

# **Rother District Council**

## **STATEMENT OF ACCOUNTS**

**2010/11**



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## FOREWORD BY THE HEAD OF FINANCE

The purpose of this foreword is to provide an easily understandable guide to the most significant matters reported in the accounts. The pages that follow are Rother District Council's accounts for the year 2010/11, and include:

- **Statement of Accounting Policies** - this explains the basis of the figures in the accounts. The accounts can be properly appreciated only if the policies that have been followed in dealing with material items are explained.
- **Movement in Reserves Statement** - this shows the movement in the year on the different reserves held by the authority, analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus on the provision of services line shows the true economic cost of providing the authorities services, which is shown in greater detail in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for Council Tax setting. The net increase or decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers from earmarked reserves is made by the Council.
- **Comprehensive Income and Expenditure Statement** – this shows the Council's actual financial performance for the year. The Statement shows the accounting cost in the year of providing the services in accordance with generally accepted accounting practices rather than the amount to be funded from taxation. The Authority raises taxation to cover expenditure in accordance with regulations and this may be different to the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- **Balance Sheet** - this is fundamental to the understanding of the Council's year-end financial position. The Balance Sheet shows the value as at the Balance Sheet date of the Assets and Liabilities recognised by the Authority. Net Assets of the Authority are matched by the Reserves held by the Authority. Reserves are reported in two categories; Reserves that are usable (i.e. those reserves that the Authority can spend on services subject to maintaining a prudent level of reserves and any statutory limitations on their use), and Reserves that are unusable e.g. reserves that hold unrealised gains and losses such as the Revaluation Reserve. See note 20 for further information.
- **Cash Flow Statement** – this shows the changes in the cash and cash equivalents of the Authority. The Statement shows how the authority 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 shows the extent to which operations of the Authority are funded by way of taxation, grant income or income from recipients of services. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the future delivery of services (i.e. cash funds that are not immediately needed can be invested to make a return for the Authority).
- **Collection Fund Statement** – this reflects the statutory obligation for Rother District Council as the Billing Authority to maintain a separate Collection Fund. The Statement shows the transactions of the Council in relation to the collection from taxpayers and distribution to local authorities (precepting) and the Government of council tax and non-domestic rates.

## **FOREWORD BY THE HEAD OF FINANCE**

### **Significant Changes to the 2010/11 Statement of Accounts**

Efforts have been made to present information in a format that is easy to read and understand, whether you are a local taxpayer, Councillor or Council employee. I am, however, required by law to set the accounts out in a certain way. Further information about the accounts presented in this Statement is available from the Resources Directorate of the Council.

The 2010/11 Local Government Accounting Code of Practice (the Code) has made significant changes to the format of the accounts with the move to International Financial Reporting Standards (IFRS) from UK GAAP. The changes include the introduction of the Movement in Reserves Statement and the Comprehensive Income and Expenditure Statement. The Code also introduces componentisation of property assets and subsequent changes in depreciation policies. There are revised tighter definitions of investment properties which has resulted in a number of properties being reclassified as operational properties. The code also impacts through the introduction of the concept of embedded leases within the major contracts of the Council. The Council has considered its major service contracts and identified those significant assets used by contractors predominately for the Council contract and consequently taken the value of those assets onto the Balance Sheet with funding through a notional lease. Contract payments are now split into three elements, the payment for the service being provided, the repayment of the notional lease for the major assets deployed on the contract and a notional interest charge. Note 1 to the accounts summarises the changes that were made restating the 2009/10 accounts.

### **Financial Summary 2010/11**

The Council's annual spending is categorised as being either Revenue or Capital. Revenue spending is generally on the day-to-day provision of services. Capital expenditure, by contrast, is on items that have a life beyond one year.

#### **Revenue**

The General Fund expenditure is met primarily by Government grants and Council Taxpayers. The financial performance of the Council's General Fund services in 2010/11 resulted in a deficit of £230,000 which represents a 2% variation from the net budget of £13,779,550 excluding Parish Precepts.

Provision of £728,000 has been made in the accounts for redundancy costs following the decision by Council to offer voluntary redundancies to staff as part of the Service Resetting Programme. Whilst no payments were made in 2010/11, under accounting rules, provision has to be made in the same year that the decision to make an officer redundant was made. These costs will be met from Earmarked Reserves.

