borough Council

24 September 2014

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

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**BODY:** **AUDIT AND GOVERNANCE COMMITTEE**  
**DATE:** **24 September 2014**  
**SUBJECT:** **Statement of Accounts 13/14**  
**REPORT OF:** **Financial Services Manager**

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**Ward(s):** All

**Purpose:** To agree the audited accounts for 2013/14 under powers delegated by the Council.

**Decision Type** Key decision

**Contact:** Pauline Adams, Financial Services Manager.  
Telephone Number 01323 415183

**Recommendations:** Members are asked to -

- i) Agree the action taken in respect of the non-trivial but not material errors identified by External Audit.
- ii) Approve the final audited accounts for 2013/14.
- iii) Agree delegated authority to the Chief Finance Officer to make minor amendments to the Statement of Accounts.

## **1.0 Introduction**

**1.1** The Accounts and Audit Regulations 2011, the Audit Commission Act 1998, the Code of Audit Practice (issued by the Audit Commission) and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain (the Code) set out the requirements for the production and publication of the annual Statement of Accounts.

**1.2** The regulations require that an appropriate body should approve the audited Statement of Accounts after they have been certified by the Chief Financial Officer within six months of the financial year end i.e. by 30 September.

**1.3** The Committee noted the draft accounts for 2013/14 at its meeting on 25 June 2014.

## **Audit of Accounts**

**2.1** BDO has now issued the draft ISA260 Annual Governance Report

which is included as a separate report to this committee.

**2.2** BDO has indicated that subject to satisfactory completion of the outstanding work it is anticipated that an unqualified audit opinion on both this Council's accounting statements and the group accounting statements will be issued. The opinion is expected to be given before the statutory deadline of 30 September.

**3.0 Key issues arising from the audit.**

**3.1** A number of changes have been made to the accounts since the previous report in June, these are all of an accounting technical nature and do not affect the overall balances on the General Fund, HRA, Collection Fund or Reserves.

**3.2** A full list of all the corrected and uncorrected audit differences is given in the body and at appendix ii of BDO's Report.

**3.3** The majority of the corrections to the statements relate to accounting for capital which for local authorities can be quite complex due to having to present the Comprehensive Income and Expenditure Statement (CIES) in a format that equates to private sector profit and loss accounts. In order for these entries not to have an impact on the council taxpayer they are reversed out via the Movement in Reserves Statement (MIRS) to give the true figure for the net expenditure of the Council.

The changes, as detailed below, have involved updating the CIES, MIRS, Housing Revenue Account (HRA) and the Balance Sheet plus updating numerous disclosure notes.

Summary of capital changes made:

1. Reclassification of revaluation increases on council dwellings (£7.065m) and other land and buildings (£5.030m), from revaluation reserve to reversals of impairments in the CIES. This is as a result of impairments in prior years that created a balance on the Capital Adjustment Account which needed to be used before charging the increase to the Revaluation Reserve.
2. Reclassification of write off of replaced council dwellings components (£25.248m), from an impairment charge included in the cost of services on the CIES to loss on de-recognition of non-current assets, both for this and prior years. Impairment is usually where the value of an asset has decreased due to a deterioration or event. As this was not the case for council dwellings, in technical terms it is not an impairment but a de-recognition.
3. Write off of overstated investment property (£4.936m) which had been incorrectly valued to include a building on

the site which is not in the ownership of the Council.

4. Correction to depreciated replacement cost valuations in prior years and recognition of a prior period adjustment (£1.037m). The valuation carried out in 2011 by the external valuer used the 'Red Book' DRC methodology as outlined in RICS guidance which allows for construction periods and finance charges, whereas CIPFA guidance requires this to be done using the 'instant build' DRC methodology.
5. Reclassification of the write off of the balance sheet value on sea defences, which are no longer considered to have any value (£4.648m), from an impairment charge included in the cost of services on the CIES to a loss on de-recognition of non-current assets.

**3.4** The following other changes have been made to the balance sheet, again leaving the bottom line in a neutral position:

1. Reclassification of the accumulated absences liability, from provisions to creditors £64,000. This was an unadjusted error in the 2012/13 accounts.
2. Reclassification of the Rent Control account from Creditors to Debtors £195,000.

**3.5** Several disclosure notes were amended to improve the clarity of the accounts; these had been prepared on the same basis as the 2012/13 statement and previously accepted by audit. None of the changes are of a material nature.

**3.6** Members are asked to confirm the following action on the following unadjusted misstatements:

1. Rounding difference when accumulating inflation increases used to calculate increases in the cost of non current assets since April 2011 - £61,000  
Reasons for non-adjustment – Immaterial
2. Accrual for £750,000 capital receipt due in respect of legal claim for the Towner building works.  
Reason for non-adjustment – Timing, information was not available until mid-June 2014 when accounts had been closed and statement prepared. Sum received on 13 June 2014 and will be included in 2014/15 accounts.
3. Extrapolation of £7,000 omitted from year end accruals - £63,000.  
Reason for non-adjustment – No real basis for calculation.
4. Payments received in the bank at 31 March but not posted by the system into the ledger until 1 April - £138,000.

Reason for non-adjustment – Treatment consistent with previous years and not material.

Unadjusted misstatement on group accounts:

5. Accounting for the provision for dilapidations on Ivy House not compliant with Accounting Standards - £42,000.

Reason for non-adjustment – The consolidation of Eastbourne Homes Accounts has been carried out using EHL's unqualified audited accounts, and therefore the accounting treatment is outside the Council's remit to change, so it is considered inappropriate to make this adjustment.

### **Conclusions**

- 4.1** The 2013/14 Statement of Accounts has been amended since presented to the June meeting of this committee. The changes have been of an accounting technical nature and have had no effect on the overall balances of the Council.
- 4.2** An unqualified audit opinion is expected to be issued by 30 September by BDO.

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### **Background Papers:**

The Background Papers used in compiling this report were as follows:

Final Accounts working papers 2013/14  
BDO Annual Governance Report 2013/14

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# **Audited Statement of Accounts 2013/14**



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**FOREWORD BY CHIEF FINANCE OFFICER****INTRODUCTION**

The foreword explains the key components of the Statement of Accounts 2013/14 and provides a guide to the financial activities of the Council during the year 1 April 2013 to 31 March 2014.

**THE ACCOUNTING STATEMENTS**

The Statement of Accounts has been prepared in accordance with the Accounts and Audit Regulations 2011. The format reflects the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, based on International Financial Reporting Standards and the Service Reporting Code of Practice (SeRCOP), published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and comprises:

A Statement of Responsibilities - This statement defines the roles and responsibilities for preparing the accounts.

**Independent Auditor's Report****The Core Accounting Statements:**

- **Movement in Reserves Statement** – this statement shows the movements in the year of the different reserves held by the Council. It also provides the interaction of the economic costs and legislation and their impact on changes in the Council's reserves, showing the true cost of the provision of Council services funded by Council Tax payers.
- **Comprehensive Income and Expenditure Statement** – this statement sets out 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.
- **Balance Sheet** - this statement sets out the overall financial position of the Council as at 31 March 2014. It shows the balances and reserves at the Council's disposal, its long-term indebtedness and incorporates the values of all assets and liabilities.
- **Cash Flow Statement** – this statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes for the financial year. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.
- **Notes to the accounting statements** - required to provide more detail, in line with accounting and statutory requirements. The statement of accounting principles, which describe the underlying accounting policies and concepts used in producing the figures in the accounts, are included here.

**The Supplementary Single Entry Financial Statements:**

- **Housing Revenue Account** – this account reflects the statutory obligation to account separately for council housing provision. It shows the main elements of housing revenue expenditure – maintenance, administration and capital financing costs and how these are met by rents and other income.
- **Collection Fund** - this account reflects the statutory requirement to maintain a separate record of transactions in relation to Non-Domestic Rates and Council Tax, and illustrates the way in which these have been distributed to local authorities and the Government.

**Group Accounts** – These accounts show the material interests that the Council has in subsidiary and associated companies. The group accounts are structured in line with the Council's core accounting statements, and are accompanied by notes in the same way.

## FINANCIAL RESULTS AND ACTIVITY FOR THE YEAR

The Council incurs both revenue and capital expenditure during the financial year. Revenue spending is generally on items that are consumed within a year and is financed from Council Tax, Government Grants and other income. Capital expenditure is on items which have a life beyond one year and which also add value to a fixed asset (now known as non-current assets). This is financed largely by capital grants, loans and other capital contributions.

### 1. General Fund

All the services provided by the Council, including council housing, are shown within the Comprehensive Income and Expenditure Statement. This statement shows the equivalent of the trading position of a UK listed company in accordance with IFRS requirements, and discloses a 'deficit' for 2013/14 of £19.9m. The Movement in Reserves Statement shows the movement in the year on different reserves held by the Council and the true economic cost of providing the Council's services. The entries in this Statement turn the IFRS 'deficit' together with other reserve transfers into a net increase, over that budgeted for, in the General Fund Balance of £366,000. This is the comparable figure to the Council's stated outturn through its performance monitoring arrangements. The General Fund outturn detailed below excludes the Housing Revenue Account and for this reason does not reconcile with the statutory presentation of the Comprehensive Income and Expenditure Statement. The outturn is prepared on the basis of how the Council sets its revenue budget rather than the accounting provisions of the Code, and therefore is not presented on the same basis of the Comprehensive Income and Expenditure Statement.

The General Fund is the main revenue fund of the Council and covers day to day expenditure and related income on all services. The Council set its Budget Requirement at £17.3m (amount to be funded by Government Grant, Council Tax and Business Rates). The Council, after taking advantage of the Government's special grant to finance the cost of a 2.5% increase in Council Tax, set a Band D Council Tax for 2013/14 of £224.19, being a zero percent increase over 2012/13.

The General Fund Balance at the beginning of the year stood at £3.9m. The final outturn delivered a variance of £219,000 before net interest, capital financing and transfers to reserves. The transfer to the General Fund Reserve of £768,000 represents this under spend plus other planned budget transfers. As a result of this movement the General Fund Balance as at 31 March 2014 was £4.7m.

The following table compares the major elements of the budget and actual for General Fund services in 2013/14:

|                                         | <b>Original<br/>Budget</b> | <b>Revised<br/>Budget</b> | <b>Actual</b> | <b>Variance</b> |
|-----------------------------------------|----------------------------|---------------------------|---------------|-----------------|
|                                         | £000                       | £000                      | £000          | £000            |
| Net Service Expenditure                 | 14,616                     | 14,927                    | 14,708        | (219)           |
| Net Interest and Capital Financing      | 1,650                      | 1,936                     | 1,936         | -               |
| Transfer to (from) Reserves             | 1,123                      | 349                       | 916           | 567             |
| <b>Net Expenditure</b>                  | <b>17,389</b>              | <b>17,212</b>             | <b>17,560</b> | <b>348</b>      |
| Transfer to (from) General Fund Balance |                            | 402                       | 768           | 366             |
| <b>Budget Requirement</b>               | <b>17,389</b>              | <b>17,614</b>             | <b>18,328</b> | <b>714</b>      |
| Financed by                             |                            |                           |               |                 |
| Government Grant                        | 6,583                      | 6,808                     | 7,209         | (401)           |
| Council Taxpayers                       | 7,303                      | 7,303                     | 7,303         | -               |
| Business Rates                          | 3,503                      | 3,503                     | 3,816         | (313)           |
| <b>Total Financing</b>                  | <b>17,389</b>              | <b>17,614</b>             | <b>18,328</b> | <b>(714)</b>    |

The difference between the revised budget and the actual net expenditure were due to the following variances:

- Catering Service £182k
- Grounds Maintenance settlement of disputed sum £122k
- Housing Benefits Administration £77k
- Dotto Train £71k
- Settlement of Land Charges Claims 48k

These have been offset principally by the following favourable variances:

- Refuse Collection Contract (£154k)
- Savings and additional income in Bereavement Service (£130k)
- Bed and Breakfast (£69K)
- Downlands income and grant (£61k)
- Contingency sum (£355k)

Income from financing increased by £714,000 due to additional government grant received to support small business rate relief and the budgeted levy due on business rates not required.

## 2. Housing Revenue Account

The Council continues to be the major provider of rented accommodation in the borough and it transferred responsibility for the management of the housing stock to Eastbourne Homes Ltd, an arms length management organisation, on 1 April 2005.

At 31 March 2014 there were 3,521 dwellings provided for rent. Housing Associations are the second major provider, and the Council continues its work and investment with them in order to meet new affordable housing requirements for Eastbourne.

For 2013/14 the Housing Revenue Account net position shows an overall surplus of £525,000 for the year against an expected budgeted surplus of £347,000 resulting in a favourable variance of £178,000.

The following table compares movement in the HRA Balance from the budget to the outturn for 2013/14:

|                                                        | <b>Original<br/>Budget</b><br>£000 | <b>Revised<br/>Budget</b><br>£000 | <b>Actual</b><br>£000 | <b>Variance</b><br>£000 |
|--------------------------------------------------------|------------------------------------|-----------------------------------|-----------------------|-------------------------|
| Total Expenditure                                      | 13,143                             | 12,776                            | 12,589                | (187)                   |
| Total Income                                           | (14,985)                           | (15,015)                          | (14,995)              | 20                      |
| <b>Net cost of Service</b>                             | <b>(1,842)</b>                     | <b>(2,239)</b>                    | <b>(2,406)</b>        | <b>(167)</b>            |
| Capital Financing less interest receivable             | 1,945                              | 1,892                             | 1,881                 | (11)                    |
| <b>Housing Revenue Account (Surplus) /<br/>Deficit</b> | <b>103</b>                         | <b>(347)</b>                      | <b>(525)</b>          | <b>(178)</b>            |
| Opening Balance 1 April 2013                           | (2,017)                            | (2,179)                           | (2,179)               | -                       |
| Closing Balance 31 March 2014                          | (1,914)                            | (2,526)                           | (2,704)               | (178)                   |

The variance was substantially due to a technical change in the way that the allowance for future bad debts is calculated.

## 3 Collection Fund

The Council has, by law, to maintain a specific account called the Collection Fund which records all income from Council Tax and National Non-Domestic Rates and its distribution to the major precepting authorities, being Central Government, East Sussex County Council, Sussex Police, East Sussex Fire Authority and Eastbourne Borough Council.

This financial year the local government finance regime has been revised with the introduction of the retained business rates scheme. The main aim of the scheme is to give Councils a greater incentive to grow businesses in the area. It does however, also increase the financial risk due to non-collection and the volatility of the Business Rates Tax Base.

The scheme allows the Council to retain a proportion of the total business rate income received. The Council's share is 40% with the remainder paid to central government (50%), East Sussex County Council (9%) and East Sussex Fire (1%).

The overall Collection Fund is showing a deficit of £3.1m as at 31 March 2014 (compared to a surplus of £169,000 as at 31 March 2013). This change in the balance is as a result of the introduction of the business rate retention scheme and the subsequent accounting changes, in particular the need to establish a provision for the payment of successful outstanding appeals against rateable values.

The January 2014 forecast deficit for the Council Tax element of the fund of £100,720 will be collected from precepting bodies pro rata to their Band D Council Tax during 2014/15 leaving a balance of £21,540 to be distributed in 2015/16. This Council's share as at 31 March 2014 was £11,000.

The forecast deficit for the Business Rate element of the fund was £2m, which will be collected from preceptors in proportion to their share of the business rate income during 2014/15 leaving a balance of £1m to be collected in 2015/16. This Council's share as at 31 March 2014 was £1.2m.

The Government made changes on small business rate reliefs after Councils had set their collection fund estimates in line with the statutory timetable. Compensation for loss of business rates has been paid by Government by way of "section 31" grants which in part offset the effects of the deficit created. (See General Fund Foreword)

#### 4 Capital Spending

The Council's capital spending in the year was £15.9m compared with a revised budget of £15.6m. Capital expenditure has been financed as follows:

|                                   |               |
|-----------------------------------|---------------|
|                                   | £000          |
| Capital Receipts                  | 143           |
| Earmarked Reserves                | -             |
| Government Grants & Contributions | 1,829         |
| Major Repairs Reserve             | 5,758         |
| Revenue Financing                 | 480           |
| Financed from borrowing           | 7,655         |
| <b>Total</b>                      | <b>15,865</b> |

The main items of capital expenditure are set out below:

|                                                                       | <b>Budget</b> | <b>Actual</b> | <b>Variance</b> |
|-----------------------------------------------------------------------|---------------|---------------|-----------------|
|                                                                       | £000          | £000          | £000            |
| Council Dwelling Improvements & building                              | 7,812         | 7,408         | (404)           |
| Solar Panel Installations                                             | 172           | 102           | (70)            |
| Grants to Provide Disabled Facilities & Private Sector Renewal Grants | 495           | 640           | 145             |
| Grants to provide social housing                                      | 435           | 435           | 0               |
| Asset Improvements                                                    | 1,559         | 1,663         | 104             |
| Playground & Sports Facilities Improvements                           | 128           | 112           | (16)            |
| Future Model & Agile Working                                          | 1,512         | 1,636         | 124             |
| Waste Bins                                                            | 443           | 443           | 0               |
| Local Authority Mortgage Scheme                                       | 1,000         | 1,000         | 0               |
| Sovereign Harbour Development                                         | 850           | 850           | 0               |
| Investment Capital                                                    | 1,150         | 1,150         | 0               |
| Other Schemes                                                         | 83            | 426           | 343             |
| <b>Total Capital Expenditure</b>                                      | <b>15,639</b> | <b>15,865</b> | <b>226</b>      |

The Council continues to invest in assets to support the local community and economy. The most significant planned capital schemes are:

- Improvements to the Council's housing stock;
- Economic regeneration;
- Asset improvements.

## 5 Funds set aside to meet future capital expenditure plans

The Council has approved a capital programme for 2014/15 – 2016/17 totalling £57.5m to be funded as follows:

|                                 | 2014/15       | 2015/16       | 2016/17       |
|---------------------------------|---------------|---------------|---------------|
|                                 | £000          | £000          | £000          |
| Capital Receipts GF             | 1,665         | 446           | 0             |
| Capital Receipts HRA            | 3,164         | 0             | 0             |
| Grants and Contributions        | 6,844         | 8,541         | 6,300         |
| Major Repairs Reserve           | 3,753         | 4,107         | 4,195         |
| Revenue Contribution to Capital | 1,073         | 495           | 0             |
| Reserves                        | 1,430         | 151           | 0             |
| Section 106 Contributions       | 1,160         | 800           | 0             |
| Borrowing                       | 8,610         | 4,156         | 580           |
| <b>Total</b>                    | <b>27,699</b> | <b>18,696</b> | <b>11,075</b> |

## 6 Pensions

The Council's liability for future pension payments has increased from £28.8m to £36.3m. This was mainly as a result of falling real bond yields which have been partially offset by strong asset returns and the projected defined benefit cost for next year has also risen due to falling bond yields. A change of the discount rate used from 4.5% to 4.1% has also contributed to an increase of Defined Benefit Obligations from £117m to £122m. The net asset value has decreased by £2m. It is important to realise that this accounting change does not trigger an immediate change in contribution rates, as these are assessed with a longer term view of liabilities and of investment performance.

## 7 Loans and Investments

The Council's external loan debt at 31 March 2014, comprising long and short-term borrowing, stood at £41.5m. This is made up of £36.0m repayable in more than one year and £5.5m repayable in less than one year. This is a net increase of £2.0m over the previous year, mainly as a result of additional borrowing.

Short-term investments of £0.1m were held at 31 March 2014 compared with £0.1m in the previous year. The Council held cash balances as at 31 March 2014 of £1.1m, which includes call deposit accounts and investments with maturity of up to one month, compared to £7.2m as at 31 March 2013. The decrease in cash balances was mainly due to the Council's policy to borrow internally and use available reserves rather than borrowing. This new borrowing was taken when borrowing rates were at a low level as part of the Council's Treasury Management Strategy.

## 8 Current Economic Climate

The Council's spending plans continue to be linked to residents' priorities and the Government's national priorities for all local authorities. The 2014/15 budget has been set against an improving economic background. The Council's medium term financial strategy sets out its spending plans for the period 2014/15 to 2016/17. In common with other local authorities a reduction in funding received from Central Government each year has been built in to future spending plans. The Council continues to set a balanced budget without the need to draw down from reserves to support on going expenditure.

## FUTURE DEVELOPMENTS

### Universal Credit

Universal Credit is one of the key benefit changes introduced by the Welfare Reform Act 2012. This will see the introduction of a single benefit to replace six benefits currently paid by Department of Works and Pensions, HM Revenue and Customs and local authorities. This includes Housing Benefit currently paid by local authorities. Universal Credit will have an impact on the Council as it will no longer be responsible for the payment of Housing Benefit.

**FURTHER INFORMATION**

Summary financial information is published annually on the Council's website ([www.eastbourne.gov.uk](http://www.eastbourne.gov.uk)). Further information on any of the financial statements may be obtained from the Chief Finance Officer, 1 Grove Road, Eastbourne, BN21 4TW.

Alan Osborne  
Chief Finance Officer  
Statutory Section 151 Officer

**ADOPTION OF THE ACCOUNTS**

In accordance with Accounts and Audit Regulations the Chair of the meeting adopting the Statement of Accounts must sign and date the statement in order to confirm that the adoption process has been completed.

I confirm that the Statement of Accounts for 2013/14 was approved at the meeting of the Audit Committee held on 24<sup>th</sup> September 2014.

Signed

Councillor John Ungar  
Chair, Audit and Governance Committee

Date

**STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS****The Council's Responsibilities****The Council is required to:**

- make arrangements for the proper administration of its financial affairs and secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Finance Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

**The Chief Finance Officer's Responsibilities**

The Chief Finance Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA /LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

**In preparing this Statement of Accounts, the Chief Finance Officer:**

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Local Authority Code.

**The Chief Finance Officer has also:**

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts presents the true and fair financial position of the Council as at 31 March 2014 and its income and expenditure for the year ended 31 March 2014.

Alan Osborne  
Chief Finance Officer  
Statutory Section 151 Officer  
Date

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

To follow





**MOVEMENT IN RESERVES STATEMENT**

|                                                                                                      | <b>General Fund</b> | <b>HRA Balance</b> | <b>Earmarked Reserves (note 18)</b> | <b>Major Repairs Reserve</b> | <b>Capital Receipts</b> | <b>Capital Grants &amp; Contributions Unapplied</b> | <b>Total Usable Reserves</b> | <b>Unusable Reserves (note 33)</b> | <b>Total Reserves</b> |
|------------------------------------------------------------------------------------------------------|---------------------|--------------------|-------------------------------------|------------------------------|-------------------------|-----------------------------------------------------|------------------------------|------------------------------------|-----------------------|
|                                                                                                      | £000                | £000               | £000                                | £000                         | £000                    | £000                                                | £000                         | £000                               | £000                  |
| <b>Balance at 1 April 2012</b>                                                                       | (4,663)             | (2,001)            | (3,847)                             | (1,077)                      | (2,253)                 | (5,024)                                             | <b>(18,865)</b>              | <b>(162,672)</b>                   | <b>(181,537)</b>      |
| <b>Movement in Reserves 2012/13 Restated</b>                                                         |                     |                    |                                     |                              |                         |                                                     |                              |                                    |                       |
| (Surplus) or deficit on provision of services (accounting basis)                                     | 4,818               | 5,632              | -                                   | -                            | -                       | -                                                   | <b>10,450</b>                | -                                  | <b>10,450</b>         |
| Revaluation gains or losses on non-current assets added to or withdrawn from the Revaluation Reserve | -                   | -                  | -                                   | -                            | -                       | -                                                   | -                            | (1,308)                            | <b>(1,308)</b>        |
| Actuarial losses on share of Pension Fund                                                            | -                   | -                  | -                                   | -                            | -                       | -                                                   | -                            | 3,352                              | <b>3,352</b>          |
| <b>Total Comprehensive Expenditure and Income</b>                                                    | 4,818               | 5,632              | -                                   | -                            | -                       | -                                                   | <b>10,450</b>                | 2,044                              | <b>12,494</b>         |
| Adjustments between accounting basis & funding basis under regulations (note 7)                      | (3,358)             | (6,123)            | -                                   | (1,594)                      | (1,198)                 | 23                                                  | <b>(12,250)</b>              | 12,250                             | -                     |
| <b>Net (Increase) / Decrease before Transfers to Earmarked Reserves</b>                              | 1,460               | (491)              | -                                   | (1,594)                      | (1,198)                 | 23                                                  | <b>(1,800)</b>               | 14,294                             | <b>12,494</b>         |
| Transfers (to)/from Earmarked Reserves (note 18)                                                     | (716)               | 313                | 403                                 | -                            | -                       | -                                                   | -                            | -                                  | -                     |
| <b>(Increase) / Decrease in Year</b>                                                                 | 744                 | (178)              | 403                                 | (1,594)                      | (1,198)                 | 23                                                  | <b>(1,800)</b>               | 14,294                             | <b>12,494</b>         |
| <b>Balance at 31 March 2013 carried forward</b>                                                      | <b>(3,919)</b>      | <b>(2,179)</b>     | <b>(3,444)</b>                      | <b>(2,671)</b>               | <b>(3,451)</b>          | <b>(5,001)</b>                                      | <b>(20,665)</b>              | <b>(148,378)</b>                   | <b>(169,043)</b>      |
| <b>Movement in Reserves 2013/14</b>                                                                  |                     |                    |                                     |                              |                         |                                                     |                              |                                    |                       |

|                                                                                                      | General Fund   | HRA Balance    | Earmarked Reserves (note 18) | Major Repairs Reserve | Capital Receipts | Capital Grants & Contributions Unapplied | Total Usable Reserves | Unusable Reserves (note 33) | Total Reserves   |
|------------------------------------------------------------------------------------------------------|----------------|----------------|------------------------------|-----------------------|------------------|------------------------------------------|-----------------------|-----------------------------|------------------|
| (Surplus) or deficit on provision of services (accounting basis)                                     | 4,615          | (2,166)        | -                            | -                     | -                | -                                        | 2,449                 | -                           | 2,449            |
| Revaluation gains or losses on non-current assets added to or withdrawn from the Revaluation Reserve | -              | -              | -                            | -                     | -                | -                                        | -                     | (249)                       | (249)            |
| Actuarial losses on share of Pension Fund                                                            | -              | -              | -                            | -                     | -                | -                                        | -                     | 6,504                       | 6,504            |
| <b>Total Comprehensive Expenditure and Income</b>                                                    | 4,615          | (2,166)        | -                            | -                     | -                | -                                        | 2,449                 | 6,255                       | 8,704            |
| Adjustments between accounting basis & funding basis under regulations (note 7)                      | (7,227)        | 1,088          | -                            | 2,365                 | (1,558)          | 801                                      | (4,531)               | 4,531                       | -                |
| <b>Net (Increase) / Decrease before Transfers to Earmarked Reserves</b>                              | (2,612)        | (1,078)        | -                            | 2,365                 | (1,558)          | 801                                      | (2,082)               | 10,786                      | 8,704            |
| Transfers (to)/from Earmarked Reserves (note 18)                                                     | 1,844          | 553            | (2,397)                      | -                     | -                | -                                        | -                     | -                           | -                |
| <b>(Increase) / Decrease in Year</b>                                                                 | (768)          | (525)          | (2,397)                      | 2,365                 | (1,558)          | 801                                      | (2,082)               | 10,786                      | 8,704            |
| <b>Balance at 31 March 2014 carried forward</b>                                                      | <b>(4,687)</b> | <b>(2,704)</b> | <b>(5,841)</b>               | <b>(306)</b>          | <b>(5,009)</b>   | <b>(4,200)</b>                           | <b>(22,747)</b>       | <b>(137,592)</b>            | <b>(160,339)</b> |

This statement shows the movements in the year on the different reserves held by the Council, analysed into "usable reserves" (those that can be used immediately to fund expenditure or to reduce local taxation) and other reserves. The purpose of individual reserves is set out in Note 2.19, and more details are given for earmarked and unusable reserves in Notes 18 and 33 respectively. The line entitled "Surplus or (deficit) on provision of services (accounting basis)" shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the amounts required by statute to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwelling rent setting purposes. The line entitled "Net (Increase) / Decrease before Transfers to Earmarked Reserves" shows the statutory General Fund Balance and the Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