Excluding the costs of redundancies, the use of reserves was substantially below that budgeted as a result of the savings achieved in the year primarily from vacant posts, income and reduced operational costs. It is recommended to only utilise £230,000 of the interest equalisation reserve (compared to expected use of £910,000) to bring the accounts for 2010/11 into balance.

Services such as Planning and Building Control continue to be affected by the economic downturn and have seen a substantial reduction in income earned during the year. This was actively managed through the year and action taken to minimise the impact on the Revenue account including holding a number of posts vacant through the year. Savings in service contracts such as leisure and grounds maintenance have also been achieved to help offset the reduction in income.

## FOREWORD BY THE HEAD OF FINANCE

Overall Earmarked Reserves reduced by nearly £1.6m as the Council continues to have to support its Revenue Budget in order to protect services. In addition to making up the shortfall on investment income and meeting the costs of redundancies, reserves were used to support the Corporate Projects, local development framework and housing services such as homelessness.

Individual service spend compared against budget was also affected by a number of accounting entries required under current guidance, but which are subsequently reversed so as to not affect the Council Tax payer. In particular changes in asset valuations, such as the recently completed Elva Way Business Centre, have impacted on the cost of services but have no effect on the final Revenue account. A reconciliation of the non IFRS compliant financial outturn for 2010/11 to the comprehensive income and expenditure account is shown at Note 24 to the Accounts.

Overall the Pension Fund liability has reduced to £13m (£31m 2009/10). A significant part of this reduction in liability relates to the UK budget statement on 22 June 2010 where the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has the effect of reducing Rother's liabilities in East Sussex Pension Fund by £6.7m and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact upon the General Fund.

## FOREWORD BY THE HEAD OF FINANCE

The following table shows the overall year end financial position for the Revenue account:

### General Fund 2010/11: Comparison of Expenditure with Budget

Service	Actual	Budget	Budget Var	Analysis of Variations			
				Pension FRS17 Adj	Embed Leases IFRIC 4 Adj	Depn	Service Variation
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cultural and Related Services</b>	3,548	3,491	57	-7		27	37
<b>Environmental Services</b>	4,942	5,483	-541	-15	-461	405	-470
<b>Planning and Development</b>	2,570	2,725	-155	-21		0	-134
<b>Highways</b>	-57	183	-240	-1		5	-244
<b>Housing</b>	2,441	2,549	-108	-11		11	-108
<b>Corporate and Democratic Core</b>	-3,060	3,244	-6,304	-6,796		5	487
<b>Central Services</b>	967	1,189	-222	-9		11	-224
<b>Support Services</b>	98	140	-42	-24		48	-66
<b>Other Operating Income and Expenditure</b>	2,494	-5,224	7,718	6,884	461	-512	885
<b>TOTAL EXPENDITURE</b>	<b>13,943</b>	<b>13,780</b>	<b>163</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>163</b>
Parish Precepts	1,025	1,025	0				
<b>TOTAL EXPENDITURE</b>	<b>14,968</b>	<b>14,805</b>	<b>163</b>				
<b>Financed by:</b>							
NNDR Pool	-5,750	-5,750	0				
Revenue Support Grant	-887	-894	7				
Council Tax Adjustments 9/10	28	-30	58				
Council Tax – demand on Collection Fund	-8,130	-8,130	0				
	<b>-14,739</b>	<b>-14,804</b>	<b>65</b>				
<b>Net Overspend</b>			<b>228</b>				

## **FOREWORD BY THE HEAD OF FINANCE**

### **Collection Fund**

Rother District Council is responsible for operating a Collection Fund on behalf of itself, East Sussex County Council, the Sussex Police Authority, East Sussex Fire Authority and all of the Town and Parish Councils within the Rother area. The Fund receives all income collected from local taxpayers and meets the demands of the precepting authorities. Collection performance continued to be high during the year and was in line with the target set by the Council. The Collection Fund was in surplus at year end by £275,000 with Rother's share being £36,000. The majority of the surplus belongs to East Sussex County Council. The Revenues Team managed to maintain a recovery rate of 98.4% which was an excellent result in the current financial climate.