**COMPREHENSIVE INCOME & EXPENDITURE STATEMENT**

| 2012/13 Restated |                 |                 |                                                                             | 2013/14       |                 |                 |
|------------------|-----------------|-----------------|-----------------------------------------------------------------------------|---------------|-----------------|-----------------|
| Exp.             | Income          | Net             | Note                                                                        | Exp.          | Income          | Net             |
| £000             | £000            | £000            |                                                                             | £000          | £000            | £000            |
| 12,316           | (11,098)        | 1,218           | Central Services to the Public                                              | 2,805         | (1,161)         | 1,644           |
| 15,979           | (8,913)         | 7,066           | Cultural and Related Services                                               | 12,177        | (9,142)         | 3,035           |
| 9,783            | (3,269)         | 6,514           | Environmental & Regulatory Services                                         | 8,588         | (3,170)         | 5,418           |
| 1,891            | (392)           | 1,499           | Planning Services                                                           | 1,991         | (504)           | 1,487           |
| 358              | (477)           | (119)           | Highways and Transport Services                                             | 334           | (515)           | (181)           |
| 11,833           | (14,469)        | (2,636)         | Local Authority Housing (HRA)                                               | 4,451         | (15,100)        | (10,649)        |
| 53,478           | (51,950)        | 1,528           | Other Housing Services                                                      | 54,935        | (52,558)        | 2,377           |
| 1,802            | (83)            | 1,719           | Corporate and Democratic core                                               | 2,090         | (174)           | 1,916           |
| 1,396            | (338)           | 1,058           | Non Distributed Costs                                                       | 1,562         | (303)           | 1,259           |
| <b>108,836</b>   | <b>(90,989)</b> | <b>17,847</b>   | <b>Cost of Services</b>                                                     | <b>88,933</b> | <b>(82,627)</b> | <b>6,306</b>    |
| 185              | -               | 185             | Levy Payable                                                                | 193           | -               | 193             |
| 198              | -               | 198             | Payments to housing capital receipts pool                                   | 250           | -               | 250             |
| 9,808            | -               | 9,808           | (Gains) / losses on sale and de-recognition of non-current assets           | -             | 10,885          | 10,885          |
| <b>10,191</b>    | <b>-</b>        | <b>10,191</b>   | <b>Other Operating Expenditure</b>                                          | <b>443</b>    | <b>10,885</b>   | <b>11,328</b>   |
| 1,982            | -               | 1,982           | Interest payable & similar charges                                          | 26            | 2,066           | -               |
| 1,177            | -               | 1,177           | Net Interest on the Net Defined Benefit Liability                           | 34            | 1,290           | -               |
| -                | (127)           | (127)           | Interest receivable                                                         | 26            | -               | (80)            |
| -                | (392)           | (392)           | Investment Properties                                                       | 23            | -               | (394)           |
| 931              | (888)           | 43              | Trading Operations                                                          | 16            | 1,343           | (1,323)         |
| <b>4,090</b>     | <b>(1,407)</b>  | <b>2,683</b>    | <b>Financing and Investment Income and Expenditure</b>                      | <b>4,699</b>  | <b>(1,797)</b>  | <b>2,902</b>    |
| -                | (11,954)        | (11,954)        | Non-specific grants and contributions                                       | 17            | -               | (8,223)         |
| -                | (8,317)         | (8,317)         | Council Tax income                                                          | -             | (7,267)         | (7,267)         |
| -                | -               | -               | Business Rate Retention                                                     | 9,663         | (12,260)        | (2,597)         |
| <b>-</b>         | <b>(20,271)</b> | <b>(20,271)</b> | <b>Taxation and Non-specific Grant Income and Expenditure</b>               | <b>9,663</b>  | <b>(27,750)</b> | <b>(18,087)</b> |
|                  |                 | <b>10,450</b>   | <b>Surplus or Deficit on Provision of Services</b>                          |               |                 | <b>2,449</b>    |
|                  |                 | (1,308)         | (Surplus) or deficit on revaluation of Property, Plant and Equipment assets | 33            |                 | (249)           |
|                  |                 |                 | Impairment losses on non-current assets charged to the Revaluation reserve  |               |                 |                 |
|                  |                 |                 | Surplus or deficit on revaluation of available for sale financial assets    |               |                 | -               |
|                  |                 | 3,352           | Actuarial (gains) / losses on pension assets / liabilities                  | 34            |                 | 6,504           |
|                  |                 | <b>2,044</b>    | <b>Other Comprehensive I &amp; E</b>                                        |               |                 | <b>6,255</b>    |
|                  |                 | <b>12,494</b>   | <b>Total Comprehensive I &amp; E</b>                                        |               |                 | <b>8,704</b>    |

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

**BALANCE SHEET**

| <b>1 April<br/>2012</b> | <b>31 March<br/>2013</b> |                                    | <b>Notes</b> | <b>31 March 2014</b> |                  |
|-------------------------|--------------------------|------------------------------------|--------------|----------------------|------------------|
| <b>Restated</b>         | <b>Restated</b>          |                                    |              | <b>£000</b>          | <b>£000</b>      |
| £000                    | £000                     |                                    |              |                      |                  |
| 224,188                 | 215,774                  | Property, Plant & Equipment        | 21           | 215,881              |                  |
| 12,209                  | 13,044                   | Heritage Assets                    | 22           | 13,114               |                  |
| 1,626                   | 1,626                    | Investment Property                | 23           | 1,626                |                  |
| 866                     | 1,902                    | Intangible Assets                  | 24           | 3,098                |                  |
| 0                       | 0                        | Long Term Investments              | 13.5         | 1,150                |                  |
| 303                     | 421                      | Long Term Debtors                  | 29           | <u>2,261</u>         |                  |
| <b>239,192</b>          | <b>232,767</b>           | <b>Long Term Assets</b>            |              |                      | <b>237,130</b>   |
| 2,373                   | 606                      | Assets Held for Sale               | 25           | 606                  |                  |
| 2,000                   | 100                      | Short Term Investments             | 26           | 100                  |                  |
| 143                     | 179                      | Inventories                        | 28           | 211                  |                  |
| 7,266                   | 7,537                    | Short Term Debtors                 | 29           | 10,385               |                  |
| 2,112                   | 7,157                    | Cash and Cash Equivalents          |              | <u>1,125</u>         |                  |
| <b>13,894</b>           | <b>15,579</b>            | <b>Current Assets</b>              |              |                      | <b>12,427</b>    |
| (8,273)                 | (4,799)                  | Short Term Borrowing               | 26           | (5,466)              |                  |
| (9,389)                 | (8,293)                  | Short Term Creditors               | 30           | (8,696)              |                  |
| (101)                   | (193)                    | Short Term Provisions              | 31           | (654)                |                  |
| (96)                    | (161)                    | Revenue Grants Receipts in Advance | 17           | <u>(121)</u>         |                  |
| <b>(17,859)</b>         | <b>(13,446)</b>          | <b>Current Liabilities</b>         |              |                      | <b>(14,937)</b>  |
| (2,757)                 | (2,321)                  | Long Term Creditors                | 30           | (1,904)              |                  |
| (26,212)                | (34,691)                 | Long Term Borrowing                | 26           | (36,028)             |                  |
| (24,721)                | (28,845)                 | Other Long Term Liabilities        | 34           | <u>(36,349)</u>      |                  |
| <b>(53,690)</b>         | <b>(65,857)</b>          | <b>Long Term Liabilities</b>       |              |                      | <b>(74,281)</b>  |
| <b>181,537</b>          | <b>169,043</b>           | <b>NET ASSETS</b>                  |              |                      | <b>160,339</b>   |
| (18,865)                | (20,665)                 | Usable Reserves                    |              |                      | (22,747)         |
| (162,672)               | (148,378)                | Unusable Reserves                  | 33           |                      | <u>(137,592)</u> |
| <b>(181,537)</b>        | <b>(169,043)</b>         | <b>TOTAL RESERVES</b>              |              |                      | <b>(160,339)</b> |

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The Council's net assets (assets less liabilities) are matched by the reserves that it holds. Reserves are reported in two categories: usable and unusable. Usable reserves are those that the Council may use to provide services, subject to the need to keep a prudent level of reserves and to any statutory limits on their use, such as the Capital Receipts Reserve only being used to fund capital expenditure or to repay debt. Unusable reserves are those that the Council is not able to use to provide services. This category includes reserves to hold unrealised gains and losses (such as the Revaluation Reserve), where amounts would only become available to provide services if the asset was sold, and reserves that hold timing differences shown in the section in the Movement in Reserves Statement labelled "Adjustments between accounting basis and funding basis under regulation."

Alan Osborne  
Chief Finance Officer

**CASH FLOW STATEMENT**

| <b>2012/13</b>  |                                                                                 | <b>2013/14</b> |                 |
|-----------------|---------------------------------------------------------------------------------|----------------|-----------------|
| <b>£000</b>     |                                                                                 | <b>£000</b>    | <b>£000</b>     |
| (8,316)         | Taxation                                                                        | (10,161)       |                 |
| (67,905)        | Government grants                                                               | (57,204)       |                 |
| (4,848)         | Housing rents                                                                   | (5,179)        |                 |
| (8,436)         | Goods sold and services rendered                                                | (11,094)       |                 |
| (155)           | Interest received                                                               | (73)           |                 |
| (9,614)         | Other receipts                                                                  | (9,864)        |                 |
| <b>(99,274)</b> | <b>Cash inflows from operating activities</b>                                   |                | <b>(93,575)</b> |
| 10,637          | Employees                                                                       | 10,619         |                 |
| 41,667          | Housing Benefit paid                                                            | 42,020         |                 |
| 213             | Capital Receipts Pool                                                           | 242            |                 |
| 28,075          | Payments for goods and services                                                 | 29,297         |                 |
| 2,007           | Interest paid                                                                   | 2,043          |                 |
| 13,712          | Other operating costs                                                           | 4,551          |                 |
| <b>96,311</b>   | <b>Cash outflows from operating activities</b>                                  |                | <b>88,772</b>   |
| <b>(2,963)</b>  | <b>Net Cash Flows from operating activities</b>                                 |                | <b>(4,803)</b>  |
| 11,842          | Purchase property, plant & equipment, Investment property and intangible assets | 12,252         |                 |
| 2,100           | Purchase of short and long term investments                                     | 16,000         |                 |
| 164             | Other investing activities                                                      | 1,850          |                 |
| (3,842)         | Sales of property, plant & equipment, Investment property and intangible assets | (1,949)        |                 |
| (4,000)         | Sale of short and long term investments                                         | (16,000)       |                 |
| (4,284)         | Other investing receipts                                                        | (991)          |                 |
| <b>1,980</b>    | <b>Net cash outflows from investing activities</b>                              |                | <b>11,162</b>   |
| (19,500)        | Cash receipts of borrowing                                                      | (8,250)        |                 |
| 14,500          | Repayments of borrowing                                                         | 6,272          |                 |
| 938             | Other financing activities                                                      | 1,651          |                 |
| <b>(4,062)</b>  | <b>Net cash inflows from financing activities</b>                               |                | <b>(327)</b>    |
| <b>(5,045)</b>  | <b>Net (increase) / decrease in cash and cash equivalents</b>                   |                | <b>6,032</b>    |

The balances of cash and cash equivalents are shown below:

| <b>2012/13</b> |                |                 |                                             | <b>2013/14</b> |                |                 |
|----------------|----------------|-----------------|---------------------------------------------|----------------|----------------|-----------------|
| <b>1.4.12</b>  | <b>31.3.13</b> | <b>Movement</b> |                                             | <b>1.4.13</b>  | <b>31.3.14</b> | <b>Movement</b> |
| £000           | £000           | £000            |                                             | £000           | £000           | £000            |
| 391            | 433            | 42              | Bank Current Accounts                       | 433            | 248            | (185)           |
| 19             | 24             | 5               | Cash held by the Authority                  | 24             | 27             | 3               |
| 1,702          | 6,700          | 4,998           | Short-term deposits with building Societies | 6,700          | 850            | (5,850)         |
| <b>2,112</b>   | <b>7,157</b>   | <b>5,045</b>    | <b>Total Cash and Cash Equivalents</b>      | <b>7,157</b>   | <b>1,125</b>   | <b>(6,032)</b>  |

The Cash Flow Statement shows the changes in the Council's cash and cash equivalents during the financial year. 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 Council's operations are funded from taxation and grant income or from the recipients of the Council's services. Investing activities represent the amount to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

**NOTES TO THE ACCOUNTING STATEMENTS****1. CHANGES TO ACCOUNTING POLICIES AND TO PREVIOUS YEAR'S FIGURES**

Prior period adjustments have been made to the Council's 2012/13 published financial statements in relation to Pensions. There have been several significant changes to the international accounting standard IAS19 Employee benefits. This has resulted in changes to accounting treatment for financial years starting on or after 1 January 2013. There is no impact on the Balance Sheet, however the main changes are as follows:

- **Expected Return on Assets** – Advance credit for anticipated out-performance of return on assets (such as equities) is no longer permitted by IAS19. This has been replaced with an equivalent figure calculated using a discount rate, as opposed to using a figure calculated using expected return on assets assumptions.
- **Asset disclosure** – IAS19 requires a much more detailed breakdown of the pension fund assets. See Note 34.6.
- **Disclosure presentation** – in order to be consistent with the new requirements of IAS19 the disclosures relating to the Council's defined benefit pension scheme have changed from those published in 2012/13, which is intended to make it easier for the user to understand. See Note 34.

**2. ACCOUNTING POLICIES****2.1 General Principles**

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the end of 31 March 2014, the close of the financial year. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, which is based on International Financial Reporting Standards and the Service Reporting Code of Practice 2013/14. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible non-current assets and financial instruments. They are also prepared on a going concern basis.

**2.2 Accruals of Expenditure and Income**

We account for activity in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption and where the amounts are significant, they are carried as inventories on the Balance Sheet.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

In cases where a full year's income & expenditure is shown in the accounts, for example utility bills and annual contracts, no accrual is made in the accounts as this would over state the annual position.

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

### **2.3 Cash and Cash Equivalents**

The Council treats as "cash and cash equivalents" all money held as cash or in bank accounts (whether in surplus or overdrawn), including cash deposited in interest-bearing call accounts, repayable without penalty. Investments made for a period of less than one month are also accounted for in this category, rather than as investments.

### **2.4 Comprehensive Income & Expenditure**

IAS1 requires transactions that include amounts that are re-classifiable in the Surplus or Deficit on the Provision of Services, the items listed in Other Comprehensive Income and Expenditure must be grouped into those items that:

- a) Will not be classified subsequently to the Surplus or Deficit on the Provision of Services, and
- b) Will be reclassified subsequently to the Surplus or Deficit on the Provision of Services when specific conditions are met.

The Council does not have any such transactions and have not therefore grouped the items in Other Comprehensive Income and Expenditure.

### **2.5 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 Council, 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.

### **2.6 Contingent Liabilities**

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

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

### **2.7 Employee Benefits**

#### Benefits Payable during Employment

Accounting standards require that accruals for expenditure are made for short-term compensated absences, covering entitlement for annual leave, flexi-time and time in lieu. Short-term employee benefits are those due to be settled within 12 months of the year-end. Where considered material, an accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made using an estimated average salary rate. 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 revenue in the financial year in which the holiday absence occurs.

#### Termination Benefits

Termination benefits include lump sum payments to departing employees, enhancements to retirement benefits, and salaries paid to the end of a notice period, 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.

#### Post-Employment Benefits

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

- The liabilities of the East Sussex County Council pension scheme attributable to this Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 4.5% (based on the indicative rate of return on the iboxx Sterling Corporates Index, AA over 20 years) Previously the discount rate used was 4.8%.
- We include the assets of the East Sussex County Council Pension Fund attributable to this Council in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value.
- The change in the net pensions liability is analysed into the following components:
  - current service cost – the increase in liabilities as a result of years of service earned this year;
  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid;
  - contributions by scheme participants, which reduce plan liabilities, but correspondingly increase plan assets;
  - 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;
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years;
  - curtailments, which are normally linked to an event giving rise to a post employment benefit;
  - 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;
  - contributions paid to the East Sussex County Council Pension Fund – the employer’s contributions to the pension fund for the financial year.

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.

#### Discretionary Benefits

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

## **2.8 Events after the Reporting Period**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events but, where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## **2.9 Exceptional Items and Prior-Period Adjustments**

When items of income and expenditure 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 Council's financial performance.

Where the Code specifies a change of accounting policy, it is applied retrospectively to the previous financial year, so that the comparative figures for the opening and closing balance sheets for that year will be changed, along with the other accounting statements and the notes to the accounting statements.

Similar adjustments are made for any changes to accounting policies not directly specified by the code, and to correct material errors in prior periods.

## **2.10 Financial Instruments**

### 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 five groups of financial assets:

- Trade debtors are recorded as invoices issued to individuals or other entities, for which immediate payment is required. The balance ("Trade accounts receivable") is included in the balance sheet under "short term debtors".
- Long term debtors represent obligation extending beyond one year.
- Cash held in current or call accounts, together with investments for periods of less than one month, is included in the balance sheet under "cash and cash equivalents".
- Investments taken out for periods of between one month 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".

Trade debtors are regularly assessed for possible non-payment, and an adjustment is made for possible impairment to the gross balance. Trade debtors do not include Council Tax, Business Rates and other debts receivable under statute.

Loans and receivables are initially measured at fair value, and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the Council's short-term investments this means that the amount presented in the Balance Sheet is the outstanding principal and interest, and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year according to the loan instrument. The position is the same for long term investments, except that outstanding interest receivable within the next year is included under "short-term investments".

### Financial Liabilities

The term "financial liability" covers contractual obligations to deliver or exchange financial assets to another entity. The Council's balance sheet includes four groups of financial liabilities:

- Amounts payable to suppliers are included in creditors;
- Short-term creditors, comprising interest accrued at the balance sheet date on long term loans or credit sale agreements, but payable within the next financial year, and any principal repayments on these liabilities payable within the next financial year;
- Long term borrowing from various providers of finance;
- Long term liabilities arising from credit sales agreements.

Short term creditors do not include non trade creditors, for example, HM Revenue & Customs, Government departments and the East Sussex Pension Scheme.

All of the Council's financial liabilities come under the grouping of "financial liabilities and amortised cost", as they have fixed or determinable payments and are not quoted in an active market.

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to 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. For most of the borrowings that the Council has there is a single rate of interest payable throughout the life of the loan, meaning that the effective rate of the interest is the same as the original repayable rate. This means that the amount presented in the Balance Sheet under "long term borrowing" is the outstanding principal repayable. As the accrued interest at the year end is payable within one year of the balance sheet date, it is included under "short term borrowing". Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

### **2.11 Government Grants and Other Contributions**

Whether paid on account, by instalments or in arrears, Government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution, when there is reasonable assurance that the monies will be received.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as creditors. When conditions are satisfied the grant or contribution is credited to the relevant service line or taxation and non specific grant income on the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **2.12 Property Plant and Equipment**

Property plant and equipment consists of assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis. 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).

#### Categories

- Council Dwellings – council houses owned by the Council.
- Land and buildings – properties owned by the Council, other than those in another category shown below, or Investment Properties.
- Vehicles, plant and equipment – individual items or groupings of items which are purchased from capital resources.
- Infrastructure – bus shelters and sea defences.
- 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 yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of an asset (e.g. repairs and maintenance) is charged

to the Comprehensive Income and Expenditure Statement as it is incurred. Assets valued at less than £10,000 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:

- Council dwellings – fair value, based on the market value for social housing in existing use (EUV-SH).
- 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 historic cost is normally used as a proxy.
- Infrastructure – depreciated at historic cost
- Community Assets – depreciated at historic cost
- Surplus assets - fair value, based on the market value for the existing use (EUV).
- Assets under construction – historic cost

We revalue assets included in the Balance Sheet at fair 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 Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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

#### Impairment

The values of each category of assets and of material individual assets 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 attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Comprehensive Income and Expenditure Statement 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.

#### Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before 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 in fair value are recognised only up to the amount of any previously losses 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 non-current assets and valued at the lower of their carrying amount before they were classified as held for sale, adjusted for depreciation, amortisation 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 Comprehensive Income and Expenditure Statement is debited or credited with the net loss or gain on disposal. This net sum consists of two elements: the net book value written out of the balance sheet, and the sale proceeds. Although these amounts appear in the Comprehensive Income and Expenditure Statement, neither of them can be legally debited or credited to the General Fund or to the Housing Revenue Account. Further adjustments are therefore made through the Movement in Reserves statement to reverse the effect on the General Fund and the Housing Revenue Account:

- Net book value written out – a transfer to credit the General Fund or the Housing Revenue Account and to debit the Capital Adjustment Account.
- Sale proceeds - a transfer is made to debit the General Fund and credit the Capital Receipts Reserve. A proportion of receipts relating to housing disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government, and a transfer is made from the Capital Receipts Reserve to the General Fund to allow for this. The remainder of the proceeds remain in the Capital Receipts Reserve, and can legally only be used to reduce debt or to finance capital expenditure.

Any balance relating to the asset held in the Revaluation Reserve is also transferred to the Capital Adjustment Account.

Disposals for less than £10,000 are treated as revenue income within the Cost of Services in the Comprehensive Income and Expenditure Statement.

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 Deferred Capital Receipts Reserve, matched by a long-term or short term debtor. The income from these disposals cannot be used for debt reduction or capital investment until it is actually received.

#### Depreciation

Depreciation is provided for on all assets with a determinable finite life by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following basis:

- Land – not subject to depreciation
- Council dwellings – initially calculated as a straight-line allocation over the life of the property as estimated by the valuer. However until 31 March 2018, if the Major Repairs Allowance (MRA) as calculated by the Housing Self Finance Settlement, is lower, then this is used as a reasonable proxy for depreciation.
- Buildings – straight-line allocation over the life of the property as estimated by the valuer
- Vehicles, plant and equipment depreciated over the life of the type of asset, normally between 3 and 25 years.
- Infrastructure –straight-line depreciation over periods of time between 10 and 40 years, as assessed at the time of the capital investment.
- 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.

Depreciation on Council Dwellings is a legal charge to the Housing Revenue Account balance, but a corresponding transfer is made from the Capital Adjustment Account to the Major Repairs Reserve to finance capital investment.

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

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.

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.

#### Componentisation

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Council Dwellings are componentised by reference to the 30 year business plan which identifies the key components to be replaced at regular intervals over the life of the asset, costs all capital works and their projected timing. The major components are identified and depreciated over their useful economic life and any residual is treated as an extended life asset which is depreciated over 60 years.

### **2.13 Heritage Assets**

The Council maintains an art collection and a local history collection which are held in support of the Council's objective to increase the knowledge, understanding and appreciation of the arts and the history of the local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment, except for the frequency of revaluations. Some of the measurement rules are relaxed in relation to Heritage Assets as detailed below. The Council's Heritage Assets are accounted for as follows:

#### **Art Collection**

The art collection includes paintings and sketches and is reported in the Balance Sheet at insurance value, which was based on the external valuation carried out in 2012/13. The art collection will be revalued every 10 years, with an annual impairment review. The art collection is deemed to have indeterminate life and a high residual value, hence we do not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donations. Acquisitions are initially recognised at cost and donations are recognised at valuation with valuations provided by the external valuers and with reference to appropriate commercial markets for the paintings using the most relevant and recent information.

#### **Local History Collection**

The Local History Museum, which comprises of the Eastbourne Archaeological Collection, The Eastbourne Local History Collection, The Eastbourne Photographic and Postcard Collection and The Eastbourne Local History and Archaeology Library and Research Resource is recognised on the balance sheet at insurance value as cost is not readily available and the Council believes that the benefits of obtaining the valuation for these items would not justify the cost. The collection has been acquired mainly by donation over 100 years ago with some additional items being donated and purchased over the years.

#### **Heritage Assets – General**

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 Council's general policies on impairment – see note 2.11. We 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 Council'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 note 2.11).

### **2.14 Investment Property**

Investment properties are those assets that are held solely to earn rentals or for capital appreciation, or both. Properties that are used to facilitate the delivery of a service or to support Council policy objectives fall under the category of property, plant and equipment (see Note 2.12) and not

investment property. Investment property is held at fair value based on the amount at which the asset could be exchanged between knowledgeable parties at arms-length. Properties are not depreciated but are re-valued 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 the Capital Receipts Reserve.

### **2.15 Intangible assets**

Intangible assets are identifiable non-monetary assets without physical substance, normally comprising computer software. Internal costs incurred in developing such software are capitalised if they meet criteria to establish that these costs are an essential element of preparing the asset for use.

The initial value of intangible assets is amortised to the Comprehensive Income and Expenditure Statement over the estimated period of their useful life. This is normally taken as a period of 3-10 years, but an annual review is undertaken and the life is amended where necessary. The value of intangible assets is also reviewed on an annual basis, and an additional adjustment is made for impairment where necessary.

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

### **2.16 Leases**

#### Definition of a Lease

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

The Council may also enter into an agreement which, while not itself a lease, nevertheless contains a right to use an asset in the same way as a lease. Such agreements are treated as either finance leases or operating leases as set out below.

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, so that all leases with a term of less than 10 years, or for assets valued at less than £10,000 are treated within the accounts as an operating lease.

#### Finance Leases – Council Acting as Lessee

Where the Council uses or occupies an asset held under a finance lease, the asset is recognised as such in the appropriate line in the balance sheet, subject to the de minimis limit noted in 2.12 above. The value recognised is the fair value, or (if lower) the present value of the minimum lease payments. This value is offset on the balance sheet by a creditor or long term liability for the leasing charge.

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

The Council 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 – Council Acting as a Lessee

Lease payments for operating leases are recognised as an expense on a straight-line basis over the lease term, even if this does not match the pattern of payments. (e.g. if there is a rent free period at the commencement of the lease.)

Finance Leases – Council Acting as Lessor

Where the Council acts as lessor for an asset held under a finance lease, a receivable (long term debtor or short term debtor) is recognised as at an amount equal to the net investment in the lease. The lease payment receivable is apportioned between the repayment of principal and interest, the interest being calculated to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases – Council acting as a lessor

Income from operating leases is recognised on a straight-line basis over the lease term, even if this does not match the pattern of payments. (E.g. if there is a premium paid at the commencement of the lease.)

**2.17 Overheads**

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

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

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

**2.18 Provisions**

The Council recognises provisions to represent liabilities of uncertain timings or amounts. Provisions in the balance sheet represent cases where:

- The Council has a present obligation as a result of a past event;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
- A reliable estimate can be made of the amount of the obligation.

**2.19 Reserves**

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

Usable reserves comprise the following:

- Capital Receipts Reserve: proceeds from the sales of Property, Plant and Equipment are initially credited to the Comprehensive Income and Expenditure Statement, but are transferred to this reserve. The Council is obliged to pay over a proportion of proceeds received from the sale of Housing Revenue Account assets: this is paid from the Comprehensive Income and Expenditure Statement, but a corresponding transfer is made from the Capital Receipts Reserve to ensure that this liability does not fall upon the General Fund. The remaining amounts in this reserve can then only be used to support capital expenditure.
- Capital Grants and Contributions Unapplied Reserve: similarly the Council receives grants and contributions towards capital expenditure, and, if there are no conditions preventing their use, these are also credited to the Comprehensive Income and Expenditure Statement and immediately transferred into the Capital Grants and Contributions 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 or the Housing Revenue Account, and amounts are withdrawn as required to finance such expenditure. 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.
- Housing Revenue Account: this is required to be maintained separately by legislation, to ensure that the provision of council housing is financed primarily from rental income or from subsidy, and not from Council Tax.
- Major Repairs Reserve: this was established by the Local Authorities (Capital Finance and Accounts) Regulations 2000. An amount equal to the total depreciation for the year for HRA properties is transferred to the reserve from the Capital Adjustment Account, and an amount equal to the Major Repairs Allowance can be used to finance capital investment.
- General Fund: this represents all other usable reserves, without legal restrictions on spending, which arise from annual surpluses or deficits.

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

- Collection Fund Adjustment Account: the net amount of the Council's share of Council Tax collectable for the year is credited to the Comprehensive Income and Expenditure Statement, but only the amount previously estimated and formally notified can be added to the General Fund. The difference between the two amounts is credited or debited to the Collection Fund adjustment account, and cannot be used until the following financial year.
- Revaluation Reserve: this consists of accumulated gains on individual items of Property, Plant and Equipment. Any subsequent losses on valuation can be set against previous gains on the same asset.
- Capital Adjustment Account: this 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.
- Pensions Reserve: this is a statutory reserve to offset the Pension Liability assessed on an accounting and actuarial basis, and to ensure that variations in this liability do not affect the General Fund.
- Financial Instruments Adjustment Account: this represents the difference between the accounting and legislative charges for finance costs.
- Deferred Capital Receipts Reserve: this holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.
- Accumulated Absence Account: this represents the estimated value of annual leave accrued but not taken by staff as at 31 March.

## **2.20 Revenue Expenditure Financed From Capital Under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of non current assets, 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, a transfer to the Capital Adjustment Account then reverses out the amounts charged, so there is no impact on the level of Council Tax.

### **2.21 Value Added Tax**

Value Added Tax (VAT) has not been included in the income and expenditure of the accounts unless it is irrecoverable.

### **2.22 Inventories and Long Term Contracts**

Where the value is significant to an operation, inventories are included in the Balance Sheet at the lower of cost and net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

### 2.23 Interests in Companies and Other Entities

The Council has a material interest in one company, Eastbourne Homes Ltd, a wholly owned subsidiary of the Council, and is therefore required to prepare Group Accounts. This company is limited by guarantee and therefore no value is recognised for the investment in the Council's own single entity accounts.

### 2.24 Foreign Currency Transactions

Where the Council 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.

## 3. ACCOUNTING POLICIES ISSUED BUT NOT YET ADOPTED

The Code of Practice for 2014/15 adopts the following changes to accounting standards which will be required from 1 April 2014.

A number of new revised standards have been issued addressing the accounting for consolidation, involvements in joint arrangements and disclosure of involvement in other entities. These include:

- **IFRS 10 Consolidated Financial Statements** – This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purposes of group accounts.
- **IFRS 11 Joint Arrangements** – This standard addresses the accounting for a joint arrangement, which is defined as a contractual arrangement over which two or more parties have joint control. These are classified as either a joint venture or a joint operation. In addition proportionate consolidation can no longer be used for jointly controlled entities.
- **IFRS 12 Disclosures of Involvement with Other Entities** – This is a consolidated disclosure standard requiring a range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated 'structure entities'.
- **IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures** – These statements have been amended to conform with the changes in IFRS 10, IFRS 11 and IFRS 12.

**IAS 32 Financial Instruments Presentation** – The Code references to amended application guidance when offsetting a financial asset and a financial liability. The gains and losses are separately identified on the Comprehensive Income and Expenditure Statement and therefore no further disclosure is required.

**IAS 1 Presentation of the Financial Statements** – This clarifies the disclosure requirements in respect of comparative information of the preceding period. The Statement of Accounts fully discloses comparative information for the preceding period therefore these changes will not have material impact on the Statement of Accounts.

## 4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 2, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgement made in the Statement of Accounts is:

- There is a high degree of uncertainty about future levels of funding for local Government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Investment properties have been estimated using the identifiable criteria under IFRS of being held for rental income or for capital appreciation. These properties have been assessed using these criteria, which is subject to interpretation.
- The Chief Finance Officer and Financial Services Manager conduct an annual review using the criteria set out in IAS 37, to decide what, if any, provision should be included in the accounts

for: liabilities of uncertain timing or amount (provisions); or liabilities whose occurrence will only be confirmed by one or more uncertain future events (contingent liabilities). Contingent liabilities have been estimated based on past experience and legal advice provided.

## 5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION 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.

The items in the Council's Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

**Property, Plant and Equipment** - Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £442,000 for every year that useful lives had to be reduced.

**Pensions Liability** - Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the real discount rate assumption would result in an increase in the pension liability of £10.7m, a 1 year increase in member life expectancy would increase the pension liability by £3.7m, a 0.5% increase in the Salary Increase Rate would increase the pension liability by £2.5m and a 0.5% increase in the Pension Increase Rate would increase the pension liability by £8.1m.

**Arrears** - At 31 March 2014, the Council had a balance of all debtors for £17,055,000. A review of significant balances suggested that an impairment of doubtful debts of £4,604,000 was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.

**Business Rates** - Since the introduction of Business Rate Retention Scheme effective from 1 April 2013, Local authorities are liable for successful appeals against business rates charged to businesses in 2012-13 and earlier financial years in their proportionate share. Therefore, a provision has been recognised for the best estimate of the amount that businesses have been overcharged up to 31 March 2014. The estimate has been calculated using the Valuation Office (VAO) ratings list of appeals and the analysis of successful appeals to date when providing the estimate of total provision up to and including 31 March 2014.

**Estimation** - future minimum lease income has been estimated assuming current terms and conditions continue for the life of the lease. E.g. no allowance has been made for any inflationary uplift.

## 6. EVENTS AFTER THE BALANCE SHEET DATE

The Council has transferred responsibility for the operation of Towner to the Towner Trust as from 1 July 2014. The Council will retain ownership of the Art Collection and the building, which has been let on a peppercorn rent to the Towner Trust. The Council will continue to provide annual funding to support Towner.

Negotiations in relation to the Council's claim for costs relating to the building of Towner are almost complete and the Council has received an initial payment of £750,000 in 2014/15.

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

|                                                                                                                                                          | General Fund | HRA Balance | Major Repairs Reserve | Capital Receipts | Capital Grants & Contributions Unapplied | Total Usable Reserves | Unusable Reserves (Note 33) |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------------|-----------------------|------------------|------------------------------------------|-----------------------|-----------------------------|
| <b>2012/13 Transactions (Restated):</b>                                                                                                                  |              |             |                       |                  |                                          |                       |                             |
| <b>ADJUSTMENT PRIMARILY INVOLVING THE CAPITAL ADJUSTMENT ACCOUNT</b>                                                                                     |              |             |                       |                  |                                          |                       |                             |
| <i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</i>                                                       |              |             |                       |                  |                                          |                       |                             |
| Charges for depreciation and impairment of non-current assets                                                                                            | (3,276)      | (3,604)     | -                     | -                | -                                        | (6,880)               | 6,880                       |
| Amortisation of intangible assets                                                                                                                        | (228)        | (13)        | -                     | -                | -                                        | (241)                 | 241                         |
| Capital Grants and contributions applied                                                                                                                 | 340          | -           | -                     | -                | 3,555                                    | 3,895                 | (3,895)                     |
| Revenue expenditures funded from capital under statute                                                                                                   | (737)        | -           | -                     | -                | 737                                      | -                     | -                           |
| 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 | (847)        | (12,802)    | -                     | -                | -                                        | (13,649)              | 13,649                      |
| <i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</i>                                                  |              |             |                       |                  |                                          |                       |                             |
| Statutory provision for the financing of capital investment                                                                                              | 713          | -           | -                     | -                | -                                        | 713                   | (713)                       |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL GRANTS UNAPPLIED</b>                                                                                      |              |             |                       |                  |                                          |                       |                             |
| Capital grants and contributions received credited to the Comprehensive Income and Expenditure Statement                                                 | 1,334        | 2,967       | -                     | -                | (4,301)                                  | -                     | -                           |
| Capital grants and contributions applied to finance capital expenditure charged to the Comprehensive Income and Expenditure Statement                    | (32)         | -           | -                     | -                | 32                                       | -                     | -                           |
| <b>ADJUSTMENT PRIMARILY INVOLVING THE CAPITAL RECEIPTS RESERVE</b>                                                                                       |              |             |                       |                  |                                          |                       |                             |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account                         | 345          | 3,497       | -                     | (3,842)          | -                                        | -                     | -                           |
| Use of Capital Receipts to finance new capital expenditure                                                                                               |              |             |                       | 2,450            |                                          | 2,450                 | (2,450)                     |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool                                           | (198)        | -           | -                     | 198              | -                                        | -                     | -                           |

|                                                                                                                                                                                                                          | General Fund   | HRA Balance    | Major Repairs Reserve | Capital Receipts | Capital Grants & Contributions Unapplied | Total Usable Reserves | Unusable Reserves (Note 33) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|-----------------------|------------------|------------------------------------------|-----------------------|-----------------------------|
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash                                                                                                                                                     | -              | -              | -                     | (4)              | -                                        | (4)                   | 4                           |
| <b>ADJUSTMENT PRIMARILY INVOLVING THE MAJOR REPAIRS RESERVE</b>                                                                                                                                                          |                |                |                       |                  |                                          |                       |                             |
| Reversal of the Major Repairs Allowance credited to the HRA                                                                                                                                                              | -              | 3,604          | (3,604)               | -                | -                                        | -                     | -                           |
| Use of Major Repairs Reserve to finance new capital expenditure                                                                                                                                                          | -              | -              | 2,010                 | -                | -                                        | 2,010                 | (2,010)                     |
| <b>ADJUSTMENT PRIMARILY INVOLVING THE FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT</b>                                                                                                                                       |                |                |                       |                  |                                          |                       |                             |
| Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements                                                 | -              | 226            | -                     | -                | -                                        | 226                   | (226)                       |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE PENSIONS RESERVE</b>                                                                                                                                                              |                |                |                       |                  |                                          |                       |                             |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement                                                                                              | (2,825)        | 8              | -                     | -                | -                                        | (2,817)               | 2,817                       |
| Employer's pensions contributions and direct payments to pensioners payable in the year                                                                                                                                  | 2,051          | (6)            | -                     | -                | -                                        | 2,045                 | (2,045)                     |
| <b>ADJUSTMENT PRIMARILY INVOLVING THE COLLECTION FUND ADJUSTMENT ACCOUNT</b>                                                                                                                                             |                |                |                       |                  |                                          |                       |                             |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with statutory requirements                       | 16             | -              | -                     | -                | -                                        | 16                    | (16)                        |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE ACCUMULATED ABSENCES ACCOUNT</b>                                                                                                                                                  |                |                |                       |                  |                                          |                       |                             |
| Amounts by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (14)           | -              | -                     | -                | -                                        | (14)                  | 14                          |
| <b>Total Adjustments 2012/13</b>                                                                                                                                                                                         | <b>(3,358)</b> | <b>(6,123)</b> | <b>(1,594)</b>        | <b>(1,198)</b>   | <b>23</b>                                | <b>(12,250)</b>       | <b>12,250</b>               |

|                                                                                                                                                          | General Fund | HRA Balance | Major Repairs Reserve | Capital Receipts | Capital Grants & Contributions Unapplied | Total Usable Reserves | Unusable Reserves (Note 33) |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------------|-----------------------|------------------|------------------------------------------|-----------------------|-----------------------------|
| <b>2013/14 Transactions:</b>                                                                                                                             |              |             |                       |                  |                                          |                       |                             |
| <b>ADJUSTMENT PRIMARILY INVOLVING THE CAPITAL ADJUSTMENT ACCOUNT</b>                                                                                     |              |             |                       |                  |                                          |                       |                             |
| <i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement</i>                                                       |              |             |                       |                  |                                          |                       |                             |
| Charges for depreciation and impairment of non-current assets                                                                                            | 1,573        | 3,673       | -                     | -                | -                                        | 5,246                 | (5,246)                     |
| Revaluation losses on Property, Plant and Equipment                                                                                                      | (2,475)      | (113)       | -                     | -                | -                                        | (2,588)               | 2,588                       |
| Amortisation of intangible assets                                                                                                                        | (444)        | (13)        | -                     | -                | -                                        | (457)                 | 457                         |
| Grants and contributions applied                                                                                                                         | -            | -           | -                     | -                | 663                                      | 663                   | (663)                       |
| Revenue expenditure funded from capital under statute                                                                                                    | (1,069)      | -           | -                     | -                | 641                                      | (428)                 | 428                         |
| 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 | (4,663)      | (8,169)     | -                     | -                | -                                        | (12,832)              | 12,832                      |
| <i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</i>                                                  |              |             |                       |                  |                                          |                       |                             |
| Statutory provision for the financing of capital investment                                                                                              | 1,058        | -           | -                     | -                | -                                        | 1,058                 | (1,058)                     |
| Capital expenditure charged against the General Fund and HRA balances                                                                                    | 27           | 468         | -                     | -                | -                                        | 495                   | (495)                       |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE CAPITAL GRANTS UNAPPLIED</b>                                                                                      |              |             |                       |                  |                                          |                       |                             |
| Capital grants and contributions received credited to the Comprehensive Income and Expenditure Statement                                                 | 935          | 37          | -                     | -                | (972)                                    | -                     | -                           |
| Capital grants and contributions applied to finance capital expenditure                                                                                  | -            | -           | -                     | -                | 469                                      | 469                   | (469)                       |
| <b>ADJUSTMENT PRIMARILY INVOLVING THE CAPITAL RECEIPTS RESERVE</b>                                                                                       |              |             |                       |                  |                                          |                       |                             |
| Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account                         | 285          | 1,663       | -                     | (1,948)          | -                                        | -                     | -                           |
| Use of Capital Receipts to finance new capital expenditure                                                                                               | -            | -           | -                     | 144              | -                                        | 144                   | (144)                       |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool                                           | (250)        | -           | -                     | 250              | -                                        | -                     | -                           |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash                                                                                     | -            | -           | -                     | (2)              | -                                        | (2)                   | 2                           |
| <b>ADJUSTMENT PRIMARILY INVOLVING THE DEFERRED CAPITAL RECEIPTS RESERVE</b>                                                                              |              |             |                       |                  |                                          |                       |                             |

|                                                                                                                                                                                                                          | General Fund   | HRA Balance  | Major Repairs Reserve | Capital Receipts | Capital Grants & Contributions Unapplied | Total Usable Reserves | Unusable Reserves (Note 33) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|--------------|-----------------------|------------------|------------------------------------------|-----------------------|-----------------------------|
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account                                                                                     | -              | -            | -                     | (2)              | -                                        | (2)                   | 2                           |
| <b>ADJUSTMENT PRIMARILY INVOLVING THE MAJOR REPAIRS RESERVE</b>                                                                                                                                                          |                |              |                       |                  |                                          |                       |                             |
| Reversal of the Depreciation credited to the HRA                                                                                                                                                                         | -              | 3,392        | (3,392)               | -                | -                                        | -                     | -                           |
| Use of Major Repairs Reserve to finance new capital expenditure                                                                                                                                                          | -              | -            | 5,757                 | -                | -                                        | 5,757                 | (5,757)                     |
| <b>ADJUSTMENT PRIMARILY INVOLVING THE FINANCIAL INSTRUMENTS ADJUSTMENT ACCOUNT</b>                                                                                                                                       |                |              |                       |                  |                                          |                       |                             |
| Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements                                                 | -              | 149          | -                     | -                | -                                        | 149                   | (149)                       |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE PENSIONS RESERVE</b>                                                                                                                                                              |                |              |                       |                  |                                          |                       |                             |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement                                                                                              | (3,056)        | (7)          | -                     | -                | -                                        | (3,063)               | 3,063                       |
| Employer's pensions contributions and direct payments to pensioners payable in the year                                                                                                                                  | 2,055          | 8            | -                     | -                | -                                        | 2,063                 | (2,063)                     |
| <b>ADJUSTMENT PRIMARILY INVOLVING THE COLLECTION FUND ADJUSTMENT ACCOUNT</b>                                                                                                                                             |                |              |                       |                  |                                          |                       |                             |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from the amount taken to the General Fund in accordance with statutory requirements                       | (1,254)        | -            | -                     | -                | -                                        | (1,254)               | 1,254                       |
| <b>ADJUSTMENTS PRIMARILY INVOLVING THE ACCUMULATED ABSENCES ACCOUNT</b>                                                                                                                                                  |                |              |                       |                  |                                          |                       |                             |
| Amounts by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 51             | -            | -                     | -                | -                                        | 51                    | (51)                        |
| <b>Total Adjustments 2013/14</b>                                                                                                                                                                                         | <b>(7,227)</b> | <b>1,088</b> | <b>2,365</b>          | <b>(1,558)</b>   | <b>801</b>                               | <b>(4,531)</b>        | <b>4,531</b>                |

**8. PIORY PERIOD ADJUSTMENTS**

There have been an adjustment relating to the valuation of non current assets. The table below shows the effect of these adjustments.

|                                                                                      | <b>Property,<br/>Plant and<br/>Equipment</b> | <b>Investment<br/>Properties</b> | <b>Unusable<br/>Reserves</b> |
|--------------------------------------------------------------------------------------|----------------------------------------------|----------------------------------|------------------------------|
|                                                                                      | £000                                         | £000                             | £000                         |
| Balance Sheet 1 April 12                                                             | 230,974                                      | 6,562                            | (174,394)                    |
| Adjustments                                                                          |                                              |                                  |                              |
| Capital Expenditure de-recognised as not adding any enhanced value to the assets     | (4,002)                                      |                                  | 4,002                        |
| Write out of property incorrectly included in valuation but not owned by the Council |                                              | (4,936)                          | 4,936                        |
| Correction of 2011 valuations prepared on incorrect basis                            | (2,784)                                      |                                  | 2,784                        |
| <b>Adjusted Balance Sheet 1 April 12</b>                                             | <b>224,188</b>                               | <b>1,626</b>                     | <b>(162,672)</b>             |

**9. AGENCY ARRANGEMENTS**

The Council collects Council Tax and Business Rates on behalf of all the major precepting authorities: Central Government, East Sussex County Council, The Police and Crime Commissioner for Sussex, East Sussex Fire and Rescue Service and Eastbourne Borough Council. The element of the collection function carried out for the other authorities is treated as an agency arrangement. The amounts collected and paid over for both of these functions are shown in the Collection Fund Statement.

**10. AUDIT FEES**

The Council incurred the following fees relating to statutory external audit and inspection, together with other payments to the auditors:

| <b>2012/13</b>                                                                              | <b>2013/14</b> |
|---------------------------------------------------------------------------------------------|----------------|
| <b>£000</b>                                                                                 | <b>£000</b>    |
| 82 Fees payable with regard to external audit services carried out by the appointed auditor | 89             |
| 35 Fees payable to the appointed auditor for the certification of grant claims and returns  | 24             |
| 2 Fee payable in respect of other services* provided by the appointed auditor               | 2              |
| Audit Commission Rebate                                                                     | -12            |
| 2 Fee payable in respect of other services* paid to Audit Commission                        |                |
| <b>121</b>                                                                                  | <b>103</b>     |

\* Other services relate to the BDO Tax Advisory Services and the Audit Commission National Fraud Initiative fee

**11. MEMBERS' ALLOWANCES**

Allowances and expenses paid to Eastbourne's 27 Councillors during the year amounted to:

| <b>2012/13</b>                       | <b>2013/14</b> |
|--------------------------------------|----------------|
| £000                                 | £000           |
| 125 Members' Allowances              | 130            |
| 3 Conference and Travelling Expenses | 3              |
| <b>128</b>                           | <b>133</b>     |

**12. OFFICERS' REMUNERATION****Senior Management Remuneration**

|                                               |         | <b>Salary, Fees<br/>and<br/>Allowances<br/>£</b> | <b>Expenses<br/>Allowances<br/>£</b> | <b>Pension<br/>Contribution<br/>£</b> | <b>Total<br/>£</b> |
|-----------------------------------------------|---------|--------------------------------------------------|--------------------------------------|---------------------------------------|--------------------|
| Chief Executive                               | 2013/14 | 107,125                                          | 3,850                                | 24,853                                | <b>135,828</b>     |
|                                               | 2012/13 | 105,077                                          | 3,850                                | 23,263                                | <b>132,190</b>     |
| Deputy Chief Executive                        | 2013/14 | 94,019                                           | 3,400                                | 21,535                                | <b>118,954</b>     |
|                                               | 2012/13 | 86,840                                           | 3,400                                | 19,465                                | <b>109,705</b>     |
| Chief Finance Officer                         | 2013/14 | 83,362                                           | 250                                  | 19,340                                | <b>102,952</b>     |
|                                               | 2012/13 | 73,913                                           | 250                                  | 16,926                                | <b>91,089</b>      |
| Senior Head of Community                      | 2013/14 | 66,155                                           | 2,832                                | 15,348                                | <b>84,335</b>      |
|                                               | 2012/13 | 65,500                                           | 2,832                                | 15,000                                | <b>83,332</b>      |
| Senior Head of Tourism and<br>Leisure         | 2013/14 | 66,155                                           | 2,832                                | 15,348                                | <b>84,335</b>      |
|                                               | 2012/13 | 65,500                                           | 2,832                                | 15,000                                | <b>83,332</b>      |
| Senior Head of Environment<br>and Development | 2013/14 | 68,074                                           | -                                    | 15,793                                | <b>83,867</b>      |
|                                               | 2012/13 | 67,400                                           | -                                    | 15,435                                | <b>82,835</b>      |

It should be noted that the figures for the Chief Executive and Deputy Chief Executive include fees payable for the role of Returning Officer and Deputy Returning Officer for electoral purposes. The amounts fluctuate between years, depending on what elections fall due during the financial year. The amounts paid in 2013/14 were £6,301 and £1,194 respectively (£4,211 and £1,840 in 2012/13).

The Deputy Chief Executive provided services for both this Council and East Sussex County Council. He was formally employed by this Council and the County Council was recharged 40% of his salary and other remuneration. This arrangement continued until 31st May 2013. From the 16th September 2013 he started to provide a service to Lewes District Council and 50% of his salary and on costs are recharged.

With effect from 1st September 2013 the Chief Finance Officer provides services for both this Council and Eastbourne Homes Ltd. He is formally employed by this Council and Eastbourne Homes Ltd are recharged an agreed fixed sum per annum.

**Remuneration Bands**

The Council's other employees (excluding those in the Senior Management table above) receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts:

| <b>Remuneration Band</b> | <b>2012/13</b>      | <b>2013/14</b>      |
|--------------------------|---------------------|---------------------|
|                          | Number of Employees | Number of Employees |
| £50,000 - £54,999        | 3                   | 5                   |
| £55,000 - £59,999        | 3 (1)               | 1                   |
| £60,000 - £64,999        | -                   | 2                   |
| £65,000 - £69,999        | 1 (1)               | 1 (1)               |
| £70,000 - £74,999        | 1 (1)               | 1 (1)               |
| <b>Total</b>             | <b>8 (3)</b>        | <b>10 (2)</b>       |

The figures in brackets relate to the number of employees who left during the year.

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below.

| Exit package cost band (including special payments)        | Number of compulsory redundancies |           | Number of other departures agreed |          | Total number of exit packages by cost band |           | Total cost of exit packages in each band |                |
|------------------------------------------------------------|-----------------------------------|-----------|-----------------------------------|----------|--------------------------------------------|-----------|------------------------------------------|----------------|
|                                                            | 2012/13                           | 2013/14   | 2012/13                           | 2013/14  | 2012/13                                    | 2013/14   | 2012/13<br>£                             | 2013/14<br>£   |
| £0 -£20,000                                                | 22                                | 11        | 4                                 | -        | 26                                         | 11        | 170,831                                  | 74,785         |
| £20,001 - £80,000                                          | 3                                 | 3         | -                                 | -        | 3                                          | 3         | 88,731                                   | 103,745        |
| Total cost included in bandings                            | <b>25</b>                         | <b>14</b> | <b>4</b>                          | <b>-</b> | <b>29</b>                                  | <b>14</b> | <b>259,562</b>                           | <b>178,530</b> |
| Add: Amounts provided for in CIES not included in bandings | -                                 | -         | -                                 | -        | -                                          | -         | 153,107                                  | 45,325         |
| <b>Total</b>                                               | <b>25</b>                         | <b>14</b> | <b>4</b>                          | <b>-</b> | <b>29</b>                                  | <b>14</b> | <b>412,669</b>                           | <b>223,855</b> |

The Comprehensive Income and Expenditure Statement includes a sum of £45,325 which has been agreed and is payable to 2 officers, where the decision has been taken to make the posts redundant but who have not yet left the authority. (£153,107 for 10 officers in 2012/13). These costs are not included in the bands and therefore an additional line has been added to reconcile to the total cost of termination benefits reported in the Comprehensive Income and Expenditure Statement.

### 13. RELATED PARTIES

#### 13.1 Definition

The term "related party" covers relationships between the Council and body or individual where one of the parties has the potential to control or influence the Council or be controlled or influenced by the Council.

#### 13.2 Central Government

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 17 (grants and contributions), 29 (debtors) and 30 (creditors).

#### 13.3 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 34. One Member is on the Pension Fund Investment Panel.

#### 13.4 Eastbourne Homes Limited

The responsibility for the management of Eastbourne's council housing stock was transferred to Eastbourne Homes Ltd, an arms length management company, on 1 April 2005. Eastbourne Homes Ltd is a company limited by guarantee without a share capital and is wholly owned by Eastbourne Borough Council. Its principal activities are to manage, maintain and improve the Council's housing stock.

The Council pays Eastbourne Homes Ltd a fee in accordance with the management agreement. In 2013/14 this fee was £6.814m, covering supervision and management and repairs. This compares with £6.945m paid in 2012/13. In addition, Eastbourne Homes Ltd obtains services from the Council under various Service Level Agreements. At the end of the year the Council owed Eastbourne Homes Ltd £2,536,000 (£1,726,000 at 31 March 2013), while Eastbourne Homes Ltd owed the Council £50,000 (£37,000 at 31 March 2013).

The company's accounts are consolidated into the Group Accounts. Copies of Eastbourne Homes Ltd's annual report and accounts can be obtained from their registered office at Ivy House, Ivy Terrace, Eastbourne, BN21 4QU.

The Chief Finance Officer for the Council also acts as Director of Corporate Services at Eastbourne Homes Ltd.

### 13.5 Welbeing previously known as Wealden and Eastbourne Lifeline (WEL)

The Council is an investor in Welbeing Ltd, a company limited by shares (2012/13 by guarantee). The Council has a minority voting interest following the purchase of 49% of voting shares on 19 December 2013 at par value of £238,000. The Council also loaned the company £912,000 (at an initial coupon rate of 8% increasing by 0.5% annually until 1 January 18). This instrument in shares and loans totals £1,150,000.

### 13.6 Eastbourne Leisure Trust

The Eastbourne Leisure Trust was set up to oversee the management and operation of the Sovereign Centre and Motcombe Pool, on which it holds a 15-year lease starting in 2004. The Trust is set up as an Independent Provident Society, without any local authority members. Members of staff at these centres are jointly employed by the Trust and the contractor, Serco. During the year Eastbourne Leisure Trust paid the Council £83,000 (2012-13 £101,000).

### 13.7 Members and senior officers

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2013/14 is shown in Note 11. Seven members are also members of East Sussex County Council. Grants totalling £76,000 (£104,000 in 2012/13) were paid to voluntary organisations in which 4 Members (4 Members in 2012/13) had positions on the governing body.

|                                    | <b>2012/13</b> | <b>2013/14</b> |
|------------------------------------|----------------|----------------|
|                                    | <b>£000</b>    | <b>£000</b>    |
| 3VA Voluntary Action Eastbourne    | 31             | 31             |
| Age Concern Eastbourne             | 11             | -              |
| Eastbourne & Wealden YMCA          | 52             | 40             |
| Hampden Park Community Association | 10             | 5              |
| <b>Total</b>                       | <b>104</b>     | <b>76</b>      |

In all instances, the grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Details of Members interests are recorded in the Register of Members' Interests, open to public inspection at the Town Hall during office hours and also on the Council's website <http://democracy.eastbourne.gov.uk/mgMemberIndex.aspx?bcr=1>

During 2013/14 works and services to the value of £45,000 (£41,000 in 2012/13) were commissioned from Jordan's Productions, a company in which one officer had an interest.

Details of payments to Members and officers are shown in notes 11 and 12.

### 13.8 CloudConnX

The Council is a minority (25% B class) shareholder in CloudConnX. The shares had only nominal value at the balance sheet date. In addition as at 31 March 2014 the Council has provided a commercial loan of £357,000 (£357,000 in 2012/13). Interest is charged on the loan at 1.5% above base rate for the loan period 2013-18. The Council's Chief Executive has been appointed a Director of the company.

## 14. LEASING

### 14.1 Operating leases – Council acting as lessor

The table below analyses future minimum lease income expiring during the periods shown below:

| <b>2012/13</b>       |                            | <b>2013/14</b>       |
|----------------------|----------------------------|----------------------|
| <b>Minimum Lease</b> |                            | <b>Minimum Lease</b> |
| <b>Income</b>        |                            | <b>Income</b>        |
| £000                 |                            | £000                 |
| 917                  | Within one year            | 951                  |
| 3,117                | Between two and five years | 3,077                |
| 40,518               | Later than five years      | 39,795               |
| <b>44,552</b>        | <b>Total</b>               | <b>43,823</b>        |

The lease income relates to various land and buildings owned by the Council and leased out on varying terms and conditions. The longest lease expires in 2111. The total rental income recognised in the Comprehensive Income and Expenditure Statement for 2013/14 was £1,249,000 (£1,162,000 in 2012/13). 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.

### 15. OBLIGATIONS UNDER LONG TERM LEASES

The Sovereign Centre and Motcombe Pool are leased out, as set out above in Note 13.6, to Eastbourne Leisure Trust for a period of 15 years from 2004. The Leisure Trust employs SERCO Leisure to manage the centres on a day to day basis. The Council retains the ownership of the centres, and also retains responsibility for their maintenance and improvement. These functions are also contracted to SERCO Leisure under contracts expiring in 2019/20. The Council has entered into three long term credit sale agreements with SERCO to renovate and improve the centres and to purchase items of capital equipment. The table below sets out the movements in the Council's obligations up to the end of 2013/14, and shows the projected repayments and amounts scheduled to be drawn down for 2014/15.

|                                            | Agreement 1    | Agreement 2  | Agreement 3  | Total          |
|--------------------------------------------|----------------|--------------|--------------|----------------|
| Starting Date                              | October 2004   | June 2008    | June 2009    |                |
| Completion Date                            | May 2019       | April 2019   | April 2019   |                |
|                                            | £000           | £000         | £000         | £000           |
| <b>Total credit sales facility</b>         | <b>2,614</b>   | <b>350</b>   | <b>250</b>   | <b>3,214</b>   |
| <b>Liability outstanding 31 March 2013</b> | <b>(1,077)</b> | <b>(226)</b> | <b>(181)</b> | <b>(1,484)</b> |
| Drawn down 2013/14                         | (10)           | -            | -            | (10)           |
| Interest charge for 2013/14                | (122)          | (16)         | (13)         | (151)          |
| Gross repayments for 2013/14               | 315            | 47           | 37           | 399            |
| <b>Liability outstanding 31 March 2014</b> | <b>(894)</b>   | <b>(195)</b> | <b>(157)</b> | <b>(1,246)</b> |
| <b>Remaining facility 31 March 2014</b>    | <b>320</b>     | <b>-</b>     | <b>-</b>     | <b>320</b>     |
|                                            |                |              |              |                |
| <b>2012/13</b>                             |                |              |              |                |
| <b>Future Minimum Payments</b>             |                |              |              |                |
| £000                                       |                |              |              |                |
| 399 Within one year                        |                |              |              |                |
| 1,597 Between two and five years           |                |              |              |                |
| 459 Later than five years                  |                |              |              |                |
| <b>2,455 Total</b>                         |                |              |              |                |
|                                            |                |              |              |                |
|                                            |                |              |              |                |
| <b>2013/14</b>                             |                |              |              |                |
| <b>Future Minimum Payments</b>             |                |              |              |                |
| £000                                       |                |              |              |                |
| 399                                        |                |              |              |                |
| 1,597                                      |                |              |              |                |
| 60                                         |                |              |              |                |
| <b>2,056</b>                               |                |              |              |                |

The Council has a long term credit agreement with Steria, for the implementation of a programme of projects, including the Council's Agile project. The agreement started 1 January 2007 and expires 31 December 2021. Steria provide services and equipment which is being repaid over 15 years.

|                                            | £000           |
|--------------------------------------------|----------------|
| <b>Total credit sales facility</b>         | <b>2,710</b>   |
| <b>Liability outstanding 31 March 2013</b> | <b>(1,260)</b> |
| Drawn down 2013/14                         | (1)            |
| Gross repayments for 2013/14               | 176            |
| <b>Liability outstanding 31 March 2014</b> | <b>(1,085)</b> |
| <b>Remaining facility 31 March 2014</b>    | <b>473</b>     |
| <b>2012/13</b>                             |                |
| <b>2013/14</b>                             |                |

| Future Minimum Payments |                            | Future Minimum Payments |  |
|-------------------------|----------------------------|-------------------------|--|
| £000                    |                            | £000                    |  |
| 176                     | Within one year            | 181                     |  |
| 758                     | Between two and five years | 782                     |  |
| 799                     | Later than five years      | 595                     |  |
| <b>1,733</b>            | <b>Total</b>               | <b>1,558</b>            |  |

## 16 TRADING OPERATIONS

The Council has two trading operations; solar panel installation programme and catering. Trading operation results are incorporated into the Comprehensive Income and Expenditure Statement as Financing and Investment Income and Expenditure.

The Council has invested in the installation of solar panels on council buildings and council dwellings for which future income will be generated through feed in tariffs.