### **Capital**

The Council has actively managed its capital spending and resources during the year and achieved a spend of £5.5m against a final programme of £6.4m. This represents 86% of the programme. There were a number of variations including the contribution to the Pretious Project (£0.3m), swimming and leisure centre development (£0.165m), Marley Lane junction improvement (£0.13m), Housing Schemes (£0.13m), and Support Service schemes (£0.181m) The Council's capital expenditure has been financed, from capital grants and contributions (£2.2m), capital receipts (£3.1m) and other sources (£0.2m).

### **Pensions**

Accounting regulations require Councils to show any deficit or surplus on the Pension Fund within the balance sheet. The Council's share of the Pension Fund administered by East Sussex County Council was assessed at 31 March 2011 by the actuary as a deficit of £13m, as compared with a deficit of £31.1m at 31 March 2010. This represents a liability incurred now which is payable over many years in the future as pensionable employees retire. The change to the Consumer Price Index and the measure of inflation applied to the annual increase in pension in payment together with improved performance has reduced the Pension Fund Liability substantially.

### **Borrowing**

The Council did not enter into any borrowing during 2010/11. All the Council's PWLB debt was repaid in April 2002. However under the Code, a notional finance lease liability of £0.9m (£1.34m 2009/10) has been included in the Councils Balance Sheet reflecting the vehicles and equipment deployed by the Council's refuse collection and street cleansing contractor.

### **Land and Property values**

The Council reviewed the market value of its land and property holdings based upon advice received from the District Valuer. This advice indicated that values had not increased since 2009/10. A significant downward valuation (£2.92m) was received for the Elva Way Business Centre taking account of the low start rents following completion of the project during this year. However returns from rents are approaching rates achievable through interest earning deposit accounts.

## FOREWORD BY THE HEAD OF FINANCE

### Outlook for 2011/12

The Council has developed its Medium Term Financial Strategy (MTFS) to align with the Corporate Plan. The Council continues to maintain its policy of not relying on reserves to fund ongoing revenue expenditure. However reserves will continue to be used to meet one the effects of the financial climate on investment returns and to meet the cost of one off projects, especially for "invest to save" projects. For 2011/12 the Council froze its Council Tax opting to take the Council Tax freeze grant from the Government. The Council has embarked on a service resetting programme in order to deliver savings of £1.7m over the next two years. The Council has set aside specific reserves to deal with the loss of investment income, but these will be exhausted in two years should the economic conditions not improve. The current recession has also impacted on a number of services, predominantly through increased homelessness applications, benefit take up and the stagnation of the housing market which has impacted on planning income. The forecast budget for the next five years indicates savings in the order of £3m will be required to achieve a balanced budget. Following the election of a new coalition Government in May 2010 announcements on future funding indicate that further substantial savings are likely. However it is unlikely that the Council Tax will increase beyond 0% to 3% for the foreseeable future due to the new government's commitments on Council Tax increases, which increases pressure on the Council to identify efficiency and cash savings to meet future service needs. A fundamental review of the MTFS was completed during 2010/11 to ensure it continues to align with the Corporate Plan and to drive improvements in Value for Money and identify sustainable efficiencies that will deliver on going cash savings.

### Presentation of Accounts

In preparing the accounts for 2010/11, the Council has followed the Local Government Accounting Code of Practice published by the Chartered Institute of Public Finance and Accountancy (CIPFA). This Code establishes a framework of best practice that the preparers of local authority accounts are expected to follow.

### Approval of Accounts

The accounts were presented to the Resources Overview and Scrutiny Committee on the 28 September 2011 and were authorised by the Chairman of the Committee Councillor Martin Mooney.

.....  
Councillor Martin Mooney  
Chairman of Resources Overview and Scrutiny  
28<sup>th</sup> September 2011



## STATEMENT OF RESPONSIBILITIES

The following statements are made in accordance with recommended practice:

### **The Council's Responsibility**

The Council is required:

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

### **The Head of Finance's (as the Chief Financial Officer) Responsibility**

The Head of Finance 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 Head of Finance has:

- 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 Head of Finance has also:

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

### **Head of Finance Certificate**

I certify that I have fulfilled my responsibilities noted above and that the accounts set out on pages 10 to 59. give a true and fair view of the financial position of the Council as at 31 March 2011 and its income and expenditure for the year ended 31 March 2011.