Catering is the provision of meals and refreshment facilities at Council venues and includes catering for functions, weddings and conferences etc.

| 2012/13   |                          | 2013/14      |                |           |
|-----------|--------------------------|--------------|----------------|-----------|
| Net       |                          | Expenditure  | Income         | Net       |
| £000      |                          | £000         | £000           | £000      |
| (171)     | Solar Panel Installation | 163          | (362)          | (199)     |
| 214       | Catering                 | 1,180        | (961)          | 219       |
| <b>43</b> | <b>Total</b>             | <b>1,343</b> | <b>(1,323)</b> | <b>20</b> |

## 17 GRANTS AND CONTRIBUTIONS RECEIVABLE

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

| 2012/13                                                                       |                |                 | 2013/14         |                |                 |
|-------------------------------------------------------------------------------|----------------|-----------------|-----------------|----------------|-----------------|
| Grants                                                                        | Contribs.      | Total           | Grants          | Contribs.      | Total           |
| £000                                                                          | £000           | £000            | £000            | £000           | £000            |
| <b>Grants and contributions within Cost of Services</b>                       |                |                 |                 |                |                 |
| (7)                                                                           | -              | (7)             | -               | -              | -               |
| (58,656)                                                                      | -              | (58,656)        | (49,614)        | -              | (49,614)        |
| (568)                                                                         | (2,602)        | (3,170)         | (283)           | (3,135)        | (3,418)         |
| <b>(59,231)</b>                                                               | <b>(2,602)</b> | <b>(61,833)</b> | <b>(49,897)</b> | <b>(3,315)</b> | <b>(53,032)</b> |
| <b>Grants and contributions within Taxation and non-specific grant income</b> |                |                 |                 |                |                 |
| (133)                                                                         | -              | (133)           | (4,796)         | -              | (4,796)         |
| (6,879)                                                                       | -              | (6,879)         | -               | -              | -               |
| -                                                                             | -              | -               | (376)           | -              | (376)           |
| (207)                                                                         | -              | (207)           | (81)            | -              | (81)            |
| (347)                                                                         | -              | (347)           | (584)           | -              | (584)           |
| (14)                                                                          | -              | (14)            | (16)            | -              | (16)            |
| (60)                                                                          | -              | (60)            | (1,297)         | -              | (1,297)         |
| -                                                                             | -              | -               | (33)            | -              | (33)            |
| -                                                                             | -              | -               | (6)             | -              | (6)             |
| -                                                                             | -              | -               | (8)             | -              | (8)             |

| 2012/13         |              |                 | 2013/14                                                    |             |                                                      |
|-----------------|--------------|-----------------|------------------------------------------------------------|-------------|------------------------------------------------------|
| Grants          | Contribs.    | Total           | Grants                                                     | Contribs.   | Total                                                |
| -               | -            | -               |                                                            |             |                                                      |
|                 |              |                 |                                                            |             | Capitalisation Provision                             |
|                 |              |                 | (25)                                                       | -           | Redistribution                                       |
|                 |              |                 | (3)                                                        | -           | Transparency Grant                                   |
| (3,732)         | (582)        | (4,314)         | (982)                                                      | (16)        | Grants and contributions towards capital expenditure |
| <b>(11,372)</b> | <b>(582)</b> | <b>(11,954)</b> | <b>(8,207)</b>                                             | <b>(16)</b> | <b>(8,223)</b>                                       |
|                 |              |                 | <b>Total within Taxation and non-specific grant income</b> |             |                                                      |

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at year end were £121,000 (2012/13 £161,000).

## 18 TRANSFER TO/ FROM EARMARKED RESERVES

Transfers from and to the General Fund and HRA to earmarked reserves are as follows:

| Reserve                              | Bal 31<br>March 12<br>£000 | Movement<br>2012/13<br>£000 | Bal 31<br>March 13<br>£000 | Movement<br>2013/14<br>£000 | Bal 31<br>March 14<br>£000 |
|--------------------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| <b>General Fund:</b>                 |                            |                             |                            |                             |                            |
| General Earmarked Reserve            | (261)                      | (168)                       | (429)                      | (190)                       | (619)                      |
| Strategic Change Reserve             | (517)                      | 208                         | (309)                      | (903)                       | (1,212)                    |
| Capital Programme                    | (939)                      | 295                         | (644)                      | (468)                       | (1,112)                    |
| Revenue Grants Reserve               | (1,240)                    | 219                         | (1,021)                    | 89                          | (932)                      |
| Regeneration Reserve                 | (551)                      | 162                         | (389)                      | (372)                       | (761)                      |
|                                      | <b>(3,508)</b>             | <b>716</b>                  | <b>(2,792)</b>             | <b>(1,844)</b>              | <b>(4,636)</b>             |
| <b>HRA</b>                           |                            |                             |                            |                             |                            |
| HRA Leaseholders Major Works Reserve | (308)                      | (33)                        | (341)                      | (18)                        | (359)                      |
| Riverbourne Hse Leaseholders Reserve | (31)                       | 18                          | (13)                       | (3)                         | (16)                       |
| Housing Regeneration and Investment  | -                          | (298)                       | (298)                      | (532)                       | (830)                      |
|                                      | <b>(339)</b>               | <b>(313)</b>                | <b>(652)</b>               | <b>(553)</b>                | <b>(1,205)</b>             |
| <b>Total Earmarked Reserves</b>      | <b>(3,847)</b>             | <b>403</b>                  | <b>(3,444)</b>             | <b>(2,397)</b>              | <b>(5,841)</b>             |

The purpose of the reserves is set out below:

General Reserve: this reserve is used where the Council carries forward under spent departmental budgets to the new financial year. This reserve will be reviewed and distributed between General Fund and Strategic Change Fund as appropriate, as part of the budget setting process.

Strategic Change: this reserve was set up to finance one off investments under the Council's DRIVE programme that are required for development or the release of ongoing efficiencies.

Capital Programme: this reserve is intended to be used for financing of one-off capital schemes.

Revenue Grants: this reserve is used to enable grants received in one financial year to be carried forward and used to finance revenue spending in future years.

Regeneration: this reserve was set up to support initiatives for growth

HRA Leaseholders Major Works and Riverbourne House leaseholders: these reserves are for future maintenance.

## 19 AMOUNT REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement);
- The cost of retirement benefits is based on cash flows (payments of employer's pension contributions) rather than current service cost of benefits accrued in the year;
- Expenditure on some support services is budgeted for centrally and not charged to directorates;
- Some grants and contributions receivable, in particular capital grants and contributions, are included in the Comprehensive Income and Expenditure Statement but not credited to directorates.

The income and expenditure of the Council's principal directorates recorded in the budget reports for the year is as follows:

| <b>Directorate Income and Expenditure 2013/14</b> | <b>Corporate Services</b> | <b>Community Services</b> | <b>Environmental Services*</b> | <b>Tourism and Leisure</b> | <b>Total</b>    |
|---------------------------------------------------|---------------------------|---------------------------|--------------------------------|----------------------------|-----------------|
|                                                   | £000                      | £000                      | £000                           | £000                       | £000            |
| Customer & Client Receipts                        | (3,131)                   | (17,851)                  | -                              | (7,847)                    | <b>(28,829)</b> |
| Interest                                          | -                         | (5)                       | -                              | -                          | <b>(5)</b>      |
| Government Grants and Contributions               | (1,2)                     | (51,043)                  | -                              | (1,414)                    | <b>(54,069)</b> |
| <b>Total Income</b>                               | <b>(4,743)</b>            | <b>(68,899)</b>           | <b>-</b>                       | <b>(9,261)</b>             | <b>(82,903)</b> |
| Employee expenses                                 | 6,314                     | 2,716                     | -                              | 4,506                      | <b>13,536</b>   |
| Other Service Expenses                            | 9,733                     | 65,242                    | -                              | 8,172                      | <b>83,147</b>   |
| <b>Total Expenditure</b>                          | <b>16,047</b>             | <b>67,958</b>             | <b>-</b>                       | <b>12,678</b>              | <b>96,683</b>   |
| <b>Net Expenditure</b>                            | <b>11,304</b>             | <b>(941)</b>              | <b>-</b>                       | <b>3,417</b>               | <b>13,780</b>   |

#### **2012/13 Comparative figures**

|                                     |                |                 |                |                |                 |
|-------------------------------------|----------------|-----------------|----------------|----------------|-----------------|
| Customer & Client Receipts          | (939)          | (16,920)        | (2,493)        | (7,144)        | <b>(27,496)</b> |
| Interest                            | -              | (33)            | -              | -              | <b>(33)</b>     |
| Government Grants and Contributions | (877)          | (61,936)        | (641)          | (1,367)        | <b>(64,821)</b> |
| <b>Total Income</b>                 | <b>(1,816)</b> | <b>(79,205)</b> | <b>(3,200)</b> | <b>(8,511)</b> | <b>(92,350)</b> |
| Employee expenses                   | 4,404          | 2,565           | 2,434          | 4,174          | <b>13,577</b>   |
| Other Service Expenses              | 2,976          | 75,411          | 7,909          | 8,274          | <b>94,570</b>   |
| <b>Total Expenditure</b>            | <b>7,380</b>   | <b>77,976</b>   | <b>10,343</b>  | <b>12,448</b>  | <b>108,147</b>  |
| <b>Net Expenditure</b>              | <b>5,564</b>   | <b>(913)</b>    | <b>7,209</b>   | <b>3,937</b>   | <b>15,797</b>   |

\*New for 2013-14 - Environmental Services has undergone a restructure and now falls within Customer First as part of Corporate Services.

#### **Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement**

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the comprehensive income and expenditure statement.

|                                                                                                         | <b>2012/13</b> | <b>2013/14</b> |
|---------------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                         | £000           | £000           |
| Net expenditure in the directorate analysis                                                             | 15,797         | 13,780         |
| Amounts not included in the analysis but included in the Comprehensive Income and Expenditure Statement | 3,732          | (5,185)        |
| Amounts included in the analysis but not included in the Comprehensive Income and Expenditure Statement | (1,681)        | (2,289)        |
| <b>Cost of services in Comprehensive Income and Expenditure Statement</b>                               | <b>17,848</b>  | <b>6,306</b>   |

**Reconciliation to Subjective Analysis**

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

| <b>2013/14 - General Fund and HRA</b>                    | <b>Directorate<br/>Analysis</b> | <b>Amounts not<br/>reported to<br/>management<br/>for decision<br/>making</b> | <b>Amounts<br/>not<br/>included in<br/>I&amp;E</b> | <b>Cost of<br/>Services</b> | <b>Corporate<br/>Amounts</b> | <b>Total</b>     |
|----------------------------------------------------------|---------------------------------|-------------------------------------------------------------------------------|----------------------------------------------------|-----------------------------|------------------------------|------------------|
|                                                          | £000                            | £000                                                                          | £000                                               | £000                        | £000                         | £000             |
| Fees, charges and other service income                   | (28,829)                        | (61)                                                                          | 1,714                                              | <b>(27,176)</b>             | (1,715)                      | <b>(28,891)</b>  |
| Interest and investment income                           | (5)                             | 2                                                                             | 3                                                  | -                           | (80)                         | <b>(80)</b>      |
| Income from Council Tax                                  | -                               | -                                                                             | -                                                  | -                           | (7,268)                      | <b>(7,268)</b>   |
| Business Rates Retention                                 | -                               | -                                                                             | -                                                  | -                           | (2,597)                      | <b>(2,597)</b>   |
| Government grants and contributions                      | (54,069)                        | (1,400)                                                                       | 18                                                 | <b>(55,451)</b>             | (8,225)                      | <b>(63,676)</b>  |
| <b>Total Income</b>                                      | <b>(82,903)</b>                 | <b>(1,459)</b>                                                                | <b>1,735</b>                                       | <b>(82,627)</b>             | <b>(19,885)</b>              | <b>(102,512)</b> |
| Employee expenses                                        | 13,536                          | (341)                                                                         | (522)                                              | <b>12,673</b>               | 1,812                        | <b>14,485</b>    |
| Other Service Expenses                                   | 77,656                          | 2,186                                                                         | (1,303)                                            | <b>78,539</b>               | 686                          | <b>79,225</b>    |
| Support Service Recharges                                | 8                               | (8)                                                                           | (135)                                              | <b>(135)</b>                | 135                          | -                |
| Depreciation, amortisation and impairment                | 3,392                           | (5,549)                                                                       | 13                                                 | <b>(2,144)</b>              | -                            | <b>(2,144)</b>   |
| Interest payments                                        | 1,898                           | (14)                                                                          | (1,884)                                            | -                           | 2,066                        | <b>2,066</b>     |
| Precepts and Levies                                      | 193                             | -                                                                             | (193)                                              | -                           | 193                          | <b>193</b>       |
| Payments to Housing Capital Receipts Pool                | -                               | -                                                                             | -                                                  | -                           | 250                          | <b>250</b>       |
| Gain or Loss on Disposal of Fixed Assets                 | -                               | -                                                                             | -                                                  | -                           | 10,886                       | <b>10,886</b>    |
| <b>Total Expenditure</b>                                 | <b>96,683</b>                   | <b>(3,726)</b>                                                                | <b>(4,024)</b>                                     | <b>88,933</b>               | <b>16,028</b>                | <b>104,961</b>   |
| <b>(Surplus) or deficit on the provision of services</b> | <b>13,780</b>                   | <b>(5,185)</b>                                                                | <b>(2,289)</b>                                     | <b>6,306</b>                | <b>(3,857)</b>               | <b>2,449</b>     |

| <b>2012/13 - General Fund and HRA</b>                  | <b>Directorate<br/>Analysis</b> | <b>Amounts not<br/>reported to<br/>management<br/>for decision<br/>making</b> | <b>Amounts<br/>not<br/>included in<br/>I&amp;E</b> | <b>Cost of<br/>Services</b> | <b>Corporate<br/>Amounts</b> | <b>Total</b>     |
|--------------------------------------------------------|---------------------------------|-------------------------------------------------------------------------------|----------------------------------------------------|-----------------------------|------------------------------|------------------|
|                                                        | £000                            | £000                                                                          | £000                                               | £000                        | £000                         | £000             |
| Fees, charges and other service income                 | (27,496)                        | 15                                                                            | 1,278                                              | <b>(26,203)</b>             | (1,278)                      | <b>(27,481)</b>  |
| Interest and investment income                         | (33)                            | (1)                                                                           | 34                                                 | -                           | (127)                        | <b>(127)</b>     |
| Income from Council Tax                                | -                               | -                                                                             | -                                                  | -                           | (8,317)                      | <b>(8,317)</b>   |
| National Non-Domestic Rates redistribution             | -                               | -                                                                             | -                                                  | -                           | (6,879)                      | <b>(6,879)</b>   |
| Government grants and contributions                    | (64,821)                        | (202)                                                                         | 237                                                | <b>(64,786)</b>             | (5,077)                      | <b>(68,863)</b>  |
| <b>Total Income</b>                                    | <b>(92,350)</b>                 | <b>(188)</b>                                                                  | <b>1,549</b>                                       | <b>(90,989)</b>             | <b>(21,678)</b>              | <b>(112,667)</b> |
| Employee expenses                                      | 13,577                          | (403)                                                                         | (105)                                              | <b>13,069</b>               | 1,279                        | <b>14,348</b>    |
| Other Service Expenses                                 | 89,053                          | 817                                                                           | (837)                                              | <b>89,033</b>               | 559                          | <b>89,592</b>    |
| Support Service Recharges                              | (105)                           | -                                                                             | (269)                                              | <b>(374)</b>                | 269                          | <b>(105)</b>     |
| Depreciation, amortisation and impairment              | 3,603                           | 3,506                                                                         | -                                                  | <b>7,109</b>                | -                            | <b>7,109</b>     |
| Interest payments                                      | 1,834                           | -                                                                             | (1,834)                                            | -                           | 1,982                        | <b>1,982</b>     |
| Precepts and Levies                                    | 185                             | -                                                                             | (185)                                              | -                           | 185                          | <b>185</b>       |
| Payments to Housing Capital Receipts Pool              | -                               | -                                                                             | -                                                  | -                           | 198                          | <b>198</b>       |
| Gain or Loss on Disposal of Fixed Assets               | -                               | -                                                                             | -                                                  | -                           | 9,808                        | <b>9,808</b>     |
| <b>Total Expenditure</b>                               | <b>108,147</b>                  | <b>3,920</b>                                                                  | <b>(3,230)</b>                                     | <b>108,837</b>              | <b>14,280</b>                | <b>123,117</b>   |
| <b>Surplus or deficit on the provision of services</b> | <b>15,797</b>                   | <b>3,732</b>                                                                  | <b>(1,681)</b>                                     | <b>17,848</b>               | <b>(7,398)</b>               | <b>10,450</b>    |

**20 SUMMARY OF CAPITAL EXPENDITURE AND FINANCING**

The Capital Financing Requirement represents the Council's net need to borrow to finance its capital investment, made up of all funding of capital from loans in previous years, less amounts set aside each year for the redemption of debt.

| <b>2012/13</b>  |               |                                                                                           | <b>2013/14</b> |               |
|-----------------|---------------|-------------------------------------------------------------------------------------------|----------------|---------------|
| £000            | £000          |                                                                                           | £000           | £000          |
|                 | <b>53,649</b> | <b>Opening Capital Financing Requirement</b>                                              |                | <b>55,896</b> |
|                 |               | Capital Investment:                                                                       |                |               |
| 7,144           |               | Council dwellings                                                                         | 7,037          |               |
| 1,027           |               | Other land and buildings                                                                  | 1,759          |               |
| 1,396           |               | Vehicles plant furniture and equipment                                                    | 857            |               |
| 38              |               | Infrastructure                                                                            | 317            |               |
| 111             |               | Community assets                                                                          | 54             |               |
| <hr/>           |               |                                                                                           | <hr/>          |               |
| 9,716           |               | Total Property plant and equipment                                                        | 10,024         |               |
| 134             |               | Heritage Assets                                                                           | 70             |               |
| 1,302           |               | Intangible assets                                                                         | 1,660          |               |
| 960             |               | Revenue expenditure financed from capital under statute (REFFCUS)                         | 1,069          |               |
| -               |               | Leaseholder Improvements                                                                  | 56             |               |
| 164             |               | Loans and Advances                                                                        | -              |               |
| -               |               | Local Authority Mortgage Scheme                                                           | 1,000          |               |
| -               |               | Loan Facility to Sea Change Sussex                                                        | 850            |               |
| -               |               | Investment in shares and loans to Welbeing                                                | 1,150          |               |
| <hr/>           |               |                                                                                           | <hr/>          |               |
| <b>12,276</b>   |               | <b>Total capital investment</b>                                                           | <b>15,879</b>  |               |
|                 |               | Sources of finance:                                                                       |                |               |
| (2,450)         |               | Capital receipts                                                                          | (144)          |               |
| (737)           |               | Grants and contributions towards REFFCUS                                                  | (640)          |               |
| (3,895)         |               | Other grants and contributions                                                            | (1,132)        |               |
|                 |               | Sums set aside from Revenue:                                                              |                |               |
| (2,010)         |               | Major repairs reserve                                                                     | (5,757)        |               |
| (223)           |               | Leaseholders                                                                              | (57)           |               |
| (714)           |               | Revenue provision for repayment of debt                                                   | (1,058)        |               |
| -               |               | Revenue Contribution to capital                                                           | (495)          |               |
| <hr/>           |               |                                                                                           | <hr/>          |               |
| <b>(10,029)</b> |               | <b>Capital financing</b>                                                                  | <b>(9,283)</b> |               |
|                 | <hr/>         |                                                                                           | <hr/>          |               |
|                 | <b>55,896</b> | <b>Closing Capital Financing Requirement</b>                                              |                | <b>62,492</b> |
|                 |               | <b>Explanation of movements in year</b>                                                   |                |               |
|                 | 2,247         | Increase in underlying need to borrowing (unsupported by government financial assistance) |                | 6,596         |
|                 | <b>2,247</b>  | <b>Increase/(decrease) in Capital Financing Requirement</b>                               |                | <b>6,596</b>  |

The Capital Financing Requirement reflects various items in the Balance Sheet, as shown below:

| <b>31 March 2013</b><br><b>Restated</b> |                                        | <b>31 March 2014</b> |
|-----------------------------------------|----------------------------------------|----------------------|
| £000                                    |                                        | £000                 |
| 123,114                                 | Council Dwellings                      | 125,716              |
| 57,856                                  | Other Land and Buildings               | 60,713               |
| 7,002                                   | Vehicles Plant Furniture and Equipment | 6,889                |
| 25,429                                  | Infrastructure                         | 20,135               |
| 2,318                                   | Community Assets                       | 2,373                |
| -                                       | Assets Under Construction              | -                    |
| 55                                      | Surplus Assets for Disposal            | 55                   |
| <hr/>                                   |                                        |                      |
| 215,774                                 | Total Property plant and equipment     | 215,881              |
| 13,044                                  | Heritage Assets                        | 13,114               |
| 1,626                                   | Investment Property                    | 1,626                |
| 1,902                                   | Intangible Assets                      | 3,098                |
| 606                                     | Assets Held For Sale                   | 606                  |
| 357                                     | Loans and Advances                     | 3,357                |
| (25,962)                                | Revaluation Reserve                    | (26,385)             |
| (151,451)                               | Capital Adjustment Account             | (148,805)            |
| <hr/>                                   |                                        |                      |
| <b>55,896</b>                           | <b>Capital Financing Requirement</b>   | <b>62,492</b>        |

## 21 PROPERTY PLANT AND EQUIPMENT

### 21.1 Reconciliation of opening and closing balances

The table below shows the movements in the various categories for the year:

|                                                                                      | <b>Council<br/>Dwellings</b> | <b>Other Land<br/>&amp;<br/>Buildings</b> | <b>Vehicles,<br/>Plant &amp;<br/>Equip.</b> | <b>Infra-<br/>structure</b> | <b>Commun.</b> | <b>Surplus<br/>Props.</b> | <b>Total</b>    |
|--------------------------------------------------------------------------------------|------------------------------|-------------------------------------------|---------------------------------------------|-----------------------------|----------------|---------------------------|-----------------|
|                                                                                      | £000                         | £000                                      | £000                                        | £000                        | £000           | £000                      | £000            |
| Cost or Valuation at 1 April 2013                                                    | 129,311                      | 60,440                                    | 9,929                                       | 38,532                      | 2,882          | 55                        | <b>241,149</b>  |
| Additions                                                                            | 7,037                        | 1,759                                     | 857                                         | 317                         | 54             | -                         | <b>10,024</b>   |
| Revaluation decreases recognised in the Revaluation Reserve                          | -                            | (72)                                      | -                                           | -                           | -              | -                         | <b>(72)</b>     |
| Revaluation increases recognised in the Surplus/Deficit on the Provision of Services | 6,952                        | 2,325                                     | -                                           | -                           | -              | -                         | <b>9,277</b>    |
| De-recognition - Disposals                                                           | (8,272)                      | (7)                                       | -                                           | (5,031)                     | -              | -                         | <b>(13,310)</b> |
| Assets Reclassified                                                                  | 160                          | (160)                                     | -                                           | -                           | -              | -                         | -               |
| Other movements in cost, valuation or reclassification                               | -                            | -                                         | (1)                                         | -                           | -              | -                         | <b>(1)</b>      |
| <b>At 31 March 2014</b>                                                              | <b>135,188</b>               | <b>64,285</b>                             | <b>10,785</b>                               | <b>33,818</b>               | <b>2,936</b>   | <b>55</b>                 | <b>247,067</b>  |
| <b>Accumulated Depreciation and Impairment</b>                                       |                              |                                           |                                             |                             |                |                           |                 |
| At 1 April 2013                                                                      | (6,197)                      | (2,584)                                   | (2,927)                                     | (13,103)                    | (564)          | -                         | <b>(25,375)</b> |
| Depreciation Charge                                                                  | (3,374)                      | (1,313)                                   | (970)                                       | (962)                       | -              | -                         | <b>(6,619)</b>  |

|                                                                              | Council Dwellings | Other Land & Buildings | Vehicles, Plant & Equip. | Infra-structure | Commun.      | Surplus Props. | Total           |
|------------------------------------------------------------------------------|-------------------|------------------------|--------------------------|-----------------|--------------|----------------|-----------------|
| Depreciation written out to the Surplus/Deficit on the Provision of Services | -                 | 322                    | -                        | -               | -            | -              | 322             |
| De-recognition - disposal                                                    | 102               | -                      | -                        | 382             | -            | -              | 484             |
| De-recognition - other                                                       | (3)               | 3                      | 1                        | -               | 1            | -              | 2               |
| <b>At 31 March 2014</b>                                                      | <b>(9,472)</b>    | <b>(3,572)</b>         | <b>(3,896)</b>           | <b>(13,683)</b> | <b>(563)</b> | <b>-</b>       | <b>(31,186)</b> |
| <b>Net Book Value</b>                                                        |                   |                        |                          |                 |              |                |                 |
| At 31 March 2014                                                             | 125,716           | 60,713                 | 6,889                    | 20,135          | 2,373        | 55             | 215,881         |
| At 31 March 2013                                                             | 123,114           | 57,856                 | 7,003                    | 25,429          | 2,317        | 55             | 215,774         |

The equivalent figures for 2012/13 are shown below:

|                                                             | Council Dwellings | Other Land & Buildings | Vehicles, Plant & Equip. | Infra-structure | Commun.      | Surplus Props. | Total           |
|-------------------------------------------------------------|-------------------|------------------------|--------------------------|-----------------|--------------|----------------|-----------------|
|                                                             | £000              | £000                   | £000                     | £000            | £000         | £000           | £000            |
| Restated                                                    | £000              | £000                   | £000                     | £000            | £000         | £000           | £000            |
| Balance at 1 April 2012                                     | 132,955           | 60,211                 | 10,253                   | 38,494          | 2,771        | 55             | 244,739         |
| Additions                                                   | 7,144             | 1,027                  | 1,396                    | 38              | 111          | -              | 9,716           |
| Revaluation increases recognised in the Revaluation Reserve | 606               | 31                     | -                        | -               | -            | -              | 637             |
| De-recognition - Disposal                                   | (10,796)          | (678)                  | (1,745)                  | -               | -            | -              | (13,219)        |
| Assets Reclassified (to)/from Held for Sale                 | (606)             | -                      | -                        | -               | -            | -              | (606)           |
| Other movements in cost, valuation or reclassification      | 8                 | (151)                  | 25                       | -               | -            | -              | (118)           |
| <b>Balance at 31 March 2013</b>                             | <b>129,311</b>    | <b>60,440</b>          | <b>9,929</b>             | <b>38,532</b>   | <b>2,882</b> | <b>55</b>      | <b>241,149</b>  |
| <b>Accumulated Depreciation and Impairment</b>              |                   |                        |                          |                 |              |                |                 |
| At 1 April 2012                                             | (2,770)           | (1,436)                | (3,639)                  | (12,142)        | (564)        | -              | (20,551)        |
| Depreciation Charge                                         | (3,586)           | (1,300)                | (1,033)                  | (961)           | -            | -              | (6,880)         |
| De-recognition - disposal                                   | 167               | -                      | 1,745                    | -               | -            | -              | 1,912           |
| De-recognition - other                                      | (8)               | 152                    | -                        | -               | -            | -              | 144             |
| <b>At 31 March 2013</b>                                     | <b>(6,197)</b>    | <b>(2,584)</b>         | <b>(2,927)</b>           | <b>(13,103)</b> | <b>(564)</b> | <b>-</b>       | <b>(25,375)</b> |
| <b>Net Book Value</b>                                       |                   |                        |                          |                 |              |                |                 |
| At 31 March 2013                                            | 123,114           | 57,856                 | 7,002                    | 25,429          | 2,318        | 55             | 215,774         |
| At 31 March 2012                                            | 130,185           | 58,775                 | 6,614                    | 26,352          | 2,207        | 55             | 224,188         |

## 21.2 Valuation of Property

Three of the categories shown in the tables above (council dwellings, other land and buildings and surplus properties) are subject to periodic revaluation: all such assets are revalued at 5-year intervals. These were last valued as at 1 April 2011 by the Wilkes, Head & Eve.

The next full revaluation, for all three categories of assets, is due to be carried out as at 1 April 2016. However, specific valuations were completed for the Town Hall, Bandstand, Western View Café, the Crematorium and Towner where there had been significant improvements carried out, to ensure the asset valuation is not materially mis-stated; these resulted in the impairments and revaluations for other land and building. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

An annual desk top revaluation review is carried out for all property to identify any material changes in value. As at 31 March 2014 the valuers advised an increase of 5.5% for council dwellings since the valuation as at 1 April 2011, excluding any consideration of capital expenditure. This has resulted in an upward revaluation of £7 million and a disposal relating to replaced components of £11 million.

During 2013/14 it was noted that the original external professional valuation in 2011/12 for Other Land and Building was valued using the 'Red Book' DRC methodology, which allows for construction periods and finance charges. CIPFA guidance requires valuations to be based on the 'Instant Build' DRC methodology which assumes buildings are replaced instantly and without need for finance costs/charges. This has resulted in an impairment of £2.8m and the 2012/13 accounts have been restated to reflect this.

During 2013-14 there was a significant disposal of £4.6m to beach defences due to loss of shingle following severe weather conditions.

|                                | Council<br>Dwellings | Other Land<br>&<br>Buildings | Vehicles,<br>Plant &<br>Equip. | Surplus<br>Proprs. | Total          |
|--------------------------------|----------------------|------------------------------|--------------------------------|--------------------|----------------|
|                                | £000                 | £000                         | £000                           | £000               | £000           |
| Carried at Historical Cost     |                      | 306                          | 6,889                          |                    | 7,195          |
| Values at fair value as at:    |                      |                              |                                |                    |                |
| 31 March 2012                  | 125,716              | 50,850                       |                                | 55                 | 176,621        |
| 31 March 2014                  |                      | 9,557                        |                                |                    | 9,557          |
| <b>Total Cost or Valuation</b> | <b>125,716</b>       | <b>60,713</b>                | <b>6,889</b>                   | <b>55</b>          | <b>193,373</b> |

### 21.3 Depreciation

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

Council dwellings – 60 years  
 Other land and buildings – 20 – 60 years  
 Vehicles Plant and Equipment – 3 – 25 years  
 Infrastructure – 10 – 40 years.

### 21.4 Capital Commitments

At 31 March 2014, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment to cost £4,640,000 as detailed in the table below. Similar commitments at 31 March 2013 were £1,480,000.

|                                          | 2014/15      | 2015/16    | Total        |
|------------------------------------------|--------------|------------|--------------|
|                                          | £000         | £000       | £000         |
| Improvement of Council Dwellings         | 1,880        | -          | 1,880        |
| Provision of new social housing          | 250          | -          | 250          |
| Coast Defences Beach Management Strategy | 250          | -          | 250          |
| Bandstand Restoration                    | 18           | -          | 18           |
| Future Model                             | 1,309        | 500        | 1,809        |
| IT                                       | 148          | -          | 148          |
| Parks & Gardens                          | 101          | -          | 101          |
|                                          | <b>3,956</b> | <b>500</b> | <b>4,456</b> |

21.5 Impairment Losses

During 2013/14 the Council has recognised a total impairment loss of £8.3m (£23m in 2012/13) in the Comprehensive Income and Expenditure Statement, as detailed below.

| <b>2013/14</b>           | <b>Impairment Charges to (Surplus)/Deficit</b> | <b>Impairment Charges to Revaluation Reserve</b> | <b>Total</b> |
|--------------------------|------------------------------------------------|--------------------------------------------------|--------------|
|                          | £000                                           | £000                                             | £000         |
| Council Dwellings        | 8,170                                          | -                                                | 8,170        |
| Other Land and Buildings | 7                                              | 72                                               | 79           |
| Intangible Assets        | 7                                              | -                                                | 7            |
|                          | <b>8,184</b>                                   | <b>72</b>                                        | <b>8,256</b> |

| <b>2012/13</b>           | <b>Impairment Charges to (Surplus)/Deficit</b> | <b>Impairment Charges to Revaluation Reserve</b> | <b>Total</b>  |
|--------------------------|------------------------------------------------|--------------------------------------------------|---------------|
|                          | £000                                           | £000                                             | £000          |
| Council Dwellings        | 14,631                                         | -                                                | 14,631        |
| Other Land and Buildings | 1,714                                          | 1,716                                            | 3,430         |
| Investment Assets        | 4,936                                          | -                                                | 4,936         |
|                          | <b>21,281</b>                                  | <b>1,716</b>                                     | <b>22,997</b> |

**22 HERITAGE ASSETS**

Reconciliation of the carrying value of Heritage Assets held by the Council:

|                                 | <b>Historical Collection</b> | <b>Art Collection</b> | <b>Other</b> | <b>Buildings</b> | <b>Total</b>  |
|---------------------------------|------------------------------|-----------------------|--------------|------------------|---------------|
| <b>Cost or Valuation</b>        | <b>£000</b>                  | <b>£000</b>           | <b>£000</b>  | <b>£000</b>      | <b>£000</b>   |
| Balance at 1 April 2013         | 345                          | 11,861                | 162          | 676              | <b>13,044</b> |
| Additions                       | -                            | 45                    | -            | 25               | <b>70</b>     |
| <b>Balance at 31 March 2014</b> | <b>345</b>                   | <b>11,906</b>         | <b>162</b>   | <b>701</b>       | <b>13,114</b> |

The equivalent figures for 2012/13 are shown below:

|                                 | <b>Historical Collection</b> | <b>Art Collection</b> | <b>Other</b> | <b>Buildings</b> | <b>Total</b>  |
|---------------------------------|------------------------------|-----------------------|--------------|------------------|---------------|
| <b>Cost or Valuation</b>        | <b>£000</b>                  | <b>£000</b>           | <b>£000</b>  | <b>£000</b>      | <b>£000</b>   |
| Balance at 1 April 2012         | 345                          | 11,028                | 162          | 674              | <b>12,209</b> |
| Additions                       | -                            | 132                   | -            | 2                | <b>134</b>    |
| Revaluations                    | -                            | 701                   | -            | -                | <b>701</b>    |
| <b>Balance at 31 March 2013</b> | <b>345</b>                   | <b>11,861</b>         | <b>162</b>   | <b>676</b>       | <b>13,044</b> |

The Art Collection was valued by professional external valuers in 2012/13. The Collection will be valued every 10 years and an annual review will be carried out to ensure the value is not materially mis-stated. Heritage buildings were valued as at 1 April 2011 by an external professional valuer and will be revalued every 5 years. The historical collection has been valued with reference to the insurance value.

**Acquisitions Policy**

Towner, Eastbourne's contemporary art museum and centre for the visual arts in the South East, will continue to acquire objects in the following categories:

- Fine Art: paintings, watercolours, drawings, mixed media, photographs, prints and sculpture representative of the main developments in 19<sup>th</sup> and 20<sup>th</sup> century British art.
- Victorian Art: to complement the Towner Bequest.

- Works by important 20<sup>th</sup> century British artists, to enhance the existing collection.
- Works and material by and relating to Eric Ravilious (1903-42).
- Works by South East regional artists.
- Topographical pictures relating to East Sussex and the Eastbourne area.
- European Art: to complement the existing collections, for example the Irene Law Bequest of 17<sup>th</sup> and 18<sup>th</sup> century Dutch and Flemish paintings and 18<sup>th</sup> century British art, The Lucy Carrington Wertheim Bequest of 20<sup>th</sup> century European paintings.
- Contemporary art by British and International artists complementing the existing collections.

Towner recognises its responsibility, in acquiring material, to ensure adequate conservation, documentation and proper use of such material and takes into account limitations on collecting imposed by such factors as inadequate staffing, storage and conservation resources. Acquisitions outside the current stated policy will only be made in very exceptional circumstances, and then only after proper consideration by the governing body of the museum itself, having regard to the interests of other museums.

### Disposals Policy

The Council accepts the principle that there is a strong presumption against the disposal of any items in the Towner's collections. In those cases where Towner is free to dispose of an item it is agreed that any decision to sell or dispose of material from the collections should be taken only after due consideration. Once a decision to dispose of an item has been taken, priority will be given to retaining the item within the public domain and with this in view it will be offered first, by exchange, gift or sale to Registered museums before disposal to other interested individuals or organisations is considered.

Further information is available in Eastbourne Local History Museum and Towner's Acquisitions and Disposals Policy available from Towner.

### HERITAGE ASSETS: FIVE YEAR SUMMARY OF TRANSACTIONS

|                                                      | 2009/10  | 2010/11   | 2011/12    | 2012/13    | 2013/14   |
|------------------------------------------------------|----------|-----------|------------|------------|-----------|
|                                                      | £000     | £000      | £000       | £000       | £000      |
| <b>Cost of Acquisition of Heritage Assets</b>        |          |           |            |            |           |
| Art Collection                                       | 8        | -         | 185        | 119        | 29        |
| Buildings                                            | -        | -         | -          | 2          | -         |
| <b>Total Cost of Purchases</b>                       | <b>8</b> | <b>-</b>  | <b>185</b> | <b>121</b> | <b>29</b> |
| <b>Value of Heritage Assets Acquired by Donation</b> |          |           |            |            |           |
| Art Collection                                       | 7        | 12        | 18         | 13         | 16        |
| <b>Total Donations</b>                               | <b>7</b> | <b>12</b> | <b>18</b>  | <b>13</b>  | <b>16</b> |

There were no disposals or impairments during the past 5 years.

### 23 INVESTMENT PROPERTIES

In 2013/14 the Council received £394,000 as rental income from investment properties, compared to £392,000 received in 2012/13. Investment properties are held for the purpose of generating income. There are no restrictions on the Council's ability to realise the value inherent in its investment property or of the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligation to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The table below shows movements in the fair value for Investment Properties.

| 2012/13<br>Restated |                            | 2013/14      |
|---------------------|----------------------------|--------------|
| £000                |                            | £000         |
| 1,626               | Balance at 1 April         | 1,626        |
| <b>1,626</b>        | <b>Balance at 31 March</b> | <b>1,626</b> |

## 24 INTANGIBLE ASSETS

The Council accounts for its software as intangible assets to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets also cover the initial purchased licences on implementation.

All software is given a finite useful life based on assessments of the period that the software is expected to be of use to the Council. The useful lives assigned to the major software suites used by the Council range between three and ten years.

The annual movements in the balance sheet figures for intangible assets are shown below:

| <b>2012/13</b>   |                                            | <b>2013/14</b> |                  |                  |
|------------------|--------------------------------------------|----------------|------------------|------------------|
| <b>Net Total</b> |                                            | <b>Gross</b>   | <b>Amortised</b> | <b>Net Total</b> |
| £000             |                                            | £000           | £000             | £000             |
| 866              | Balance 1 April                            | 2,476          | (574)            | <b>1,902</b>     |
|                  | Written down to services:                  |                |                  |                  |
| (4)              | Central services to the public             | -              | (6)              | <b>(6)</b>       |
| (15)             | Cultural and related services              | -              | (2)              | <b>(2)</b>       |
| (2)              | Planning and development services          | -              | (2)              | <b>(2)</b>       |
| (13)             | Local Authority Housing (HRA)              | -              | (13)             | <b>(13)</b>      |
| (207)            | Support Services                           | -              | (434)            | <b>(434)</b>     |
| (241)            |                                            | -              | (457)            | <b>(457)</b>     |
| 1,302            | Added during year                          | 1,660          | -                | <b>1,660</b>     |
| -                | Written out on completion of expected life | (175)          | 168              | <b>(7)</b>       |
| (25)             | Other changes                              | -              | -                | -                |
| 1,036            | Net transactions during the year           | 1,485          | (289)            | <b>1,196</b>     |
| <b>1,902</b>     | <b>Balance at 31 March</b>                 | <b>3,961</b>   | <b>(863)</b>     | <b>3,098</b>     |

The total shown in the tables above for "Support Services" is recharged to other headings within the Comprehensive Income and Expenditure Statement through the overall recharges for overheads (see Note 2.17 above).

## 25 ASSETS HELD FOR SALE

|                                                  | <b>2012/13</b> | <b>2013/14</b> |
|--------------------------------------------------|----------------|----------------|
|                                                  | £000           | £000           |
| Balance at 1 April                               | 2,373          | 606            |
| <b>Assets newly classified as held for sale:</b> |                |                |
| Property, Plant & Equipment                      | 606            | -              |
| <b>Assets Sold</b>                               | (2,373)        | -              |
| <b>Balance at 31 March</b>                       | <b>606</b>     | <b>606</b>     |

**26 FINANCIAL INSTRUMENTS**

26.1 The following categories of financial instruments are carried in the Balance Sheet:

|                                         | Long-term                |                          | Current                  |                          |
|-----------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                                         | 31 March<br>2013<br>£000 | 31 March<br>2014<br>£000 | 31 March<br>2013<br>£000 | 31 March<br>2014<br>£000 |
| <b>Investments</b>                      |                          |                          |                          |                          |
| Loans and receivables                   | -                        | 912                      | 100                      | 100                      |
| Unquoted equity investment at cost      | -                        | 238                      | -                        | -                        |
| <b>Total investments</b>                | -                        | <b>1,150</b>             | <b>100</b>               | <b>100</b>               |
| <b>Debtors</b>                          |                          |                          |                          |                          |
| Loans and receivables                   | 421                      | 2,261                    | 3,064                    | 3,588                    |
| <b>Borrowings</b>                       |                          |                          |                          |                          |
| Financial liabilities at amortised cost | (34,691)                 | (36,028)                 | (4,799)                  | (5,466)                  |
| <b>Creditors</b>                        |                          |                          |                          |                          |
| Financial liabilities at amortised cost | (2,321)                  | (1,904)                  | (6,165)                  | (5,065)                  |

See Note 13.5 for further details relating to Long Term Investments.

26.2 Interest and Investment receivable and payable

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

| 2012/13      |                                   | 2013/14      |  |
|--------------|-----------------------------------|--------------|--|
| £000         |                                   | £000         |  |
| (123)        | Interest on financial assets      | (77)         |  |
| (4)          | Other interest                    | (3)          |  |
| <b>(127)</b> | <b>Total Interest Receivable</b>  | <b>(80)</b>  |  |
| 1,980        | Interest on financial liabilities | 2,052        |  |
| 2            | Other interest payable            | 14           |  |
| <b>1,982</b> | <b>Total Interest Payable</b>     | <b>2,066</b> |  |

26.3 Fair Value

| 31 March 2013   |                 |                                | 31 March 2014   |                 |
|-----------------|-----------------|--------------------------------|-----------------|-----------------|
| Book Value      | Fair Value      |                                | Book Value      | Fair Value      |
| £000            | £000            |                                | £000            | £000            |
| -               | -               | Investments over one year      | 1,150           | 1,150           |
| 100             | 100             | Investments less than one year | 100             | 100             |
| 7,157           | 7,159           | Cash in bank call accounts     | 1,125           | 1,125           |
| 3,064           | 3,064           | Trade accounts receivable      | 3,588           | 3,365           |
| 421             | 421             | Long Term Debtors              | 2,261           | 2,261           |
| <b>10,742</b>   | <b>10,744</b>   | <b>Total Financial Assets</b>  | <b>8,224</b>    | <b>8,001</b>    |
| (27,191)        | (30,111)        | Public Works Loan Board        | (24,528)        | (25,622)        |
| (7,500)         | (11,124)        | Loan Stock                     | (7,500)         | (10,195)        |
| -               | -               | Market Debt                    | (4,000)         | (4,001)         |
| <b>(34,691)</b> | <b>(41,235)</b> | <b>Long Term Borrowing</b>     | <b>(36,028)</b> | <b>(39,818)</b> |

| 31 March 2013   |                 |                                    | 31 March 2014   |                 |
|-----------------|-----------------|------------------------------------|-----------------|-----------------|
| Book Value      | Fair Value      |                                    | Book Value      | Fair Value      |
| (1,236)         | (2,076)         | Credit Sales Agreement             | (999)           | (1,524)         |
| (1,085)         | (1,085)         | Other Long Term Creditors          | (905)           | (905)           |
| <b>(2,321)</b>  | <b>(3,161)</b>  | <b>Long Term Creditor</b>          | <b>(1,904)</b>  | <b>(2,429)</b>  |
| (1,521)         | (1,534)         | Public Works Loan Board            | (2,663)         | (2,891)         |
| (3,000)         | (3,001)         | Market Debt                        | (2,500)         | (2,500)         |
| (262)           | (262)           | Add accrued interest               | (288)           | (288)           |
| (15)            | (15)            | Mayor's Poor Fund                  | (15)            | (15)            |
| <b>(4,798)</b>  | <b>(4,812)</b>  | <b>Short Term Borrowing</b>        | <b>(5,466)</b>  | <b>(5,694)</b>  |
| (248)           | (248)           | Credit sales agreement             | (247)           | (247)           |
| (5,918)         | (5,918)         | Other Trade Creditors              | (4,818)         | (4,818)         |
| <b>(6,166)</b>  | <b>(6,166)</b>  | <b>Short Term Creditor</b>         | <b>(5,065)</b>  | <b>(5,065)</b>  |
| <b>(47,976)</b> | <b>(55,374)</b> | <b>Total Financial Liabilities</b> | <b>(48,463)</b> | <b>(53,006)</b> |

The fair value of loan stock is higher than the book value because it is at an interest rate which is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2014) arising from a commitment to pay interest to the lender above current market rates. The loan was originally arranged in 1995 at a fixed interest rate of 8.75% for 25 years. At the time the loan was arranged interest rates were much higher and this loan was taken to lock in to a relatively low interest rate. In the current economic climate interest rates are at historically low levels and consequently there is a difference £2,695,000 between the book value and market value for loan stock

The credit sales agreement relates to obligations under a long term leisure contract; see Note 15 for further details. There is a difference of £525,000 between the book value of the debt and the fair value. The book value represents the value of cash transactions only between the Council and SERCO which equate to an interest rate of 11%, but this does not reflect any added value received from SERCO within the contract as a whole, such as procurement and management of the capital projects including business continuity.

The fair value of Public Works Loan Board (PWLB) is higher than the book value because it is at an interest rate which is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2014) arising from a commitment to pay interest to the PWLB above current market rates. The outstanding loans were taken at various dates between August 1985 and March 2013 at varying fixed interest rates between 1.48% and 10.25% (average rate 4.44%) for various terms. At the time some of the loans were arranged interest rates were much higher and these loans were taken to lock in to a relatively low interest rate. In the current economic climate interest rates are at historically low levels and consequently there is a difference £1,094,000 between the book value and market value for PWLB.

#### 26.4 Valuation techniques applied to obtain fair value

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

The purpose of the fair value disclosure is primarily to provide a comparison with the carrying value. 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 Capita from the market on 31 March, using bid prices where applicable.

## **27 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS**

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

- 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;
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the Annual Treasury Management Strategy. The Council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash.

### 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 provided by the Council's Treasury Management advisors (Capita) creditworthiness model. The model uses a sophisticated modelling approach which uses credit ratings from all three ratings agencies overlaid with credit watches and outlooks, Credit Default Swap spreads and sovereign ratings. The Annual Investment Strategy also imposes a maximum sum of £4 million to be invested with any financial institution located within each category.

A copy of the Annual Investment Strategy is available on the Eastbourne Borough Council website.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £1,198,000 cannot be assessed generally as the risk of any institution failing to make interest payments or repay principal sums 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 recoverability applies to all of the Council's deposits but there is no evidence at the 31 March 2014 that this is likely to crystallise.

The Council has invested funds in Welbeing (£1,150,000), CloudConnX (£357,000) and Sea Change Sussex (£850,000) totalling £2,357,000. The risk of these companies failing to meet their commitments is minimised by maintaining representation on the board of Welbeing and CloudConnX. The loan to CloudConnX is supported by a fixed and floating charge over the assets. The loan to Sea Change Sussex loan is fully secured by a charge over land.

The Council has deposited £1,000,000 in an interest bearing deposit account with Lloyds Bank to support the Local Authority Mortgage Scheme. There is small risk that participating borrowers default on their mortgages. The risk to the Council is minimised as all borrowers must meet the Bank's strict lending criteria and all interest earned on the deposit is held in a reserve to cover any losses.

The following analysis summarises the Council's potential maximum exposure to risk on other financial assets:

|                           | <b>Amount as at<br/>31 March<br/>2014</b> | <b>Historic<br/>experience<br/>of default</b> | <b>Estimated<br/>maximum<br/>exposure to<br/>default at 31<br/>March 2014</b> | <b>Estimated<br/>maximum<br/>exposure to<br/>default 31<br/>March 2013</b> |
|---------------------------|-------------------------------------------|-----------------------------------------------|-------------------------------------------------------------------------------|----------------------------------------------------------------------------|
|                           | <b>£000</b>                               |                                               | <b>£000</b>                                                                   | <b>£000</b>                                                                |
|                           | A                                         | B                                             | (AxB)                                                                         |                                                                            |
| Customers                 | 3,588                                     | 1%                                            | 36                                                                            | 73                                                                         |
| <b>Aged debt analysis</b> |                                           |                                               | <b>31 March 2013</b>                                                          | <b>31 March 2014</b>                                                       |
|                           |                                           |                                               | <b>£000</b>                                                                   | <b>£000</b>                                                                |
| Less than three months    |                                           |                                               | 2,576                                                                         | 2,530                                                                      |
| Three to four months      |                                           |                                               | 34                                                                            | 56                                                                         |
| Four months to one year   |                                           |                                               | 170                                                                           | 374                                                                        |
| More than one year        |                                           |                                               | 817                                                                           | 628                                                                        |
| <b>Total</b>              |                                           |                                               | <b>3,597</b>                                                                  | <b>3,588</b>                                                               |

### Liquidity risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council 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. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods, shown in the table below, together with the maturity analysis of financial liabilities.

| <b>Banding</b>             | <b>31 March 2013</b> |             | <b>31 March 2014</b> |             | <b>Limits in each<br/>banding</b> |
|----------------------------|----------------------|-------------|----------------------|-------------|-----------------------------------|
|                            | <b>£000</b>          | <b>%</b>    | <b>£000</b>          | <b>%</b>    |                                   |
| Less than one year         | 5,211                | 12%         | 5,277                | 12%         | 25%                               |
| Between one and two years  | 4,750                | 11%         | 2,415                | 6%          | 50%                               |
| Between two and five years | 8,408                | 20%         | 12,535               | 29%         | 75%                               |
| Five to ten years          | 12,834               | 30%         | 12,265               | 28%         | 100%                              |
| More than ten years        | 11,029               | 26%         | 11,029               | 25%         | 100%                              |
| <b>Total</b>               | <b>42,232</b>        | <b>100%</b> | <b>43,521</b>        | <b>100%</b> |                                   |

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

### Market risk

#### Interest rate risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in 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 liabilities borrowings will fall;
- 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.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund Balance pound for pound.

The Council has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of 25% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

According to this assessment strategy, at 31 March 2014, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

|                                                                                                                                                                              |                |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
|                                                                                                                                                                              | <b>£000</b>    |
| Increase in interest payable on variable rate borrowings                                                                                                                     | 1              |
| Increase in interest receivable on variable rate investments                                                                                                                 | (81)           |
| Impact on Surplus or Deficit on the Provision of Services                                                                                                                    | <b>(80)</b>    |
| Share of overall impact debited to the HRA                                                                                                                                   | (81)           |
| <b>Impact on Other Comprehensive Income and Expenditure</b>                                                                                                                  | <b>-</b>       |
| Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure) | <b>(3,023)</b> |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

#### Price risk

The Council does not generally invest in equity shares but does have shareholdings to the value of £238,000 in Welbeing. The Council is consequently exposed to losses arising from movements in the prices of the shares. As the shareholding has arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio.

#### Foreign exchange risk

The Council has no financial assets or liabilities denominated in foreign currencies, and thus has no exposure to loss arising from movements in exchange rates.

## 28 INVENTORIES

|                                   | Printing Stocks |               | Downland Stocks |               | Tourism and Leisure Stocks |               | Sundry Stocks |               | Total         |               |
|-----------------------------------|-----------------|---------------|-----------------|---------------|----------------------------|---------------|---------------|---------------|---------------|---------------|
|                                   | 12/13<br>£000   | 13/14<br>£000 | 12/13<br>£000   | 13/14<br>£000 | 12/13<br>£000              | 13/14<br>£000 | 12/13<br>£000 | 13/14<br>£000 | 12/13<br>£000 | 13/14<br>£000 |
| Balance 1 April                   | 13              | 12            | 1               | 1             | 122                        | 162           | 7             | 4             | 143           | 179           |
| Transfer from Catering contractor | -               | -             | -               | -             | 34                         | -             | -             | -             | 34            | -             |
| Purchases                         | 19              | 17            | 6               | 7             | 1,199                      | 1,194         | 14            | 12            | 1,238         | 1,230         |
| Consumed in year                  | (20)            | (19)          | (6)             | (7)           | (1,193)                    | (1,160)       | (17)          | (12)          | (1,236)       | (1,198)       |
| <b>Balance 31 March</b>           | <b>12</b>       | <b>10</b>     | <b>1</b>        | <b>1</b>      | <b>162</b>                 | <b>196</b>    | <b>4</b>      | <b>4</b>      | <b>179</b>    | <b>211</b>    |

Inventories held relate to the following items:

- Printing – Paper and other materials pending usage
- Downland Inventories – Fuel purchased in advance.
- Tourism and Leisure – Products for resale at tourism and leisure outlets
- Sundry inventories - Miscellaneous products for resale including dog bins, pest control boxes, cremation boxes and vending supplies.

## 29 DEBTORS

Short Term debtors outstanding as at 31 March are:

| 31 March 2013 |              | 31 March 2014                         |               |
|---------------|--------------|---------------------------------------|---------------|
|               | £000         |                                       | £000          |
|               | 2,060        | Central government                    | 2,104         |
|               | 1,854        | Other local authorities               | 3,637         |
|               | 2            | NHS                                   | -             |
|               | 1,285        | Public corporations and trading funds | 1,719         |
|               | 2,336        | Other entities and individuals        | 2,925         |
|               | <b>7,537</b> | <b>Total</b>                          | <b>10,385</b> |

Public corporations and trading funds includes all commercial trading organisations in both the public and private sectors.

Long-term debtors outstanding as at 31 March are:

| <b>31 March 2013</b> |                                       | <b>31 March 2014</b> |
|----------------------|---------------------------------------|----------------------|
| £000                 |                                       | £000                 |
| 357                  | Public corporations and trading funds | 2,207                |
| 64                   | Other entities and individuals        | 54                   |
| <b>421</b>           | <b>Total</b>                          | <b>2,261</b>         |

Under long term debtors for public corporations and other trading organisation the Council has investment of:

- £357,000 (2012/13 £357,000) in a newly formed company that will be providing telecommunication services primarily to the business sector in the locality. The Council currently has a charge over the assets of the company. Shares will be allocated at the company's year ends and the Council will be a 25% shareholder by 2017.
- £1,000,000 interest bearing deposit made to Lloyds Bank in 2013/14 to support the Local Authority Mortgage Scheme (LAMS). This scheme allows first time buyers who meet Lloyds Bank's strict lending criteria but do not have a large deposit, to borrow funds. In the event of a default by a borrower in the first 5 years, the Council may be charged for losses to the Bank. The Council does not anticipate any defaults but interest on the Council's deposit will be used in the event of a claim.
- £850,000 loan funding in 2013/14 provided in partnership with East Sussex County Council to East Sussex Energy Infrastructure and Development Ltd (trading as Sea Change Sussex) for the purchase of a site at Sovereign Harbour, final repayment is due in 2024.

### 30 CREDITORS

Short term creditors between different groupings of creditor as at 31 March are:

| <b>31 March 2013</b> |                                                     | <b>31 March 2014</b> |
|----------------------|-----------------------------------------------------|----------------------|
| £000                 |                                                     | £000                 |
| (280)                | Central government                                  | (738)                |
| (486)                | Other local authorities                             | (954)                |
| (5,054)              | Public Corporations and other trading organisations | (5,259)              |
| (2,473)              | All other bodies                                    | (1,745)              |
| <b>(8,293)</b>       | <b>Total</b>                                        | <b>(8,696)</b>       |

Public corporations and trading organisations includes all commercial trading organisations in both the public and private sectors

Long term creditors between different groupings of creditor as at 31 March are:

| <b>31 March 2013</b> |                                                     | <b>31 March 2014</b> |
|----------------------|-----------------------------------------------------|----------------------|
| £000                 |                                                     | £000                 |
| (2,321)              | Public Corporations and other trading organisations | (1,904)              |
| <b>(2,321)</b>       | <b>Total</b>                                        | <b>(1,904)</b>       |

Long Term Creditors in the balance sheet represent obligations extending beyond one year including:

- Three agreements between the Council and SERCO to renovate and improve two leisure centres (the Sovereign Centre and Motcombe Pool) and to purchase items of capital equipment. These two centres are leased to Eastbourne Leisure Trust (see Note 15), who employ SERCO to run the centres, while the Council, which retains the responsibility to maintain and improve the centres, employs SERCO to carry out these functions on its behalf.
- An agreement between the Council and Steria to provide IT services and purchase items of capital equipment.

**31 PROVISIONS**

Provisions represent amounts set aside to meet potential future liabilities. Provisions as at 31 March 2014 are:

|                       | <b>Balance</b>    | <b>Additions</b> | <b>Reductions</b> | <b>Spent</b> | <b>Balance</b>     |
|-----------------------|-------------------|------------------|-------------------|--------------|--------------------|
|                       | <b>1 April 13</b> |                  |                   |              | <b>31 March 14</b> |
|                       | <b>£000</b>       | <b>£000</b>      | <b>£000</b>       | <b>£000</b>  | <b>£000</b>        |
| Accumulated Absences  | (115)             | -                | -                 | 115          | -                  |
| MMI Insurance         | (78)              | -                | 8                 | 70           | -                  |
| Business Rate Appeals | -                 | (655)            | -                 | -            | (655)              |
| <b>Total</b>          | <b>(193)</b>      | <b>(655)</b>     | <b>8</b>          | <b>185</b>   | <b>(655)</b>       |

Accumulated Absences is to provide for untaken leave, for 13/14 this has been treated as an creditors accrual rather than a provision.

MMI Insurance was to cover the estimated liability of the Council's former insurers (MMI) after the company ceased to trade. This has now been settled.

Business Rates Appeals is to provide for the settlement of rateable value appeals made to the valuation office.

**32 USABLE RESERVES**

The reasons for maintaining each reserve are set out in detail in Note 2.19, and the annual movements for usable reserves are shown in the Movement in Reserves Statement. Details of Earmarked Reserves are shown at note 18.