.....  
Robin Vennard  
Head of Finance  
28 September 2011

# ACCOUNTING POLICIES

## 1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2010/11 financial year and its position at the year -end of 31 March 2011. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act. The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

## 2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed -where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure 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 revenue 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 debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

## **ACCOUNTING POLICIES**

### **3. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

### **4. Exceptional Items**

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

### **5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **6. Charges to Revenue for Non-Current Assets**

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

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement

## ACCOUNTING POLICIES

equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisations are therefore replaced by a 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.

### 7. Employee Benefits

#### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. 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 are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

#### Post Employment Benefits

The majority of the Authority's employees are members of The Local Government Pensions Scheme, administered by East Sussex County Council.

The Scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

## ACCOUNTING POLICIES

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the East Sussex pension fund attributable to the Authority 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 based on the indicative rate of return on high quality corporate bond chosen by the Fund's Actuary.
- The assets of the East Sussex pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities - current bid price
  - unquoted securities - professional estimate
  - unitised securities -current bid price
  - property -market value.
- The change in the net pensions liability is analysed into seven components:
  - current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
  - past service cost -the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years -debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - interest cost -the expected increase in the present value of liabilities during the year as they move one year closer to being paid -debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - expected return on assets -the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return -credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
  - gains or losses on settlements and curtailments -the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

## ACCOUNTING POLICIES

- 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 -debited to the Pensions Reserve
- contributions paid to the East Sussex pension fund -cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, 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 pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

### **Discretionary Benefits**

The Authority 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.

## **8. Events after the Balance Sheet Date**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the 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.

## ACCOUNTING POLICIES

### 9. Financial Instruments

#### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. At the Balance Sheet date the Council did not have any borrowings.

If the Council did have borrowings, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

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

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

#### Financial Assets

Financial assets are classified into two types:

- loans and receivables -assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets -assets that have a quoted market price and/or do not have fixed or determinable payments.



## ACCOUNTING POLICIES

### Loans and Receivables

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

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

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

### Available-for-Sale Assets

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

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

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



## ACCOUNTING POLICIES

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/ loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred -these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

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

### **Assets held at fair value through profit or loss**

Assets held at fair value through profit and loss refer to the funds managed by the Council's external fund manager. Instruments that have been invested in will be:

- Recognised and carried at its fair value
- Movements in fair value recorded in the Balance Sheet and any gains or losses taken to the Income and Expenditure Account.
- Any residual gains or losses arising at the settlement date will be taken to the Income and Expenditure Account

## **10. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using

## ACCOUNTING POLICIES

the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in 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.

### **11. Area Based Grant**

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ringfenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement

### **12. Intangible Assets**

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for

## ACCOUNTING POLICIES

impairment whenever there is an indication that the asset might be impaired -any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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

### 13. Inventories and Long Term Contracts

Inventories are valued at actual cost. This is a departure from the requirements of the Code of Practice that require stocks to be shown at the lower of actual cost or net realisable value. The effect of this difference in treatment is not material to the Council's accounts. Work in Progress is valued at the latest valuation of works completed in accordance with the relevant contract

### 14. Investment Property

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

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

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

### 15. Leases

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

## ACCOUNTING POLICIES

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

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

### 16. The Authority as Lessee

#### Finance Leases

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

Lease payments are apportioned between:

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

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

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

#### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

## ACCOUNTING POLICIES

### The Authority as Lessor

#### Finance Leases

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

Lease rentals receivable are apportioned between:

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

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

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

#### Operating Leases

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

## ACCOUNTING POLICIES

### 17. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). 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 Authority's status as a multifunctional, democratic organisation.
- Non Distributed Costs -the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

### 18. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

#### Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.



## ACCOUNTING POLICIES

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction -depreciated historical cost
- all other assets -fair value, determined as the amount that would be paid for the asset in its existing use (existing use value -EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. [Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.]

Where decreases in value are identified, they are accounted for by:

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

## ACCOUNTING POLICIES

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

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

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

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets 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 bases:

- dwellings and other buildings -straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment -a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure -straight-line allocation over 50 years.
- No depreciation is charged in year of acquisition
- Reclassified assets are depreciated from year of reclassification

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.