**33 UNUSABLE RESERVES**

The table below sets out details of the movements and balances on individual unusable reserves: the "Total" figures are those included in the "Unusable Reserves" column of the Movement in Reserves Statement.

| <b>2012/13</b>  |                                    | <b>2013/14</b> |
|-----------------|------------------------------------|----------------|
| <b>Restated</b> |                                    |                |
| <b>£000</b>     |                                    | <b>£000</b>    |
| 50              | Deferred Capital Receipts Reserve  | 45             |
| 24              | Collection Fund Adjustment Account | (1,230)        |
| 26,599          | Revaluation Reserve                | 26,385         |
| 150,814         | Capital Adjustment Account         | 148,804        |
| (149)           | Financial Instruments Reserve      | -              |
| (28,845)        | Pension Reserve                    | (36,349)       |
| (115)           | Accumulated Absence Account        | (63)           |
| <b>148,378</b>  | <b>Total Unusable reserves</b>     | <b>137,592</b> |

**Deferred Capital Receipts Reserve**

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of noncurrent assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

| <b>2012/13</b> |                                                                                                                                         | <b>2013/14</b> |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------|----------------|
| <b>£000</b>    |                                                                                                                                         | <b>£000</b>    |
| <b>53</b>      | <b>Balances at 1 April</b>                                                                                                              | <b>50</b>      |
|                | Transfer of deferred sales proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement |                |
| (3)            | Transfer to the Capital receipts Reserve upon receipt of cash                                                                           | (5)            |
| <b>50</b>      | <b>Balance at 31 March</b>                                                                                                              | <b>45</b>      |

### Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers and business rates payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

| 2012/13<br>£000 |                                                                                                                                                                                                                                                        | 2013/14<br>£000 |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| <b>8</b>        | <b>Balances at 1 April</b>                                                                                                                                                                                                                             | <b>24</b>       |
|                 | Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements | (1,254)         |
| <u>16</u>       |                                                                                                                                                                                                                                                        | <u>(1,254)</u>  |
| <b>24</b>       | <b>Balance at 31 March</b>                                                                                                                                                                                                                             | <b>(1,230)</b>  |

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Heritage Assets. 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.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

| 2012/13<br>Restated<br>£000 |                                                                                                                           | 2013/14 |                      |
|-----------------------------|---------------------------------------------------------------------------------------------------------------------------|---------|----------------------|
| £000                        |                                                                                                                           | £000    | £000                 |
| <b>27,500</b>               | <b>Balance at 1 April</b>                                                                                                 |         | <b>26,599</b>        |
| 1,307                       | Upward revaluation of assets                                                                                              | 250     |                      |
| (1,747)                     | Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services      | -       |                      |
| <b>(440)</b>                | Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services |         | <b>250</b>           |
| (461)                       | Difference between fair value depreciation and historical cost depreciation                                               | (461)   |                      |
| -                           | Accumulated gains on assets sold or scrapped                                                                              | (3)     |                      |
| <b>(461)</b>                | Amount written off to the Capital Adjustment Account                                                                      |         | <b>(464)</b>         |
| <u><b>26,599</b></u>        | <b>Balance at 31 March</b>                                                                                                |         | <u><b>26,385</b></u> |

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). 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 accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

| <b>2012/13</b>  |                                                                                                                                                          | <b>2013/14</b>  | <b>£000</b>     |
|-----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>£000</b>     |                                                                                                                                                          |                 | <b>£000</b>     |
| <b>172,029</b>  | <b>Balance at 1 April</b>                                                                                                                                |                 | <b>150,814</b>  |
|                 | <b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>                      |                 |                 |
| (7,916)         | Charges for depreciation and impairment of non current assets                                                                                            | 2,658           |                 |
| (241)           | Amortisation of intangible assets                                                                                                                        | (457)           |                 |
| (737)           | Revenue expenditure funded from capital under statute                                                                                                    | (1,068)         |                 |
|                 | 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 |                 |                 |
| <u>(22,588)</u> |                                                                                                                                                          | <u>(12,830)</u> |                 |
| <b>(31,482)</b> |                                                                                                                                                          |                 | <b>(11,697)</b> |
| 461             | Adjusting amounts written out of the Revaluation Reserve                                                                                                 |                 | 461             |
| <b>(31,021)</b> | <b>Net written out amount of the cost of non-current assets consumed in the year</b>                                                                     |                 | <b>(11,236)</b> |
|                 | <b>Capital financing applied in the year:</b>                                                                                                            |                 |                 |
| 2,450           | Use of the Capital Receipts Reserve to finance new capital expenditure                                                                                   | 144             |                 |
| 2,010           | Use of the Major Repairs Reserve to finance new capital expenditure                                                                                      | 5,757           |                 |
| 3,895           | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing              | 1,158           |                 |
| -               | Application of grants to capital financing from the Capital Grants Unapplied Account                                                                     | 469             |                 |
| 714             | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances                                            | 1,058           |                 |
| 737             | Capital expenditure charged against the General Fund and HRA balances                                                                                    | 640             |                 |
| <u>9,806</u>    |                                                                                                                                                          | <u>9,226</u>    |                 |
| <b>150,814</b>  | <b>Balance at 31 March</b>                                                                                                                               |                 | <b>148,804</b>  |

### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case, this period is the unexpired term that was outstanding on the loans when they were redeemed and the balance on the Account will be charged to the General Fund over 3 years to 2014/15.

| <b>2012/13</b> |                                                                 | <b>2013/14</b> | <b>£000</b>  |
|----------------|-----------------------------------------------------------------|----------------|--------------|
| <b>£000</b>    |                                                                 |                | <b>£000</b>  |
| <b>(374)</b>   | <b>Balance at 1 April</b>                                       |                | <b>(149)</b> |
| 225            | Premiums incurred in previous years charged to the General Fund |                | 149          |
| <u>(149)</u>   | <b>Balance at 31 March</b>                                      |                | <u>-</u>     |

### Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory

provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes 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 Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| <b>2012/13</b>  |                                                                                                                                                                                    | <b>2013/14</b>  |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| <b>Restated</b> |                                                                                                                                                                                    | <b>£000</b>     |
| <b>£000</b>     |                                                                                                                                                                                    | <b>£000</b>     |
| <b>(24,721)</b> | <b>Balance at 1 April</b>                                                                                                                                                          | <b>(28,845)</b> |
| (3,352)         | Re-measurement of the net defined benefit liability                                                                                                                                | (6,504)         |
| (2,817)         | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (3,061)         |
| 2,045           | Employer's pensions contributions and direct payments to pensioners payable in the year                                                                                            | 2,061           |
| <b>(28,845)</b> | <b>Balance at 31 March</b>                                                                                                                                                         | <b>(36,349)</b> |

#### **Accumulated Absences Account**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Accounts.

| <b>2012/13</b> |                                                                             | <b>2013/14</b> |
|----------------|-----------------------------------------------------------------------------|----------------|
| <b>£000</b>    |                                                                             | <b>£000</b>    |
| <b>(101)</b>   | <b>Balance at 1 April</b>                                                   | <b>(115)</b>   |
| 101            | Settlement or cancellation of accrual made at the end of the preceding year | 115            |
| (115)          | Amounts accrued at the end of the current year                              | (63)           |
| <b>(115)</b>   | <b>Balance at 31 March</b>                                                  | <b>(63)</b>    |

### **34 POST EMPLOYMENT BENEFITS**

#### **34.1 Participation in defined benefit pension plan**

As part of the terms and conditions of employment of its employees, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Council participates in two post-employment schemes:

- The Local Government Pension Scheme, administered locally by East Sussex County Council. This is a funded defined final salary scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement. This is an unfunded defined benefit arrangements, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet the actual pension payments as they eventually fall due. The Council also has liabilities for discretionary payments for added years, etc. These are charged directly to the accounts of the Council, as they are not a charge upon the Pension Fund.

The East Sussex Pension Scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of East Sussex County Council. Policy is determined in accordance with the Pensions Funds Regulations. The investment managers of the fund are appointed by the committee.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing revenue Account the amounts required by statute as described in the accounting policies note 2.7.

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

#### 34.2 Transactions relating to post-employment benefits

We recognise the cost of retirement benefits in the cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge we are required to make against Council Tax is based on the contributions payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

| <b>2012/13</b><br><b>Restated</b><br><b>£000</b> |                                                                                                       | <b>2013/14</b><br><b>£000</b> |
|--------------------------------------------------|-------------------------------------------------------------------------------------------------------|-------------------------------|
|                                                  | <b>Current Service Cost</b>                                                                           |                               |
| 74                                               | Central Services to the Public                                                                        | 100                           |
| 357                                              | Cultural and Related Services                                                                         | 421                           |
| 154                                              | Environmental and Regulatory Services                                                                 | 49                            |
| 126                                              | Planning Services                                                                                     | 52                            |
| 10                                               | Highways and Transport Services                                                                       | -                             |
| 5                                                | Local Authority Housing (HRA)                                                                         | 8                             |
| 170                                              | Other Housing Services                                                                                | 226                           |
| 50                                               | Corporate and Democratic Core                                                                         | 64                            |
| -                                                | Trading Accounts                                                                                      | 1                             |
| 435                                              | Support Services                                                                                      | 808                           |
| <b>1,381</b>                                     | <b>Total Current Service Cost</b>                                                                     | <b>1,729</b>                  |
|                                                  | <b>Service Cost comprising:</b>                                                                       |                               |
| 1,381                                            | Current Service Costs                                                                                 | 1,729                         |
| 259                                              | Past Service Costs                                                                                    | 42                            |
|                                                  | (Gain)/Loss from settlements                                                                          |                               |
|                                                  | <b>Financing &amp; Investment Income &amp; Expenditure</b>                                            |                               |
| 1,177                                            | Net Interest Expense                                                                                  | 1,290                         |
| <b>2,817</b>                                     | <b>Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services</b>  | <b>3,061</b>                  |
|                                                  | <b>Other Post-employment Benefits charged to the Comprehensive Income &amp; Expenditure Statement</b> |                               |
|                                                  | Re-measurement of the net defined benefit liability comprising:                                       |                               |
| (7,629)                                          | Return on Plan Assets (excluding the amount included in the net interest expense)                     | 3,595                         |
| -                                                | Actuarial Gains and losses arising on changes in demographic assumptions                              | 2,029                         |
| 11,040                                           | Actuarial Gains and losses arising on changes in financial assumptions                                | 3,003                         |
| (59)                                             | Other                                                                                                 | (2,123)                       |
| <b>3,352</b>                                     | <b>Other Comprehensive Income &amp; Expenditure</b>                                                   | <b>6,504</b>                  |
| <b>6,169</b>                                     | <b>Total Post-employment Benefits charged to the Comprehensive Income &amp; Expenditure Statement</b> | <b>9,565</b>                  |

#### **Movement in Reserves Statement**

| <b>2012/13</b><br><b>Restated</b><br><b>£000</b> |                                                                                                                                              | <b>2013/14</b><br><b>£000</b> |
|--------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
|                                                  | Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code | 3,061                         |
| 2,817                                            | Actual amount charged against the General Fund Balance for pensions in the year:                                                             | (2,061)                       |
| <u>(2,045)</u>                                   |                                                                                                                                              | <u>(2,061)</u>                |
| <b>772</b>                                       | <b>Net adjustment in Movement in Reserves Statement</b>                                                                                      | <b>1,000</b>                  |

#### 34.3 Pensions Assets and Liabilities recognised in the balance Sheet

The amount included in the Balance Sheet for the Council's obligation in respect of its defined plans is as follows:

| <b>2012/13</b><br><b>£000</b> |                                                              | <b>2013/14</b><br><b>£000</b> |
|-------------------------------|--------------------------------------------------------------|-------------------------------|
| 87,720                        | Fair value of employer assets                                | 85,685                        |
| (111,251)                     | Present value of funded liabilities                          | (116,710)                     |
| <u>(5,314)</u>                | Present value of unfunded liabilities                        | <u>(5,324)</u>                |
| <b>(28,845)</b>               | <b>Net liability arising from defined benefit obligation</b> | <b>(36,349)</b>               |

#### 34.4 Reconciliation of the Movements in the Fair Value of the Scheme Assets

| <b>2012/13</b><br><b>£000</b> |                                                                                      | <b>2013/14</b><br><b>£000</b> |
|-------------------------------|--------------------------------------------------------------------------------------|-------------------------------|
| 78,541                        | Opening fair value of assets                                                         | 87,720                        |
| 3,719                         | Interest income                                                                      | 3,893                         |
|                               | <b>Re-measurement gain/(loss):</b>                                                   |                               |
|                               | The return on plan assets, excluding the amount included in the net interest expense | (3,595)                       |
| 7,629                         | Contributions from employer - Funded                                                 | 1,694                         |
| 1,674                         | Contributions from employer - Unfunded                                               | 367                           |
| 371                           | Contributions from employees into the scheme                                         | 457                           |
| 470                           | Benefits paid - Funded                                                               | (4,484)                       |
| (4,313)                       | Benefits paid - Unfunded                                                             | (367)                         |
| <u>(371)</u>                  |                                                                                      |                               |
| <b>87,720</b>                 | <b>Closing fair value of scheme assets</b>                                           | <b>85,685</b>                 |

#### 34.5 Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

| <b>2012/13</b><br><b>£000</b> |                                                                        | <b>2013/14</b><br><b>£000</b> |
|-------------------------------|------------------------------------------------------------------------|-------------------------------|
| (103,262)                     | Opening balance at 1 April                                             | (116,565)                     |
| (1,381)                       | Current service costs                                                  | (1,729)                       |
| (4,896)                       | Interest costs                                                         | (5,183)                       |
| (470)                         | Contributions from scheme participants                                 | (457)                         |
|                               | <b>Re-measurement (gains) and losses:</b>                              |                               |
|                               | Actuarial gains/losses arising from changes in demographic assumptions | (2,029)                       |
|                               | Actuarial gains/losses arising from changes in financial assumptions   | (3,003)                       |
| (11,040)                      | Other                                                                  | 2,123                         |
| 59                            | Past service costs                                                     | (42)                          |
| (259)                         | Losses/(gains) on curtailment                                          | -                             |
|                               | Liabilities assumed on entity combinations                             | -                             |
| 4,313                         | Benefits paid - funded                                                 | 4,484                         |
| 371                           | Benefits paid - unfunded                                               | 367                           |
| <u>(116,565)</u>              | <b>Closing Balance at 31 March</b>                                     | <u>(122,034)</u>              |

## 34.6 Local Government Pension Scheme Assets comprised:

| Period Ended 31 March 2013                          |                                           |               |                      | Period Ended 31 March 2014                          |                                           |               |                      |
|-----------------------------------------------------|-------------------------------------------|---------------|----------------------|-----------------------------------------------------|-------------------------------------------|---------------|----------------------|
| Quoted prices<br>in active<br>markets               | Quoted prices<br>not in active<br>markets | Total         | % of Total<br>Assets | Quoted prices<br>in active<br>markets               | Quoted prices<br>not in active<br>markets | Total         | % of Total<br>Assets |
| £000                                                | £000                                      | £000          |                      | £000                                                | £000                                      | £000          |                      |
| <b>Equity Securities:</b>                           |                                           |               |                      | <b>Equity Securities:</b>                           |                                           |               |                      |
| 2,916                                               | -                                         | 2,916         | 3%                   | 4,174                                               | -                                         | 4,174         | 5%                   |
| 1,184                                               | -                                         | 1,184         | 1%                   | 2,122                                               | -                                         | 2,122         | 2%                   |
| 1,917                                               | -                                         | 1,917         | 2%                   | 2,233                                               | -                                         | 2,233         | 3%                   |
| 4,413                                               | 8                                         | 4,420         | 5%                   | 4,701                                               | -                                         | 4,701         | 5%                   |
| 2,062                                               | -                                         | 2,062         | 2%                   | 2,535                                               | -                                         | 2,535         | 3%                   |
| 1,946                                               | -                                         | 1,946         | 2%                   | 2,311                                               | -                                         | 2,311         | 3%                   |
| 1,590                                               | -                                         | 1,590         | 2%                   | 1,220                                               | 140                                       | 1,360         | 2%                   |
| <b>16,027</b>                                       | <b>8</b>                                  | <b>16,035</b> | <b>17%</b>           | <b>19,296</b>                                       | <b>140</b>                                | <b>19,436</b> | <b>23%</b>           |
| <b>Sub-total equity</b>                             |                                           |               |                      | <b>Sub-total equity</b>                             |                                           |               |                      |
| <b>Debt Securities:</b>                             |                                           |               |                      | <b>Debt Securities:</b>                             |                                           |               |                      |
| -                                                   | 1,318                                     | 1,318         | 2%                   | -                                                   | 1,205                                     | 1,205         | 1%                   |
| -                                                   | 1,101                                     | 1,101         | 1%                   | -                                                   | 1,137                                     | 1,137         | 1%                   |
| -                                                   | <b>2,419</b>                              | <b>2,419</b>  | <b>3%</b>            | -                                                   | <b>2,342</b>                              | <b>2,342</b>  | <b>2%</b>            |
| <b>Sub-total Debt Securities</b>                    |                                           |               |                      | <b>Sub-total Debt Securities</b>                    |                                           |               |                      |
| <b>Private equity:</b>                              |                                           |               |                      | <b>Private equity:</b>                              |                                           |               |                      |
| -                                                   | <b>7,500</b>                              | <b>7,500</b>  | <b>9%</b>            | -                                                   | <b>6,740</b>                              | <b>6,740</b>  | <b>8%</b>            |
| <b>Real Estate:</b>                                 |                                           |               |                      | <b>Real Estate:</b>                                 |                                           |               |                      |
| 867                                                 | 6,322                                     | 7,190         | 8%                   | 474                                                 | 7,247                                     | 7,720         | 9%                   |
| <b>867</b>                                          | <b>6,322</b>                              | <b>7,190</b>  | <b>8%</b>            | <b>474</b>                                          | <b>7,247</b>                              | <b>7,720</b>  | <b>9%</b>            |
| <b>Sub-total Real Estate</b>                        |                                           |               |                      | <b>Sub-total Real Estate</b>                        |                                           |               |                      |
| <b>Investment Funds &amp; Unit Trusts:</b>          |                                           |               |                      | <b>Investment Funds &amp; Unit Trusts:</b>          |                                           |               |                      |
| 176                                                 | 45,889                                    | 46,065        | 53%                  | 102                                                 | 40,716                                    | 40,818        | 49%                  |
| 1,751                                               | 4,124                                     | 5,876         | 7%                   | 3,256                                               | 2,306                                     | 5,562         | 6%                   |
| -                                                   | 49                                        | 49            | 0%                   | 169                                                 | -                                         | 169           | 0%                   |
| 450                                                 | -                                         | 450           | 1%                   | 252                                                 | -                                         | 252           | 0%                   |
| <b>2,376</b>                                        | <b>50,062</b>                             | <b>52,439</b> | <b>61%</b>           | <b>3,779</b>                                        | <b>43,022</b>                             | <b>46,801</b> | <b>55%</b>           |
| <b>Sub-total Investment Funds &amp; Unit Trusts</b> |                                           |               |                      | <b>Sub-total Investment Funds &amp; Unit Trusts</b> |                                           |               |                      |
| <b>Derivatives:</b>                                 |                                           |               |                      | <b>Derivatives:</b>                                 |                                           |               |                      |
| -                                                   | (41)                                      | (41)          | 0%                   | -                                                   | 49                                        | 49            | 0%                   |
| -                                                   | <b>(41)</b>                               | <b>(41)</b>   | <b>0%</b>            | -                                                   | <b>49</b>                                 | <b>49</b>     | <b>0%</b>            |
| <b>Sub-total Derivatives</b>                        |                                           |               |                      | <b>Sub-total Derivatives</b>                        |                                           |               |                      |
| <b>Cash &amp; Cash Equivalents</b>                  |                                           |               |                      | <b>Cash &amp; Cash Equivalents</b>                  |                                           |               |                      |
| -                                                   | <b>2,180</b>                              | <b>2,180</b>  | <b>2%</b>            | -                                                   | <b>2,596</b>                              | <b>2,596</b>  | <b>3%</b>            |
| <b>19,271</b>                                       | <b>68,449</b>                             | <b>87,720</b> | <b>100%</b>          | <b>23,549</b>                                       | <b>62,136</b>                             | <b>85,685</b> | <b>100%</b>          |
| <b>Total</b>                                        |                                           |               |                      | <b>Total</b>                                        |                                           |               |                      |

The breakdown of assets in monetary terms in the table above have been shown to the nearest £1,000. The additional precision in the presentation of the figures has been included, but the sum of the values rounded to the nearest £1,000 may not equal the total value due to rounding.

34.7 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions on mortality rates, salary levels, etc. The liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, being based on the latest full valuation of the scheme as at 31 March 2013. The main assumptions used in their calculations are:

The significant assumptions used by the actuary have been:

| <b>2012/13</b> |                                                                                                  | <b>2013/14</b> |
|----------------|--------------------------------------------------------------------------------------------------|----------------|
|                | Long term expected rate of return on scheme assets:                                              |                |
| 4.5%           | Equity Investments                                                                               | 4.3%           |
| 4.5%           | Bonds                                                                                            | 4.3%           |
| 4.5%           | Other                                                                                            | 4.3%           |
|                | Mortality assumptions:                                                                           |                |
|                | Longevity at 65 for current pensioners:                                                          |                |
| 21.3           | Men                                                                                              | 22.2           |
| 23.4           | Women                                                                                            | 24.4           |
|                | Longevity at 65 for future pensioners:                                                           |                |
| 23.3           | Men                                                                                              | 24.2           |
| 25.7           | Women                                                                                            | 26.7           |
| 2.8%           | Rate of inflation                                                                                | 2.6%           |
| 5.1%           | Rate of increase in salaries                                                                     | 4.4%           |
| 2.8%           | Rate of Increase in Pensions                                                                     | 2.6%           |
| 4.5%           | Rate for discounting scheme liabilities                                                          | 4.1%           |
| 50.0%          | Take-up of option to convert annual pension into retirement lump sum for pre-April 2008 service  | 50.0%          |
| 75.0%          | Take-up of option to convert annual pension into retirement lump sum for post-April 2008 service | 75.0%          |

The estimation of the defined benefit obligation is sensitive to the actuarial assumption set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

|                                            | <b>Approximate %<br/>Increase to<br/>Employer Liability</b> | <b>Approximate<br/>monetary<br/>amount (£000)</b> |
|--------------------------------------------|-------------------------------------------------------------|---------------------------------------------------|
| 0.5% decrease in Real Discount Rate        | 9%                                                          | 10,709                                            |
| 1 year increase in member life expectancy  | 3%                                                          | 3,661                                             |
| 0.5% increase in the Salary Increase Rate  | 2%                                                          | 2,533                                             |
| 0.5% Increase in the Pension Increase Rate | 7%                                                          | 8,074                                             |

#### 34.8 Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipates paying £1,850,000 expected contributions to the scheme in 2014/15.

The weighted average duration of the defined benefit obligation for scheme members is 16.7 years.

### **35 CONTINGENT ASSETS AND LIABILITIES**

#### **Contingent Liabilities**

##### **Local Land Charges**

The Council is in the process of settling a claim brought by a group of Property Search Companies for refunds of fees paid to the Council to access land charges data. The original claim was for £72,000 plus interest and costs. They are also pursuing a claim under the Competition Act with an estimated liability of £404,000.

**Municipal Insurance Limited**

The Council's former insurers were Municipal Mutual Insurance Limited (MMI) until the company ceased to provide new cover in 1994. A Scheme of Arrangements was set up with the aim of funding any claims that were outstanding at that time. The scheme allows for a claw back of payments already made under the scheme if the outstanding claims cannot be fully funded by the company. The maximum possible claw back for the Council was set at £520,000. The Directors of MMI 'triggered' the Scheme of Arrangement under Section 425 of the Companies Act 1985 (now Section 899 of the Companies Act 2006) on 13 November 2012. Ernst & Young are now responsible for the management of the MMI business, affairs and assets. Ernst & Young have carried out a review of MMI assets and liabilities. A payment of £70,000 was made during 2013/14 by the Council and the balance of £450,000 will continue to be a contingent liability.

**Local Authority Mortgage Scheme (LAMS)**

The Council has deposited £1m with Lloyds bank to support the Local Authority Mortgage Scheme. This is a cash backed guarantee to cover any claims in the event of default by a mortgagor. Any future claims are not currently quantifiable. See explanation of credit risk in Note 27

**Contingent Assets****Overpaid VAT**

A number of Councils are in the process of legal action against HM Revenue and Customs to recover VAT on car parking income. The Council has claims amounting to £1.3m for VAT on Off Street Parking. The case is currently subject to an appeal by HM Revenue and Customs.

In 2008/09 the Council recovered VAT incorrectly charged in the early 1990s, together with accumulated interest. There is still an outstanding possible claim for compound interest on these amounts, but this is not yet quantifiable.

**Underpayment of interest by HMRC on VAT refunds**

In 2008/9 the Council received interest on overpaid VAT of £1.4m largely in relation to its cultural and leisure services. The interest was calculated by HMRC on a simple (non compound) basis. The Council along with others has instructed lawyers to claim that compound interest should have been paid in respect of this refund.

**Towner**

The Council is currently pursuing a claim against Rick Mathers, Architects, in respect of the costs relating to the building of Towner.

**36 TRUST FUNDS**

The Council acts as custodian trustee for the Mayor's Poor Fund and the Mayor's Charity account. As custodian trustee the Council holds funds but takes no decision on its use. In neither case do the funds represent assets of the Council and therefore they have not been included in the Balance Sheet, except to the extent where funds are deposited with the Council but these are shown in the Balance Sheet as short term liabilities as amounts owing.

Funds for which the Council acts as custodian trustee:

| <b>2013/14</b>                                                        | <b>Income</b> | <b>Expenditure</b> | <b>Assets</b> | <b>Liabilities</b> |
|-----------------------------------------------------------------------|---------------|--------------------|---------------|--------------------|
|                                                                       | £000          | £000               | £000          | £000               |
| <b>Mayor's Poor Fund</b>                                              |               |                    |               |                    |
| Established in 1934 to bring relief to those in poverty in Eastbourne | -             | 1                  | 23            | -                  |
| <b>Mayor's Charity Account</b>                                        |               |                    |               |                    |
| Created to support the Mayor's chosen charity each year               | (15)          | 15                 | 7             | (7)                |
| <b>Total</b>                                                          | <b>(15)</b>   | <b>16</b>          | <b>30</b>     | <b>(7)</b>         |
| <b>2012/13</b>                                                        |               |                    |               |                    |
|                                                                       | £000          | £000               | £000          | £000               |
| <b>Mayor's Poor Fund</b>                                              |               |                    |               |                    |
| Established in 1934 to bring relief to those in poverty in Eastbourne | -             | 2                  | 24            | -                  |
| <b>Mayor's Charity Account</b>                                        |               |                    |               |                    |
| Created to support the Mayor's chosen charity each year               | (19)          | 19                 | 1             | (1)                |
| <b>Total</b>                                                          | <b>(19)</b>   | <b>21</b>          | <b>25</b>     | <b>(1)</b>         |

**HOUSING REVENUE ACCOUNT (HRA)**

| <b>2012/13</b><br><b>Restated</b><br>£000 |                                                                                                                      | <b>2013/14</b><br>£000 |
|-------------------------------------------|----------------------------------------------------------------------------------------------------------------------|------------------------|
|                                           | <b>Income</b>                                                                                                        |                        |
| (12,900)                                  | Dwelling Rents                                                                                                       | (13,562)               |
| (375)                                     | Non-Dwelling Rents                                                                                                   | (419)                  |
| (944)                                     | Charges for Services and Facilities                                                                                  | (992)                  |
| (243)                                     | Contributions Towards Expenditure                                                                                    | (71)                   |
| (7)                                       | Housing Revenue Account Subsidy Receivable                                                                           | -                      |
| <b>(14,469)</b>                           | <b>Total Income</b>                                                                                                  | <b>(15,044)</b>        |
|                                           | <b>Expenditure</b>                                                                                                   |                        |
| 223                                       | Repairs and Maintenance                                                                                              | -                      |
| 7,651                                     | Supervision and Management                                                                                           | 7,774                  |
| 343                                       | Rents, rates, taxes and other charges                                                                                | 168                    |
| -                                         | Subsidy Limitation Transfer to the General Fund                                                                      | -                      |
| 3,616                                     | Depreciation and Impairment of Fixed Assets                                                                          | (3,547)                |
| 40                                        | Debt Management Costs                                                                                                | 44                     |
| <b>11,873</b>                             | <b>Total Expenditure</b>                                                                                             | <b>4,439</b>           |
| <b>(2,596)</b>                            | <b>Net (Income)/Expenditure for HRA Services as included in the whole authority Income and Expenditure Statement</b> | <b>(10,605)</b>        |
| 91                                        | HRA services share of Corporate and Democratic Core                                                                  | 88                     |
| <b>(2,505)</b>                            | <b>Net (Income)/Expenditure for HRA Services</b>                                                                     | <b>(10,517)</b>        |
| 6,163                                     | Gain or loss on sale of HRA assets                                                                                   | 6,508                  |
| 1,834                                     | Interest Payable and Similar Charges                                                                                 | 1,901                  |
| (34)                                      | Interest and Investment Income                                                                                       | (20)                   |
| (2,967)                                   | Capital Grants and Contributions Received                                                                            | (37)                   |
| <b>2,491</b>                              | <b>(Surplus)/Deficit for the Year</b>                                                                                | <b>(2,165)</b>         |

**MOVEMENT ON THE HRA STATEMENT**

| <b>2012/13</b><br><b>Restated</b><br>£000 |  |                                                                                                             | <b>2013/14</b><br>£000 |         |
|-------------------------------------------|--|-------------------------------------------------------------------------------------------------------------|------------------------|---------|
| (2,001)                                   |  | Housing Revenue Account balance brought forward (Surplus) / Deficit on HRA Income and Expenditure Statement |                        | (2,179) |
| 2,491                                     |  | Adjustments between accounting and funding basis:                                                           | (2,165)                |         |
| 2,967                                     |  | Capital Grants and Contributions received                                                                   | 37                     |         |
| 225                                       |  | Finance cost adjustment re. premiums and discounts                                                          | 149                    |         |
| (6,162)                                   |  | Reverse gain or loss on non-current assets                                                                  | (6,508)                |         |
| 2                                         |  | Transfer to / from Pension Reserve                                                                          | 2                      |         |
| (1)                                       |  | Transfer to / from Accumulated Absence Reserve                                                              | -                      |         |
| (13)                                      |  | Transfer from Capital Adjustment Account                                                                    | 7,407                  |         |
| (491)                                     |  | Transfers to earmarked reserves                                                                             | (1,078)                |         |
| 313                                       |  |                                                                                                             | 553                    |         |
| (178)                                     |  | (Increase) or decrease in year on HRA                                                                       |                        | (525)   |

|                |                                                        |                |
|----------------|--------------------------------------------------------|----------------|
|                | <b>Housing Revenue Account balance carried forward</b> |                |
| <u>(2,179)</u> |                                                        | <u>(2,704)</u> |

The Housing Revenue Account (HRA) records revenue income and expenditure relating to the Council's own housing stock. The account is "ring fenced" as there are statutory controls over the transfers which can be made between the HRA and the Council's General Fund. It shows the major elements of housing revenue expenditure - maintenance, administration and capital financing costs - and how these are met by rents and other income.

The Council has transferred responsibility for the management of its housing stock to Eastbourne Homes Ltd, as outlined in Note 13.4 above.

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1. HOUSING STOCK

The Council's housing stock consisted of:

| <b>31 March 2013</b> |                                   | <b>31 March 2014</b> |
|----------------------|-----------------------------------|----------------------|
|                      | Houses and Bungalows              |                      |
| 16                   | - one bedroom                     | 16                   |
| 535                  | - two bedrooms                    | 536                  |
| 1183                 | - three bedrooms                  | 1167                 |
| 54                   | - four or more bedrooms           | 53                   |
| <u><b>1,788</b></u>  | <b>Total Houses and Bungalows</b> | <u><b>1,772</b></u>  |
|                      | Flats                             |                      |
| 1013                 | - one bedroom                     | 1007                 |
| 525                  | - two bedrooms                    | 523                  |
| 9                    | - three or more bedrooms          | 6                    |
| 223                  | - bed-sits                        | 213                  |
| <u><b>1,770</b></u>  | <b>Total Flats</b>                | <u><b>1,749</b></u>  |
| <u><b>3,558</b></u>  | <b>All Dwellings</b>              | <u><b>3,521</b></u>  |

In addition the Council has shared ownership arrangements covering 13.5 full property equivalents (13.5 at 31 March 2013) and has acquired the use of 4 actual properties (5 at 31 March 2013) under short-term property leases.

The stock figures above exclude the purchase of 6 properties between January and March 2014 which are being renovated and will provide an additional 14 HRA units.

The Council's Balance Sheet includes the following HRA assets:

|                          | <b>1 April 2013</b>   | <b>31 March 2014</b>  |
|--------------------------|-----------------------|-----------------------|
|                          | <b>£000</b>           | <b>£000</b>           |
| Dwellings                | 134,260               | 125,716               |
| Other Land and Buildings | 926                   | 909                   |
| <b>Total</b>             | <u><b>135,186</b></u> | <u><b>126,625</b></u> |

### 2. VACANT POSSESSION VALUE OF DWELLINGS

The Council's stock of council dwellings was re-valued by Wilkes, Head & Eve as at 1 April 2011, which resulted in a market vacant possession value of the housing stock at 1 April 2011 of £410m, and after disposals the value is £394m as at 31 March 2014. The vacant possession of garages is £2.6m. The Government considers that the difference between this figure and the Balance Sheet figure shown above represents the economic cost to Government of providing council housing at less than open market rents.

**3. MAJOR REPAIRS RESERVE (MRR)**

This reserve was established by the Local Authorities (Capital Finance and Accounts) Regulations 2000. An amount equal to the total depreciation for the year for HRA properties is transferred to the reserve from the Capital Adjustment Account, and an amount equal to the Major Repairs Allowance can be used to finance capital investment.

| <b>2012/13</b> |                                  | <b>2013/14</b> |
|----------------|----------------------------------|----------------|
| £000           |                                  | £000           |
| (1,077)        | Balance as at 1 April            | (2,671)        |
| 2,010          | Financing of Capital Expenditure | 5,758          |
| (3,604)        | Depreciation                     | (3,392)        |
| <b>(2,671)</b> | <b>Balance as at 31 March</b>    | <b>(305)</b>   |

**4. CAPITAL EXPENDITURE AND FINANCING**

The table below summarises the total capital expenditure for the year, and the sources of finance.

| <b>2012/13</b> |                                  | <b>2013/14</b> |
|----------------|----------------------------------|----------------|
| £000           |                                  | £000           |
| <b>7,367</b>   | <b>Total Capital Expenditure</b> | <b>7,094</b>   |
|                | Funding:                         |                |
| -              | Borrowing                        | 566            |
| 2,667          | Government Grant                 | 37             |
| 2,167          | Capital Receipts                 | -              |
| 2,010          | Major Repairs Reserve            | 5,758          |
| 300            | Revenue Contributions            | 468            |
| 223            | Other Contributions              | 265            |
| <b>7,367</b>   | <b>Total Funding</b>             | <b>7,094</b>   |

**5. CAPITAL RECEIPTS FROM ASSET DISPOSALS**

| <b>2012/13</b>   |                                        | <b>2012/13</b> |
|------------------|----------------------------------------|----------------|
| <b>Re-stated</b> |                                        |                |
| £000             |                                        | £000           |
| 779              | Right to Buy Sales of Houses and Flats | 1,443          |
| 2,719            | Other Sales                            | 218            |
| -                | Repayment of Right to Buy Discount     | -              |
| 4                | Mortgage Repayments                    | 4              |
| <b>3,502</b>     |                                        | <b>1,665</b>   |

**6. DEPRECIATION**

| <b>2012/13</b> |                          | <b>2013/14</b> |
|----------------|--------------------------|----------------|
| £000           |                          | £000           |
| 3,586          | Dwellings                | 3,374          |
| 18             | Other Land and Buildings | 18             |
| <b>3,604</b>   | <b>Total HRA Assets</b>  | <b>3,392</b>   |

**7. REVALUATION OF HRA STOCK**

A desktop revaluation of the HRA stock was carried out by Wilkes Head & Eve as at 31 March 2014. This resulted in an estimated increase of 5.5% giving a revaluation gain of £7m. The revaluation did not take into account any capital expenditure on the stock since the formal valuation as at 1 April 2011 and so the stock was de-recognised by £18m for the total capital expenditure since 1 April 2011. The net effect was an impairment of £11m.

**8. REVENUE EXPENDITURE FINANCED FROM CAPITAL UNDER STATUTE**

The Council made contributions of £56,000 towards works on former council dwellings within blocks of council-owned flats, compared to £223,000 in 2012/13.

**9. CONTRIBUTION TO THE PENSION RESERVE**

Note 34 to the core financial statements sets out the accounting arrangements for the Local Government Pension Scheme, and explains that the Comprehensive Income and Expenditure Statement is compiled on the basis of proper accounting practice, charges being made on the basis of current service cost. The statutory charge against Council Tax, however, is based upon contributions payable in the year, and there is therefore an adjustment in the Comprehensive Income and Expenditure Statement to replace current service cost and other charges with the contributions for the year. These arrangements are reflected in the Housing Revenue Account, and a reduction of £2,000 (£2,000 in 2012/13) has been credited to the Housing Revenue Account via the Movement on the HRA statement.

**10. RENT ARREARS**

Rent arrears at 31 March 2014 amounted to £473,000 compared with £532,000 at 31 March 2013. These sums include the overpayment of Housing Benefit prior to 2004/05 and former tenants' arrears. During 2013/14 former tenant arrears of £73,000 were written off (£63,000 in 2012/13).

The Council has a provision for doubtful debts of £88,000 at 31 March 2014 (£362,000 at 31 March 2013)

**COLLECTION FUND REVENUE ACCOUNT**

| 2012/13                                                  |                                                     | 2013/14                |                     |               |
|----------------------------------------------------------|-----------------------------------------------------|------------------------|---------------------|---------------|
| £000                                                     |                                                     | Business Rates<br>£000 | Council Tax<br>£000 | Total<br>£000 |
| <b>Income</b>                                            |                                                     |                        |                     |               |
| 50,631                                                   | Income collectable from Council Tax                 | -                      | 51,778              | <b>51,778</b> |
| 9,711                                                    | Transfer from General Fund for Council Tax Benefits | -                      | -                   | -             |
| 31,598                                                   | Income collectable from Non-Domestic Rates          | 32,871                 | -                   | <b>32,871</b> |
| -                                                        | Transitional Protection payments                    | 77                     | -                   | <b>77</b>     |
| <b>91,940</b>                                            | <b>Total Fund Income</b>                            | <b>32,948</b>          | <b>51,778</b>       | <b>84,726</b> |
| <b>Expenditure</b>                                       |                                                     |                        |                     |               |
| Precepts, Demands and Shares                             |                                                     |                        |                     |               |
| -                                                        | Central Government                                  | 16,849                 | -                   | <b>16,849</b> |
| 42,841                                                   | East Sussex County Council                          | 3,033                  | 37,618              | <b>40,651</b> |
| 8,292                                                    | Eastbourne Borough Council                          | 13,479                 | 7,281               | <b>20,760</b> |
| 5,120                                                    | Sussex Police Authority                             | -                      | 4,495               | <b>4,495</b>  |
| 3,028                                                    | East Sussex Fire Authority                          | 337                    | 2,658               | <b>2,995</b>  |
| <b>59,281</b>                                            |                                                     | <b>33,698</b>          | <b>52,052</b>       | <b>85,750</b> |
| Business Rates                                           |                                                     |                        |                     |               |
| 31,471                                                   | Payment to National Pool                            | -                      | -                   | -             |
| 127                                                      | Costs of Collection                                 | 127                    | -                   | <b>127</b>    |
| <b>31,598</b>                                            |                                                     | <b>127</b>             | -                   | <b>127</b>    |
| Charges to Collection Fund                               |                                                     |                        |                     |               |
| -                                                        | Allowance for Appeals                               | 1,636                  | -                   | <b>1,636</b>  |
| 132                                                      | Write-offs of uncollectable amounts                 | 317                    | 191                 | <b>508</b>    |
| 747                                                      | Allowance for impairment of doubtful debts          | 217                    | (376)               | <b>(159)</b>  |
| <b>879</b>                                               |                                                     | <b>2,170</b>           | <b>(185)</b>        | <b>1,985</b>  |
| Apportionment of previous year's Collection Fund Surplus |                                                     |                        |                     |               |
| 49                                                       | East Sussex County Council                          | -                      | 115                 | <b>115</b>    |
| 10                                                       | Eastbourne Borough Council                          | -                      | 22                  | <b>22</b>     |
| 6                                                        | Sussex Police Authority                             | -                      | 14                  | <b>14</b>     |
| 3                                                        | East Sussex Fire Authority                          | -                      | 8                   | <b>8</b>      |
| <b>68</b>                                                |                                                     | -                      | <b>159</b>          | <b>159</b>    |
| <b>91,826</b>                                            | <b>Total Fund Expenditure</b>                       | <b>35,995</b>          | <b>52,026</b>       | <b>88,022</b> |
| <b>(114)</b>                                             | <b>Movement on Fund Balance</b>                     | <b>3,047</b>           | <b>248</b>          | <b>3,295</b>  |
| <b>COLLECTION FUND BALANCE</b>                           |                                                     |                        |                     |               |
| (55)                                                     | Balance at 1 April                                  | -                      | (169)               | <b>(169)</b>  |
| (114)                                                    | (Surplus)/Deficit for the year                      | 3,047                  | 248                 | <b>3,295</b>  |
| <b>(169)</b>                                             | <b>Balance as at 31 March</b>                       | <b>3,047</b>           | <b>79</b>           | <b>3,126</b>  |

**NOTES TO THE COLLECTION FUND****1 ACCOUNTING CHANGES**

Council Tax Benefits - From 1st April 2013, Local Council Tax Support Schemes replaced Council Tax Benefit. This has meant that income from Council Taxpayers is no longer shown as a gross figure in the Collection Fund but is now shown net of benefits awarded and the benefits awarded are reflected in the Council Tax Base. This change has reduced the Council Tax base number of Band D properties by more than 4,500 from that for 2012/13.

Non-Domestic Rates (NDR) – In 2013/14, the administration of National NDR changed following the introduction of a business rates retention scheme. Instead of paying National NDR to the central pool, local authorities now retain a proportion of the total collectable rates due. The scheme allows Eastbourne Council to retain 40% of the total National NDR income received, with the remainder is shared with Central Government (50%), East Sussex County Council (9%) and East Sussex Fire Authority (1%). The accounting entries within the Collection Fund have changed to reflect the new accounting requirements, payments to each authority are set at the beginning of each the financial year and then any surplus or deficit at year end apportioned to the relevant precepting authorities, as per their respective proportions, in the next financial year.

**2 INCOME FROM COUNCIL TAX****Amounts receivable from Council Taxpayers:**

|                                       | <b>£000</b>          |
|---------------------------------------|----------------------|
| Gross amount of Council Tax           | 70,001               |
| Less Local Council Tax Support Scheme | (9,442)              |
| Discounts                             | (6,991)              |
| Exemptions                            | (1,696)              |
| Disabled Relief                       | (94)                 |
| <b>Council Tax Income</b>             | <b><u>51,778</u></b> |

**Council Tax Base**

The Council's tax base (i.e. the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings), was calculated as follows:

| <b>Band</b>                                                      | <b>Chargeable Dwellings</b> | <b>Est Taxable Properties</b> | <b>Ratio to Band D</b> | <b>Band D Equiv</b> | <b>Yield £000</b> |
|------------------------------------------------------------------|-----------------------------|-------------------------------|------------------------|---------------------|-------------------|
| A Dis Red                                                        | (12)                        | (13)                          | 5/9                    | (7)                 | (11)              |
| A                                                                | 7,721                       | 4,185                         | 6/9                    | 2,790               | 4,472             |
| B                                                                | 12,531                      | 8,667                         | 7/9                    | 6,741               | 10,804            |
| C                                                                | 10,352                      | 8,073                         | 8/9                    | 7,176               | 11,501            |
| D                                                                | 8,416                       | 7,190                         | 9/9                    | 7,190               | 11,524            |
| E                                                                | 4,440                       | 4,000                         | 11/9                   | 4,889               | 7,836             |
| F                                                                | 1,986                       | 1,837                         | 13/9                   | 2,653               | 4,252             |
| G                                                                | 1,080                       | 993                           | 15/9                   | 1,655               | 2,653             |
| H                                                                | 116                         | 112                           | 18/9                   | 224                 | 359               |
|                                                                  | <b>46,630</b>               | <b>35,044</b>                 |                        | <b>33,311</b>       | <b>53,390</b>     |
| Less average 2.25% reduction to allow for collection losses etc. |                             |                               |                        | (834)               | (1,337)           |
| <b>Council Tax Base</b>                                          |                             |                               |                        | <b>32,477</b>       | <b>52,053</b>     |

The estimated and actual tax base figures can vary due to the various effects of banding appeals, new properties, demolished properties and entitlements to discounts.

**Comparison of Actual versus Theoretical gross Yields:**

|                                              |             |             |
|----------------------------------------------|-------------|-------------|
| Tax base (as above)                          | A           | 32,476.6    |
| Band D Council Tax 2013/14 (Budget report)   | B           | £1,602.77   |
| Theoretical gross yield                      | A x B       | £52,052,520 |
| Actual gross yield (as above)                | C           | £51,778,149 |
| Theoretical gross yield - actual gross yield | (A x B) - C | £274,371    |

### 3. INCOME FROM BUSINESS RATE PAYERS

The Council collects Non-Domestic Rates for its area based on local rateable values provided by the Valuation Office Agency multiplied by a uniform business rate set nationally by Central Government.

The table below shows the total rateable value and multipliers.

|                                   |       | 2012/13 | 2013/14 |
|-----------------------------------|-------|---------|---------|
| Total non-domestic rateable value | £m    | 82.2    | 83.0    |
| Multiplier                        | Pence | 45.8    | 47.1    |
| Multiplier (Small businesses)     | Pence | 45.0    | 46.2    |
| Gross Yield Before Adjustments    | £m    | 36.7    | 37.8    |

The gross yield before adjustments represents potential income at a point in time, i.e. the financial year end, and differs from bills issued during the year due to relief for empty properties, transitional relief, charity relief, and changes in rateable value and property base movements.

The business rates shared payable in 2013/14 was estimated before the start of the financial year as £33.6m. These sums have been paid into 2013/14 and charged to the collection fund in year. This council's share is £13.5m.

When the retained business rates income scheme was introduced, Central Government set a baseline funding level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive the baseline amount. Tariffs due from authorities payable to Central Government are used to finance the top-ups to those authorities who do not achieve their targeted baseline funding.

### 4 PRECEPTS AND DEMANDS ON THE COLLECTION FUND

| Authority                  | COUNCIL TAX     |                                                                     |               | NATIONAL NON-DOMESTIC BUSINESS RATES |                                                            |               |
|----------------------------|-----------------|---------------------------------------------------------------------|---------------|--------------------------------------|------------------------------------------------------------|---------------|
|                            | Precept<br>£000 | Distributio<br>n of prior<br>years<br>(surplus)/<br>deficit<br>£000 | Total<br>£000 | Share                                | Distribution<br>of prior<br>years<br>(surplus)/<br>deficit | Total<br>£000 |
| Eastbourne Borough Council | 7,281           | 22                                                                  | <b>7,303</b>  | 13,479                               | -                                                          | <b>13,479</b> |
| Central Government         | -               | -                                                                   | -             | 16,849                               | -                                                          | <b>16,849</b> |
| East Sussex County Council | 37,618          | 115                                                                 | <b>37,733</b> | 3,033                                | -                                                          | <b>3,033</b>  |
| Sussex Police              | 4,495           | 14                                                                  | <b>4,509</b>  | -                                    | -                                                          | -             |
| East Sussex Fire Authority | 2,658           | 8                                                                   | <b>2,666</b>  | 337                                  | -                                                          | <b>337</b>    |
| <b>Total</b>               | <b>52,052</b>   | <b>159</b>                                                          | <b>52,211</b> | <b>33,698</b>                        | -                                                          | <b>33,698</b> |

When the retained business rates income scheme was introduced, Central Government set a baseline funding level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities receive the baseline amount. Tariffs due from authorities payable to Central Government are used to finance the top-ups to those authorities who do not achieve their targeted baseline funding. Any sums above the baseline funding are subject to a levy payment to central government, for this Council this is 50%. The amounts for this Council are as follows:

|                                 | £000        |
|---------------------------------|-------------|
| Actual Business Rate income due | 12,636      |
| Tariff payment                  | (9,664)     |
|                                 | <hr/> 2,972 |
| Baseline Funding                | <hr/> 3,190 |
| Amount above baseline           | <hr/> -     |
| Levy Payable                    | -           |

**5 COLLECTION FUND BALANCE**

The table below shows the balances on the Collection Fund and how they relate to each precepting authority.

|                            | <b>COUNCIL TAX</b> |                | <b>BUSINESS RATES</b> |                |
|----------------------------|--------------------|----------------|-----------------------|----------------|
|                            | <b>2012/13</b>     | <b>2013/14</b> | <b>2012/13</b>        | <b>2013/14</b> |
|                            | <b>£'000</b>       | <b>£'000</b>   | <b>£'000</b>          | <b>£'000</b>   |
| Eastbourne Borough Council | (24)               | 11             | -                     | 1,219          |
| Central Government         | -                  | -              | -                     | 1,524          |
| East Sussex County Council | (121)              | 57             | -                     | 274            |
| Sussex Police Authority    | (15)               | 7              | -                     | -              |
| East Sussex Fire Authority | (9)                | 4              | -                     | 30             |
| <b>(Surplus)/Deficit</b>   | <b>(169)</b>       | <b>79</b>      | <b>0</b>              | <b>3,047</b>   |

The preceptors' share of the deficit on the Collection Fund is shown in the Council's balance sheet as part of the debtor's figures. This Council's share is included on the balance sheet under Collection Fund adjustment account.

**GROUP ACCOUNTS****Introduction**

As set out in Note 13.4 above, Eastbourne Homes Ltd (EHL) is a wholly owned subsidiary of the Council, and group accounts are therefore prepared to combine the accounts of the Council and the Company. Transactions and indebtedness between the Council and the Company have been eliminated in the preparation of these accounts.

The purpose of the main accounting statements is as set out in the accounting statements above for the Council alone.

The accounting code of practice requires the same disclosures to be made for group accounts as for the Council's own accounts. However the impact of the Eastbourne Homes figures on the group totals is generally immaterial, other than for those notes included.

**Welbeing (previously known as Wealden and Eastbourne Lifeline (WEL))**

WEL is a company limited by guarantee. The Council holds 49% of the voting rights and 21% of the non-voting rights. Whilst the Council has a significant influence, there is no control over the organisation. The accounts of WEL have not been included in the Group accounts as the effect is immaterial.

**CloudConnX**

The Council owns 25% of the B shares in CloudConnX and has significant influence, but not control. The accounts of CloudConnX have not been included in the Group accounts as the effect is immaterial.

**South East Independent Living Ltd (SEILL)**

SEILL, a private limited company, was incorporated on 30 September 2013. This company is wholly owned by EHL and their accounts have been incorporated with the accounts of EHL. The principal activity of SEILL is the delivery of a short term housing floating support service for people of 65 and over who live in Eastbourne, Lewes or Wealden district.

|                                             |
|---------------------------------------------|
| <b>GROUP MOVEMENT IN RESERVES STATEMENT</b> |
|---------------------------------------------|

|                                                                              | <b>EBC Usable Reserves</b><br>£000 | <b>EBC Unusable Reserves</b><br>£000 | <b>Total EBC Reserves</b><br>£000 | <b>EHL Reserves</b><br>£000 | <b>Total Group Reserves</b><br>£000 |
|------------------------------------------------------------------------------|------------------------------------|--------------------------------------|-----------------------------------|-----------------------------|-------------------------------------|
| <b>Balance at 1 April 2012</b>                                               | <b>(18,865)</b>                    | <b>(162,672)</b>                     | <b>(181,537)</b>                  | <b>(661)</b>                | <b>(182,198)</b>                    |
| <b>Movement in Reserves 2012/13 Restated</b>                                 |                                    |                                      |                                   |                             |                                     |
| (Surplus) or deficit on provision of services (accounting basis)             | 10,450                             | -                                    | <b>10,450</b>                     | (191)                       | <b>10,259</b>                       |
| Revaluation of fixed assets (added to) or withdrawn from Revaluation Reserve | -                                  | (1,308)                              | <b>(1,308)</b>                    | -                           | <b>(1,308)</b>                      |
| Actuarial (gains) losses on share of Pension Fund                            | -                                  | 3,352                                | <b>3,352</b>                      | 376                         | <b>3,728</b>                        |
| <b>Total Comprehensive Income and Expenditure</b>                            | <b>10,450</b>                      | <b>2,044</b>                         | <b>12,494</b>                     | <b>185</b>                  | <b>12,679</b>                       |
| Adjustments between accounting basis & funding basis under regulations       | (12,250)                           | 12,250                               | -                                 | -                           | -                                   |
| <b>(Increase) / Decrease in Year</b>                                         | <b>(1,800)</b>                     | <b>14,294</b>                        | <b>12,494</b>                     | <b>185</b>                  | <b>12,679</b>                       |
| <b>Balance at 31 March 2013 carried forward</b>                              | <b>(20,665)</b>                    | <b>(148,378)</b>                     | <b>(169,043)</b>                  | <b>(476)</b>                | <b>(169,519)</b>                    |
| <b>Movement in Reserves 2013/14</b>                                          |                                    |                                      |                                   |                             |                                     |
| (Surplus) or deficit on provision of services (accounting basis)             | 2,449                              | -                                    | <b>2,449</b>                      | (138)                       | <b>2,311</b>                        |
| Revaluation of fixed assets (added to) or withdrawn from Revaluation Reserve | -                                  | (249)                                | <b>(249)</b>                      | -                           | <b>(249)</b>                        |
| Actuarial (gains) losses on share of Pension Fund                            | -                                  | 6,504                                | <b>6,504</b>                      | 273                         | <b>6,777</b>                        |
| <b>Total Comprehensive Income and Expenditure</b>                            | <b>2,449</b>                       | <b>6,255</b>                         | <b>8,704</b>                      | <b>135</b>                  | <b>8,839</b>                        |
| Adjustments between accounting basis & funding basis under regulations       | (4,531)                            | 4,531                                | -                                 | -                           | -                                   |
| <b>(Increase) / Decrease in Year</b>                                         | <b>(2,082)</b>                     | <b>10,786</b>                        | <b>8,704</b>                      | <b>135</b>                  | <b>8,839</b>                        |
| <b>Balance at 31 March 2014 carried forward</b>                              | <b>(22,747)</b>                    | <b>(137,592)</b>                     | <b>(160,339)</b>                  | <b>(341)</b>                | <b>(160,680)</b>                    |

|                                                               |
|---------------------------------------------------------------|
| <b>GROUP COMPREHENSIVE INCOME &amp; EXPENDITURE STATEMENT</b> |
|---------------------------------------------------------------|

| 2012/13        |                 |                 | 2013/14       |                 |                 |
|----------------|-----------------|-----------------|---------------|-----------------|-----------------|
| Expend.        | Restated        | Net             |               |                 |                 |
| £000           | Income          | £000            | Expend.       | Income          | Net             |
|                | £000            |                 | £000          | £000            | £000            |
| 12,316         | (11,098)        | 1,218           | 2,805         | (1,161)         | 1,644           |
| 15,979         | (8,913)         | 7,066           | 12,177        | (9,142)         | 3,035           |
|                |                 |                 |               |                 |                 |
| 9,783          | (3,269)         | 6,514           | 8,588         | (3,170)         | 5,418           |
| 1,891          | (392)           | 1,499           | 1,991         | (504)           | 1,487           |
| 358            | (477)           | (119)           | 334           | (515)           | (181)           |
| 12,306         | (15,463)        | (3,157)         | 4,968         | (15,794)        | (10,826)        |
| 53,478         | (51,950)        | 1,528           | 54,935        | (52,558)        | 2,377           |
| 1,802          | (83)            | 1,719           | 2,090         | (174)           | 1,916           |
| 1,396          | (338)           | 1,058           | 1,562         | (303)           | 1,259           |
| <b>109,309</b> | <b>(91,983)</b> | <b>17,326</b>   | <b>89,450</b> | <b>(83,321)</b> | <b>6,129</b>    |
|                |                 |                 |               |                 |                 |
| 185            | -               | 185             | 193           | -               | 193             |
| 198            | -               | 198             | 250           | -               | 250             |
|                |                 |                 |               |                 |                 |
| 7,144          | 2,664           | 9,808           | -             | 10,885          | 10,885          |
| <b>7,527</b>   | <b>2,664</b>    | <b>10,191</b>   | <b>443</b>    | <b>10,885</b>   | <b>11,328</b>   |
|                |                 |                 |               |                 |                 |
| 1,982          | -               | 1,982           | 2,066         | -               | 2,066           |
| 1,207          | -               | 1,207           | 1,338         | -               | 1,338           |
| -              | (138)           | (138)           | -             | (86)            | (86)            |
| -              | (392)           | (392)           | -             | (394)           | (394)           |
| 931            | (888)           | 43              | 1,343         | (1,323)         | 20              |
| <b>4,120</b>   | <b>(1,418)</b>  | <b>2,702</b>    | <b>4,747</b>  | <b>(1,803)</b>  | <b>2,944</b>    |
|                |                 |                 |               |                 |                 |
| -              | (11,654)        | (11,654)        | -             | (8,223)         | (8,223)         |
| -              | (8,317)         | (8,317)         | -             | (7,267)         | (7,267)         |
| -              | -               | -               | 9,663         | (12,260)        | (2,597)         |
| <b>-</b>       | <b>(19,971)</b> | <b>(19,971)</b> | <b>9,663</b>  | <b>(27,750)</b> | <b>(18,087)</b> |
|                |                 |                 |               |                 |                 |
|                |                 | <b>10,248</b>   |               |                 | <b>2,314</b>    |
|                |                 | 11              |               |                 | (3)             |
|                |                 | <b>10,259</b>   |               |                 | <b>2,311</b>    |
|                |                 | (1,308)         |               |                 | (249)           |
|                |                 | 3,728           |               |                 | 6,777           |
|                |                 | <b>2,420</b>    |               |                 | <b>6,528</b>    |
|                |                 |                 |               |                 |                 |
|                |                 | <b>12,679</b>   |               |                 | <b>8,839</b>    |

**GROUP BALANCE SHEET**

| <b>1 April 2012</b> | <b>31 March 2013</b> |                                    | <b>Notes</b> | <b>31 March 2014</b> |                  |
|---------------------|----------------------|------------------------------------|--------------|----------------------|------------------|
| <b>Restated</b>     | <b>Restated</b>      |                                    |              | <b>£000</b>          | <b>£000</b>      |
| £000                | £000                 |                                    |              |                      |                  |
| 224,394             | 215,969              | Property, Plant & Equipment        | 2            | 216,022              |                  |
| 12,209              | 13,044               | Heritage Assets                    |              | 13,114               |                  |
| 1,626               | 1,626                | Investment Property                |              | 1,626                |                  |
| 866                 | 1,902                | Intangible Assets                  |              | 3,098                |                  |
| -                   |                      | Long Term Investments              |              | 1,150                |                  |
| 303                 | 421                  | Long Term Debtors                  |              | 2,261                |                  |
| <b>239,398</b>      | <b>232,962</b>       | <b>Long Term Assets</b>            |              |                      | <b>237,271</b>   |
| 2,373               | 606                  | Assets Held for Sale               |              | 606                  |                  |
| 2,000               | 100                  | Short Term Investments             |              | 100                  |                  |
| 143                 | 179                  | Inventories                        |              | 211                  |                  |
| 7,780               | 8,889                | Short Term Debtors                 | 3            | 11,862               |                  |
| 3,497               | 8,613                | Cash and Cash Equivalents          |              | 2,606                |                  |
| <b>15,793</b>       | <b>18,387</b>        | <b>Current Assets</b>              |              |                      | <b>15,385</b>    |
| (8,273)             | (4,799)              | Short Term Borrowing               |              | (5,466)              |                  |
| (10,137)            | (9,663)              | Short Term Creditors               | 4            | (9,860)              |                  |
| (101)               | (193)                | Short Term Provisions              | 5            | (654)                |                  |
| (96)                | (161)                | Revenue Grants Receipts in Advance |              | (121)                |                  |
| <b>(18,607)</b>     | <b>(14,816)</b>      | <b>Current Liabilities</b>         |              |                      | <b>(16,101)</b>  |
| (2,757)             | (2,321)              | Long Term Creditors                |              | (1,904)              |                  |
| (85)                | (128)                | Provisions                         | 5            | (171)                |                  |
| (26,212)            | (34,691)             | Long Term Borrowing                |              | (36,028)             |                  |
| (25,331)            | (29,874)             | Other Long Term Liabilities        | 6            | (37,772)             |                  |
| <b>(54,385)</b>     | <b>(67,014)</b>      | <b>Long Term Liabilities</b>       |              |                      | <b>(75,875)</b>  |
| <b>182,199</b>      | <b>169,519</b>       | <b>NET ASSETS</b>                  |              |                      | <b>160,680</b>   |
| (20,137)            | (22,170)             | Usable reserves                    |              | (24,511)             |                  |
| (162,062)           | (147,349)            | Unusable Reserves                  |              | (136,169)            |                  |
| <b>(182,199)</b>    | <b>(169,519)</b>     | <b>TOTAL RESERVES</b>              |              |                      | <b>(160,680)</b> |



|                                                 |
|-------------------------------------------------|
| <b>NOTES TO THE GROUP ACCOUNTING STATEMENTS</b> |
|-------------------------------------------------|

**1 ACCOUNTING POLICIES**

The accounting policies set out in Note 2 to the Eastbourne Borough Council accounts also apply to the group accounts. Where necessary, the accounts of Eastbourne Homes Ltd have been adapted to align them with the Council's policies.

**2 PROPERTY PLANT AND EQUIPMENT**

The table below shows the reconciliation of opening and closing balances and the movements in various categories for the year.

|                                                                                      | <b>Council<br/>Dwellings</b> | <b>Other Land<br/>&amp;<br/>Buildings</b> | <b>Vehicles,<br/>Plant &amp;<br/>Equip.</b> | <b>Infra-<br/>structure</b> | <b>Commun.</b> | <b>Surplus<br/>Props.</b> | <b>Total</b>    |
|--------------------------------------------------------------------------------------|------------------------------|-------------------------------------------|---------------------------------------------|-----------------------------|----------------|---------------------------|-----------------|
|                                                                                      | £000                         | £000                                      | £000                                        | £000                        | £000           | £000                      | £000            |
| <b>Cost or Valuation</b>                                                             |                              |                                           |                                             |                             |                |                           |                 |
| Balance at 1 April 2013                                                              | 129,311                      | 60,440                                    | 10,309                                      | 38,532                      | 2,882          | 55                        | <b>241,529</b>  |
| Additions                                                                            | 7,037                        | 1,759                                     | 892                                         | 317                         | 54             | -                         | <b>10,059</b>   |
| Revaluation decreases recognised in the Revaluation Reserve                          | -                            | (72)                                      | -                                           | -                           | -              | -                         | <b>(72)</b>     |
| Revaluation increases recognised in the Surplus/Deficit on the Provision of Services | 6,952                        | 2,325                                     | -                                           | -                           | -              | -                         | <b>9,277</b>    |
| De-recognition - Disposals                                                           | (8,272)                      | (7)                                       | -                                           | (5,031)                     | -              | -                         | <b>(13,310)</b> |
| Assets Reclassified (to)/from Held for Sale                                          | 160                          | (160)                                     | -                                           | -                           | -              | -                         | -               |
| Other movements in cost, valuation or reclassification                               | -                            | -                                         | (1)                                         | -                           | -              | -                         | <b>(1)</b>      |
| <b>At 31 March 2014</b>                                                              | <b>135,188</b>               | <b>64,285</b>                             | <b>11,200</b>                               | <b>33,818</b>               | <b>2,936</b>   | <b>55</b>                 | <b>247,482</b>  |
| <b>Accumulated Depreciation and Impairment</b>                                       |                              |                                           |                                             |                             |                |                           |                 |
| At 1 April 2013                                                                      | (6,197)                      | (2,584)                                   | (3,112)                                     | (13,103)                    | (564)          | -                         | <b>(25,560)</b> |
| Depreciation Charge                                                                  | (3,374)                      | (1,313)                                   | (1,059)                                     | (962)                       | -              | -                         | <b>(6,708)</b>  |
| Depreciation written out to the Surplus/Deficit on the Provision of Services         | -                            | 322                                       | -                                           | -                           | -              | -                         | <b>322</b>      |
| De-recognition - disposal                                                            | 102                          | -                                         | -                                           | 382                         | -              | -                         | <b>484</b>      |
| De-recognition - other                                                               | (3)                          | 3                                         | 1                                           | -                           | 1              | -                         | <b>2</b>        |
| <b>At 31 March 2014</b>                                                              | <b>(9,472)</b>               | <b>(3,572)</b>                            | <b>(4,170)</b>                              | <b>(13,683)</b>             | <b>(563)</b>   | <b>-</b>                  | <b>(31,460)</b> |
| <b>Net Book Value</b>                                                                |                              |                                           |                                             |                             |                |                           |                 |
| At 31 March 2014                                                                     | 125,716                      | 60,713                                    | 7,030                                       | 20,135                      | 2,373          | 55                        | <b>216,022</b>  |
| At 31 March 2013                                                                     | 123,114                      | 57,856                                    | 7,198                                       | 25,429                      | 2,317          | 55                        | <b>215,969</b>  |

The equivalent figures for 2012/13 are shown below:

|                                                             | <b>Council Dwellings</b> | <b>Other Land &amp; Buildings</b> | <b>Vehicles, Plant &amp; Equip.</b> | <b>Infra-structure</b> | <b>Commun.</b> | <b>Surplus Props.</b> | <b>Total</b>    |
|-------------------------------------------------------------|--------------------------|-----------------------------------|-------------------------------------|------------------------|----------------|-----------------------|-----------------|
|                                                             | £000                     | £000                              | £000                                | £000                   | £000           | £000                  | £000            |
| Restated                                                    |                          |                                   |                                     |                        |                |                       |                 |
| Balance at 1 April 2012                                     | 132,955                  | 60,211                            | 10,559                              | 38,494                 | 2,771          | 55                    | <b>245,045</b>  |
| Additions                                                   | 7,144                    | 1,027                             | 1,470                               | 38                     | 111            | -                     | <b>9,790</b>    |
| Revaluation increases recognised in the Revaluation Reserve | 606                      | 31                                | -                                   | -                      | -              | -                     | <b>637</b>      |
| De-recognition - Disposal                                   | (10,796)                 | (678)                             | (1,745)                             | -                      | -              | -                     | <b>(13,219)</b> |
| Assets Reclassified (to)/from Held for Sale                 | (606)                    | -                                 | -                                   | -                      | -              | -                     | <b>(606)</b>    |
| Other movements in cost, valuation or reclassification      | 8                        | (151)                             | 25                                  | -                      | -              | -                     | <b>(118)</b>    |
| <b>Balance at 31 March 2013</b>                             | <b>129,311</b>           | <b>60,440</b>                     | <b>10,309</b>                       | <b>38,532</b>          | <b>2,882</b>   | <b>55</b>             | <b>241,529</b>  |
| <b>Accumulated Depreciation and Impairment</b>              |                          |                                   |                                     |                        |                |                       |                 |
| At 1 April 2012                                             | (2,770)                  | (1,436)                           | (3,739)                             | (12,142)               | (564)          | -                     | <b>(20,651)</b> |
| Depreciation Charge                                         | (3,586)                  | (1,300)                           | (1,118)                             | (961)                  | -              | -                     | <b>(6,965)</b>  |
| De-recognition - disposal                                   | 167                      | -                                 | 1,745                               | -                      | -              | -                     | <b>1,912</b>    |
| De-recognition - other                                      | (8)                      | 152                               | -                                   | -                      | -              | -                     | <b>144</b>      |
| <b>At 31 March 2013</b>                                     | <b>(6,197)</b>           | <b>(2,584)</b>                    | <b>(3,112)</b>                      | <b>(13,103)</b>        | <b>(564)</b>   | <b>-</b>              | <b>(25,560)</b> |
| <b>Net Book Value</b>                                       |                          |                                   |                                     |                        |                |                       |                 |
| At 31 March 2013                                            | 123,114                  | 57,856                            | 7,198                               | 25,429                 | 2,317          | 55                    | <b>215,969</b>  |
| At 31 March 2012                                            | 130,185                  | 58,775                            | 6,614                               | 26,352                 | 2,207          | 55                    | <b>224,188</b>  |

### 3 SHORT TERM DEBTORS

Sort term debtors outstanding as at 31 March are:

| <b>31 March 2013</b> |                                       | <b>31 March 2014</b> |  |
|----------------------|---------------------------------------|----------------------|--|
| <b>£000</b>          |                                       | <b>£000</b>          |  |
| 2,060                | Central government                    | 2,104                |  |
| 1,854                | Other local authorities               | 3,637                |  |
| 2                    | NHS                                   | -                    |  |
| 1,285                | Public corporations and trading funds | 1,719                |  |
| 3,688                | Other entities and individuals        | 4,382                |  |
| <b>8,889</b>         | <b>Total</b>                          | <b>11,842</b>        |  |

### 4 SHORT TERM CREDITORS

The table below analyses the short-term liabilities between different groupings of creditor.

| <b>31 March 2013</b> | <b>31 March 2014</b> |
|----------------------|----------------------|
| <b>£000</b>          | <b>£000</b>          |

|                |                                                     |                |
|----------------|-----------------------------------------------------|----------------|
| (280)          | Central government                                  | (738)          |
| (486)          | Other local authorities                             | (954)          |
|                | Public Corporations and other trading organisations | (5,422)        |
| (5,194)        |                                                     |                |
| (3,703)        | All other bodies                                    | (2,726)        |
| <b>(9,663)</b> | <b>Total</b>                                        | <b>(9,840)</b> |

## 5 PROVISIONS

|                         | Balance<br>1 April<br>£000 | Additions<br>£000 | Reductions<br>£000 | Spent<br>£000 | Balance<br>31 March<br>£000 |
|-------------------------|----------------------------|-------------------|--------------------|---------------|-----------------------------|
| Accumulated Absences    | (115)                      | -                 | -                  | 115           | -                           |
| MMI Insurance           | (78)                       | -                 | 8                  | 70            | -                           |
| Business Rates Appeals  | -                          | (655)             | -                  | -             | (655)                       |
| Ivy House Dilapidations | (128)                      | (43)              | -                  | -             | (171)                       |
|                         | <b>(321)</b>               | <b>(698)</b>      | <b>8</b>           | <b>185</b>    | <b>(826)</b>                |

Eastbourne Homes Ltd (EHL) entered into a 10 year lease for Ivy House Head Office premises from 23<sup>rd</sup> December 2009 with a break date of 31<sup>st</sup> March 2015. Prior to occupation EHL undertook decorative and partitioning works to the interior of the premises to make it suitable for purpose. A licence was granted by the landlord under the lease for these works with the licence specifying a reinstatement clause which may be activated in full or in part by the landlord providing six months notice before the end of the term of the lease. The total estimated cost of reinstatement of the offices to their original condition is £213,000. Accordingly full provision will be made for this sum by charging an equal portion of the reinstatement cost to operating expenses over the 5 years from effective occupation of the property, April 2010 to the break date of 31<sup>st</sup> March 2015.

## 6 POST EMPLOYMENT BENEFITS

### 6.1 Participation in defined liability pension plan

Details of the Council's participation in the East Sussex Pension Fund are set out in Note 34, and employees of Eastbourne Homes Ltd have the same access to the benefits of the scheme.

### 6.2 Transactions relating to post-employment benefits

The following transactions have been made in the Group Comprehensive Income and expenditure statement :

| 2012/13<br>Restated<br>£000 |                                                                                                      | 2013/14<br>£000 |
|-----------------------------|------------------------------------------------------------------------------------------------------|-----------------|
|                             | <b>Current Service Cost</b>                                                                          |                 |
| 74                          | Central Services to the Public                                                                       | 100             |
| 357                         | Cultural and Related Services                                                                        | 421             |
| 154                         | Environmental and Regulatory Services                                                                | 49              |
| 126                         | Planning Services                                                                                    | 52              |
| 10                          | Highways and Transport Services                                                                      | -               |
| 244                         | Local Authority Housing (HRA)                                                                        | 288             |
| 170                         | Other Housing Services                                                                               | 226             |
| 50                          | Corporate and Democratic Core                                                                        | 64              |
| -                           | Trading Accounts                                                                                     | 1               |
| 435                         | Support Services                                                                                     | 808             |
| <b>1,620</b>                | <b>Total Current Service Cost</b>                                                                    | <b>2,009</b>    |
|                             | <b>Service Cost comprising:</b>                                                                      |                 |
| 1,620                       | Current Service Costs                                                                                | 2,009           |
| 259                         | Past Service Costs                                                                                   | 42              |
|                             | <b>Financing &amp; Investment Income &amp; Expenditure</b>                                           |                 |
| 1,207                       | Net Interest Expense                                                                                 | 1,338           |
| <b>3,086</b>                | <b>Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services</b> | <b>3,389</b>    |

| <b>2012/13</b><br><b>Restated</b><br><b>£000</b> |                                                                                                                                              | <b>2013/14</b><br><b>£000</b> |
|--------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
|                                                  | <b>Other Post-employment Benefits charged to the Comprehensive Income &amp; Expenditure Statement</b>                                        |                               |
|                                                  | Re-measurement of the net defined benefit liability comprising:                                                                              |                               |
| (8,100)                                          | Return on Plan Assets (excluding the amount included in the net interest expense)                                                            | 3,725                         |
| -                                                | Actuarial Gains and losses arising on changes in demographic assumptions                                                                     | 2,190                         |
| 11,893                                           | Actuarial Gains and losses arising on changes in financial assumptions                                                                       | 3,239                         |
| (65)                                             | Other                                                                                                                                        | (2,377)                       |
| <b>3,728</b>                                     | <b>Other Comprehensive Income &amp; Expenditure</b>                                                                                          | <b>6,777</b>                  |
| <b>6,814</b>                                     | <b>Total Post-employment Benefits charged to the Comprehensive Income &amp; Expenditure Statement</b>                                        | <b>10,166</b>                 |
|                                                  | <b>Movement in Reserves Statement</b>                                                                                                        |                               |
|                                                  | Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code | 2,957                         |
| 2,647                                            | Actual amount charged against the General Fund Balance for pensions in the year:                                                             | (1,836)                       |
| (1,832)                                          |                                                                                                                                              | (1,836)                       |
| <b>815</b>                                       | <b>Net adjustment in Movement in Reserves Statement</b>                                                                                      | <b>1,121</b>                  |

### 6.3 Pensions Assets and Liabilities recognised in the balance sheet

The amount included in the Balance Sheet for the Group obligation in respect of its defined plans is as follows:

| <b>2012/13</b><br><b>£000</b> |                                                              | <b>2013/14</b><br><b>£000</b> |
|-------------------------------|--------------------------------------------------------------|-------------------------------|
| 93,310                        | Fair value of employer assets                                | 91,607                        |
| (117,821)                     | Present value of funded liabilities                          | (124,004)                     |
| (5,363)                       | Present value of unfunded liabilities                        | (5,375)                       |
| <b>(29,874)</b>               | <b>Net liability arising from defined benefit obligation</b> | <b>(37,772)</b>               |

### 6.4 Reconciliation of the Movements in the Fair Value of the Scheme Assets

| <b>2012/13</b><br><b>£000</b> |                                                                                                                            | <b>2013/14</b><br><b>£000</b> |
|-------------------------------|----------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| 83,237                        | Opening fair value of assets                                                                                               | 93,310                        |
| 3,949                         | Interest income                                                                                                            | 4,149                         |
| 8,100                         | <b>Re-measurement gain/(loss):</b><br>The return on plan assets, excluding the amount included in the net interest expense | (3,725)                       |
|                               | The effect of changes in foreign exchange rates                                                                            |                               |
| 1,898                         | Contributions from employer - Funded                                                                                       | 1,899                         |
| 373                           | Contributions from employer - Unfunded                                                                                     | 369                           |
| 552                           | Contributions from employees into the scheme                                                                               | 531                           |
| (4,426)                       | Benefits paid - Funded                                                                                                     | (4,557)                       |
| (373)                         | Benefits paid - Unfunded                                                                                                   | (369)                         |
| <b>93,310</b>                 | <b>Closing fair value of scheme assets</b>                                                                                 | <b>91,607</b>                 |

### 6.5 Reconciliation of present Value of the Scheme Liabilities (Defined Benefit Obligation)

| <b>2012/13</b> |                                        | <b>2013/14</b> |
|----------------|----------------------------------------|----------------|
| (108,568)      | Opening balance at 1 April             | (123,184)      |
| (1,620)        | Current service costs                  | (2,009)        |
| (5,156)        | Interest costs                         | (5,487)        |
| (552)          | Contributions from scheme participants | (531)          |

|                                           |                                                                        |                  |
|-------------------------------------------|------------------------------------------------------------------------|------------------|
| <b>Re-measurement (gains) and losses:</b> |                                                                        |                  |
| -                                         | Actuarial gains/losses arising from changes in demographic assumptions | (2,190)          |
| (11,893)                                  | Actuarial gains/losses arising from changes in financial assumptions   | (3,239)          |
| 65                                        | Other                                                                  | 2,377            |
| (259)                                     | Past service costs                                                     | (42)             |
| -                                         | Losses/(gains) on curtailment                                          | -                |
| -                                         | Liabilities assumed on entity combinations                             | -                |
| 4,426                                     | Benefits paid - Funded                                                 | 4,557            |
| 373                                       | Benefits paid - Unfunded                                               | 369              |
| <b>(123,184)</b>                          | <b>Closing Balance at 31 March</b>                                     | <b>(129,379)</b> |

## 6.6 Local Government Pension Scheme Assets comprised:

| Period Ended 31 March 2013                          |                                     |               |                   | Period Ended 31 March 2014                          |                                     |               |                   |
|-----------------------------------------------------|-------------------------------------|---------------|-------------------|-----------------------------------------------------|-------------------------------------|---------------|-------------------|
| Quoted prices in active markets                     | Quoted prices not in active markets | Total         | % of Total Assets | Quoted prices in active markets                     | Quoted prices not in active markets | Total         | % of Total Assets |
| £000                                                | £000                                | £000          |                   | £000                                                | £000                                | £000          |                   |
| <b>Equity Securities:</b>                           |                                     |               |                   | <b>Equity Securities:</b>                           |                                     |               |                   |
| 3,102                                               | -                                   | 3,102         | 3%                | 4,463                                               | -                                   | 4,463         | 5%                |
| 1,259                                               | -                                   | 1,259         | 1%                | 2,269                                               | -                                   | 2,269         | 2%                |
| 2,039                                               | -                                   | 2,039         | 2%                | 2,387                                               | -                                   | 2,387         | 3%                |
| 4,694                                               | 8                                   | 4,702         | 5%                | 5,026                                               | -                                   | 5,026         | 5%                |
| 2,194                                               | -                                   | 2,194         | 2%                | 2,710                                               | -                                   | 2,710         | 3%                |
| 2,070                                               | -                                   | 2,070         | 2%                | 2,471                                               | -                                   | 2,471         | 3%                |
| 1,691                                               | -                                   | 1,691         | 2%                | 1,304                                               | 150                                 | 1,454         | 2%                |
| <b>17,048</b>                                       | <b>8</b>                            | <b>17,056</b> | <b>17%</b>        | <b>20,630</b>                                       | <b>150</b>                          | <b>20,780</b> | <b>23%</b>        |
| <b>Sub-total equity</b>                             |                                     |               |                   | <b>Sub-total equity</b>                             |                                     |               |                   |
| <b>Debt Securities:</b>                             |                                     |               |                   | <b>Debt Securities:</b>                             |                                     |               |                   |
| -                                                   | 1,402                               | 1,402         | 2%                | -                                                   | 1,288                               | 1,288         | 1%                |
| -                                                   | 1,171                               | 1,171         | 1%                | -                                                   | 1,216                               | 1,216         | 1%                |
| -                                                   | <b>2,573</b>                        | <b>2,573</b>  | <b>3%</b>         | -                                                   | <b>2,504</b>                        | <b>2,504</b>  | <b>2%</b>         |
| <b>Sub-total Debt Securities</b>                    |                                     |               |                   | <b>Sub-total Debt Securities</b>                    |                                     |               |                   |
| <b>Private equity:</b>                              |                                     |               |                   | <b>Private equity:</b>                              |                                     |               |                   |
| -                                                   | <b>7,978</b>                        | <b>7,978</b>  | <b>9%</b>         | -                                                   | <b>7,206</b>                        | <b>7,206</b>  | <b>8%</b>         |
| <b>Real Estate:</b>                                 |                                     |               |                   | <b>Real Estate:</b>                                 |                                     |               |                   |
| 923                                                 | 6,725                               | 7,648         | 8%                | 506                                                 | 7,748                               | 8,254         | 9%                |
| <b>923</b>                                          | <b>6,725</b>                        | <b>7,648</b>  | <b>8%</b>         | <b>506</b>                                          | <b>7,748</b>                        | <b>8,254</b>  | <b>9%</b>         |
| <b>Sub-total Real Estate</b>                        |                                     |               |                   | <b>Sub-total Real Estate</b>                        |                                     |               |                   |
| <b>Investment Funds &amp; Unit Trusts:</b>          |                                     |               |                   | <b>Investment Funds &amp; Unit Trusts:</b>          |                                     |               |                   |
| 187                                                 | 48,813                              | 49,000        | 53%               | 109                                                 | 43,530                              | 43,639        | 49%               |
| 1,863                                               | 4,387                               | 6,250         | 7%                | 3,481                                               | 2,465                               | 5,946         | 6%                |
| -                                                   | 52                                  | 52            | 0%                | 180                                                 | -                                   | 180           | 0%                |
| 478                                                 | -                                   | 478           | 1%                | 270                                                 | -                                   | 270           | 0%                |
| <b>2,528</b>                                        | <b>53,252</b>                       | <b>55,780</b> | <b>61%</b>        | <b>4,040</b>                                        | <b>45,995</b>                       | <b>50,035</b> | <b>55%</b>        |
| <b>Sub-total Investment Funds &amp; Unit Trusts</b> |                                     |               |                   | <b>Sub-total Investment Funds &amp; Unit Trusts</b> |                                     |               |                   |
| <b>Derivatives:</b>                                 |                                     |               |                   | <b>Derivatives:</b>                                 |                                     |               |                   |
| -                                                   | (44)                                | (44)          | 0%                | -                                                   | 53                                  | 53            | 0%                |
| -                                                   | <b>(44)</b>                         | <b>(44)</b>   | <b>0%</b>         | -                                                   | <b>53</b>                           | <b>53</b>     | <b>0%</b>         |
| <b>Sub-total Derivatives</b>                        |                                     |               |                   | <b>Sub-total Derivatives</b>                        |                                     |               |                   |
| <b>Cash &amp; Cash Equivalents</b>                  |                                     |               |                   | <b>Cash &amp; Cash Equivalents</b>                  |                                     |               |                   |
| -                                                   | <b>2,319</b>                        | <b>2,319</b>  | <b>2%</b>         | -                                                   | <b>2,775</b>                        | <b>2,775</b>  | <b>3%</b>         |
| <b>20,499</b>                                       | <b>72,811</b>                       | <b>93,310</b> | <b>100%</b>       | <b>25,176</b>                                       | <b>66,430</b>                       | <b>91,606</b> | <b>100%</b>       |
| <b>Total</b>                                        |                                     |               |                   | <b>Total</b>                                        |                                     |               |                   |

The breakdown of assets in monetary terms in the table above have been shown to the nearest £1,000. The additional precision in the presentation of the figures has been included, but the sum of the values rounded to the nearest £1,000 may not equal the total value due to rounding.

## **7. TRANSACTIONS BETWEEN EASTBOURNE BOROUGH COUNCIL AND EASTBOURNE HOMES LTD**

Eastbourne Borough Council pay the Company a fee in accordance with an agreement to manage and maintain the Council's housing stock, including capital works.

The Company obtained services from Eastbourne Borough Council under various Service Level Agreements. These include financial ledger systems, parks & gardens, information technology and Chief Finance Officer.

|                                            | <b>2013</b> | <b>2014</b> |
|--------------------------------------------|-------------|-------------|
|                                            | <b>£000</b> | <b>£000</b> |
| <b>Income</b>                              |             |             |
| Housing Management contract                | 6,945       | 6,815       |
| Other contracts                            | 9           | 300         |
| <b>Expenditure</b>                         |             |             |
| Service Level Agreements                   | 252         | 278         |
| Contribution to Capital Works              | 300         | 0           |
| <b>Recharges</b>                           |             |             |
| Capital Works at cost                      | 7,367       | 6,382       |
| Other                                      | 4           | 8           |
| <b>Debtor</b>                              |             |             |
| Amount due from Eastbourne Borough Council | 1726        | 2,536       |
| <b>Creditor</b>                            |             |             |
| Amount due to Eastbourne Borough Council   | 37          | 50          |

Four of the 12 Board Directors of Eastbourne Homes Ltd are residents in properties maintained by Eastbourne Homes and owned by Eastbourne Borough Council. These residents have a standard tenancy agreement and fulfil the same obligations and receive the same service as all other residents of Eastbourne.

South East Independent Living Limited (SEILL), a private limited company, was incorporated on 30 September 2013. This company is wholly owned by EHL and their accounts have been consolidated within the statement of accounts for EHL. SEILL has assets of £12,000 and turnover of £378,000.

**GLOSSARY**

This glossary helps to define some of the terms and phrases found in these accounts.

**Accounting Period**

The length of time covered by the accounts, in the case of these accounts the year from 1 April to 31 March.

**Accrual**

A sum included in the accounts to cover income or expenditure attributable to the accounting period for goods or services, but for which payment has not been received/made, by the end of that accounting period.

**Actuarial Gains and Losses**

Changes in the estimated value of the pension fund because events have not coincided with the actuarial assumptions made or the assumptions themselves have changed.

**Balances**

These represent the accumulated surplus of revenue income over expenditure.

**Budget**

An expression, mainly in financial terms, of the Council's intended income and expenditure to carry out its objectives.

**Budget Requirement**

The amount each local authority estimates as its planned spending, after deducting funding from reserves and any income expected to be collected (excluding Council Tax and Government Grants). This requirement is then offset by Government Grant, the balance being the amount needed to be raised in Council Tax.

**Capital Charge**

A charge to service revenue accounts to reflect the cost of non-current assets (previously referred to as fixed assets) used in the provision of services.

**Capital Expenditure**

Expenditure on the acquisition of non-current assets (fixed assets) that will be of use or benefit to the Council in providing its services for more than one year. Capital expenditure also includes Revenue expenditure financing from Capital under Statute.

**Capital Adjustments Account**

The capital adjustments account records the resources set aside to finance capital expenditure and offsets the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or by disposal.

**Capital Receipts**

Income received from the sale of capital assets. Legislation requires a proportion of capital receipts from the sale of Council houses to be paid over to a national pool.

**Cash Equivalents**

Generally short term, highly liquid investments readily convertible into cash.

**Chartered Institute of Public Finance and Accountancy (CIPFA)**

CIPFA is the main professional body for accountants working in the public service. It draws up the Accounting Code of Practices and issues professional guidance that is used to compile these accounts.

**Collection Fund**

A fund administered by the Council as a "Charging Authority". The Council Tax and Non-Domestic Rates are paid into this fund. The Council Tax and NDR demand of the Council and the precepts of other public bodies are paid out of the fund. Any surplus or deficit is shared between the various authorities.

**Corporate and Democratic Core**

These are the activities that a local authority engages in specifically because it is a democratically elected decision making body. These costs are not apportioned to services but are shown here. Examples of costs are Councillors' allowances, Committee support and time spent by professional officers in giving policy advice.

**Council Tax Freeze Grant**

A grant payable to any local authority that contains any increase in net costs in 2012/13 and 2013/14 to the equivalent to a 1% increase in council tax.

**Creditors**

The amounts owed by the Council at the Balance Sheet date in respect of goods and services received before the end of the accounting period but not paid for.

**Current Service Cost**

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

**Debtors**

Amounts owed to the Council but unpaid at the Balance Sheet date.

**Depreciation**

The measure of the cost or revalued amount of the benefit of the fixed asset that have been consumed during the period.

**Expected Rate of Return on Pensions Assets**

The average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

**Fees and Charges**

The income raised by charging for goods, services or the use of facilities.

**General Fund**

The main revenue fund of the Council which is used to meet the cost of services paid for from Council Tax, Government Grant and fees and charges.

**Heritage Asset**

A tangible asset with historical, artistic, scientific, technological or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

**Housing Revenue Account**

A separate account, maintained by law, which accounts for the income and expenditure related to the Council's housing stock. The General Fund cannot subsidise the Housing Revenue Account and vice versa.

**Intangible Assets**

Non current assets (fixed assets) that do not have physical substance but are identifiable and controlled by the Council. Examples are software and licences.

**Leasing**

A method of acquiring the use of capital assets for a specified period for which a rental charge is paid.

**Levy**

A contribution payable by law to Internal Drainage Boards for land drainage.

**Minimum Revenue Provision**

An amount to be set aside each year from revenue to repay the principal amounts of external loans outstanding.

**Non Current Asset (previously known as Fixed Asset)**

Assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

**Non Domestic Rates (NDR) (also known as Business Rates)**

Non Domestic Rates are levied on businesses within its area by the Billing Authority and the proceeds are paid into its Collection Fund for distribution to precepting Authorities and for use by its own General Fund.

**Precept**

The amount levied by various Authorities that is collected by the Council on their behalf. The precepting Authorities in Eastbourne are East Sussex County Council, Sussex Police Authority and East Sussex Fire

**Provisions**

Amounts set aside to meet costs which are likely or certain to be incurred, but are uncertain in value or timing.

**Public Works Loans Board**

A Government body that provides loans to local authorities.

**Reserves**

The accumulated surplus income in excess of expenditure, which can be used to finance future spending and is available to meet unforeseen financial problems. Earmarked Reserves are amounts set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years.

**Revaluation Reserve**

The revaluation reserve reflects the unrealised element of the cumulative balance of revaluation adjustments.

**Revenue Expenditure**

The day to day spending on employment costs, other operating costs (accommodation, supplies and services etc.) net of income for fees and charges etc.

**Revenue Expenditure financed from Capital under Statute (REFFCUS)**

Expenditure that can be classified as capital expenditure but which does not result in the acquisition of a tangible or physical asset.

**Revenue Support Grant**

Central Government financial support towards the general expenditure of local authorities.

**Specific Government Grants**

Central Government financial support towards particular services which is "ring fenced", i.e. can only be spent on a specific service area or items.