## ACCOUNTING POLICIES

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 of Property Assets

From April 2010, where the Council has formally revalued a property, or carried out major capitalised works, it has been necessary to identify the major components making up the property. The Council's previous Audit Committee has adopted the following components:

- Land
- Buildings
- External areas (such as car parks)
- Plant and equipment (such as lifts and heating systems)

The Council has also adopted a de minimis level of 10% of the building value or £50,000 to apply componentisation.

### 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 revalued 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.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

## ACCOUNTING POLICIES

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. 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. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

### **19. Private Finance Initiative (PFI) and Similar Contracts**

The Council does not consider it has any PFI or similar contracts operational during 2010/11.

### **20. Provisions, Contingent Liabilities and Contingent Assets**

#### **Provisions**

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

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

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

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

## ACCOUNTING POLICIES

### **Provision for Back Pay Arising from Unequal Pay Claims**

The Council has considered the implications arising from unequal back pay claims and considers that due to current and past practices, no such claims are foreseeable.

### **Contingent Liabilities**

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

### **Contingent Assets**

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## **21. Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority -these reserves are explained in the relevant policies.

It is the Council's policy to aim to maintain the General Fund Reserve at £1m.

## **22. Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority has determined to meet the

## ACCOUNTING POLICIES

cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

### **23. VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

### **24. Accounting Policies issued but not yet adopted**

Heritage Assets – the Financial Reporting Standard 30, Heritage Assets, will be adopted in the accounting year 2011/12. Heritage Assets will be recognised as a separate class of asset for the first time in 2011/12. As such a review has been carried out on the Asset Register and only one property has been identified as meeting the definition, the Landgate Arch in Rye. This property was originally built in 1329 and forms 2 towers joined by an arch and chamber. This is currently valued at below the £10,000 de minimis level on a historic depreciated cost basis and held as a Community Asset in the Asset Register.

### **25. Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out above the Authority has to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in this Statement of Accounts relate to the uncertainty over future funding levels of local government. The Authority has decided that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

**MOVEMENT IN RESERVES STATEMENT - Note 19**

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
<b>Balance at 31 March 2009</b>	<b>1,000</b>	<b>11,999</b>	<b>13,617</b>	<b>1,600</b>	<b>28,216</b>	<b>16,022</b>	<b>44,238</b>
<b>Movement in reserves during 2009/2010</b>							
Surplus or (deficit) on the provision of services	(3,767)	0	0	0	(3,767)	0	(3,767)
Other Comprehensive Income and Expenditure	0	0	0	0	0	(14,148)	(14,148)
<b>Total Comprehensive Income and Expenditure</b>	<b>(3,767)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(3,767)</b>	<b>(14,148)</b>	<b>(17,915)</b>
Adjustments between accounting basis and funding basis under regulations - Note 4	3,044		(4,490)	(58)	(1,504)	1,504	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>(723)</b>	<b>0</b>	<b>(4,490)</b>	<b>(58)</b>	<b>(5,271)</b>	<b>(12,644)</b>	<b>(17,915)</b>
Transfers to/from Earmarked Reserves - Note 5	723	(813)	0	0	(90)	90	0
<b>Increase/Decrease in 2009/2010</b>	<b>0</b>	<b>(813)</b>	<b>(4,490)</b>	<b>(58)</b>	<b>(5,361)</b>	<b>(12,554)</b>	<b>(17,915)</b>
<b>Balance at 31 March 2010 carried forward - Note 20</b>	<b>1,000</b>	<b>11,186</b>	<b>9,127</b>	<b>1,542</b>	<b>22,855</b>	<b>3,468</b>	<b>26,323</b>
<b>Movement in reserves during 2010/2011</b>							
Surplus or (deficit) on the provision of services	1,026				1,026		1,026
Other Comprehensive Income and Expenditure	0				0	11,962	11,962
<b>Total Comprehensive Income and Expenditure</b>	<b>1,026</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,026</b>	<b>11,962</b>	<b>12,988</b>
Adjustments between accounting basis and funding basis under regulations - Note 4	(2,593)		(2,932)	(197)	(5,722)	5,722	0
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>(1,567)</b>	<b>0</b>	<b>(2,932)</b>	<b>(197)</b>	<b>(4,696)</b>	<b>17,684</b>	<b>12,988</b>
Transfers to/from Earmarked Reserves - Note 5	1,567	(1,567)			0		0
<b>Increase/Decrease in 2010/2011</b>	<b>0</b>	<b>(1,567)</b>	<b>(2,932)</b>	<b>(197)</b>	<b>(4,696)</b>	<b>17,684</b>	<b>12,988</b>
<b>Balance at 31 March 2011 carried forward - Note 20</b>	<b>1,000</b>	<b>9,619</b>	<b>6,195</b>	<b>1,345</b>	<b>18,159</b>	<b>21,152</b>	<b>39,311</b>

# COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

2009-2010 GROSS EXPEND. Restated £'000	2009-2010 GROSS INCOME Restated £'000	2009-2010 NET EXPEND. Restated £'000	SERVICES	2010-2011 GROSS EXPEND. £'000	2010-2011 GROSS INCOME £'000	2010-2011 NET EXPEND. £'000
10,096	9,477	619	Central Services to the Public	10,917	9,696	1,221
5,681	510	5,171	Cultural & Related Services	3,882	334	3,548
6,317	974	5,343	Environmental Services	6,389	1,330	5,059
3,337	1,051	2,286	Planning & Development Services	3,506	935	2,571
1,239	1,312	(73)	Highways & Transport Services	1,189	1,246	(57)
30,772	28,508	2,264	Housing Services	30,171	27,731	2,440
2,909	72	2,837	Corporate & Democratic Core	2,889	33	2,856
136	156	(20)	Non Distributed Costs	857	131	726
0	0	0	Exceptional Item - Pension Liability - (See below)	(6,647)	0	(6,647)
0	384	(384)	Exceptional Item - Windfall Gain - VAT	0	0	0
<b>60,487</b>	<b>42,444</b>	<b>18,043</b>	<b>Cost of Services</b>	<b>53,153</b>	<b>41,436</b>	<b>11,717</b>
984	40	944	Other Operating Income & Expenditure - <i>Note 6</i>	1,026	108	918
3,857	3,316	541	Financing & Investment Income & Expenditure - <i>Note 7</i>	7,233	4,081	3,152
0	15,761	(15,761)	Taxation & Non Specific Grant Income - <i>Note 8</i>	0	16,813	(16,813)
<b>65,328</b>	<b>61,561</b>	<b>3,767</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>61,412</b>	<b>62,438</b>	<b>(1,026)</b>
0	75	(75)	(Surplus) or Deficit on Revaluation of Property, Plant & Equipment Assets - <i>Note 20</i>		111	(111)
14,223	0	14,223	Actuarial (gains)/losses on pension assets/liabilities - <i>Note 35</i>		11,851	(11,851)
<b>14,223</b>	<b>75</b>	<b>14,148</b>	<b>Other Comprehensive Income &amp; Expenditure</b>	<b>0</b>	<b>11,962</b>	<b>(11,962)</b>
<b>79,551</b>	<b>61,636</b>	<b>17,915</b>	<b>Total Comprehensive Income &amp; Expenditure</b>	<b>61,412</b>	<b>74,400</b>	<b>(12,988)</b>

The Exceptional Item of £6,647,000 (which would otherwise have been reported under Non-Distributed Costs) represents the gain to the Council from the change from the Retail Prices Index to the Consumer Prices Index as the reference for future increases in pensions, as explained on page 5 of the Foreword by the Head of Finance.

# BALANCE SHEET

1 April 2009	31 March 2010		31 March 2011	
Restated	Restated		£'000	£'000
£'000	£'000			
		<b>LONG TERM ASSETS</b>		
22,088	23,143	Property, plant and equipment - <i>Note 9</i>	23,383	
13,108	13,396	Investment property - <i>Note 10</i>	12,751	
652	513	Intangible assets - <i>Note 11</i>	343	
659	0	Long-Term Investments	0	
267	246	Long-term debtors - <i>Note 12</i>	237	
<u>36,774</u>	<u>37,298</u>	<b>Total Long Term Assets</b>		<u>36,714</u>
		<b>CURRENT ASSETS</b>		
11,387	17,193	Short-term investments - <i>Notes 12 &amp; 13</i>	14,805	
15	12	Inventories - <i>Note 14</i>	12	
3,909	4,331	Short-term debtors - <i>Notes 12, 13 &amp; 15</i>	5,205	
12,334	4,469	Cash and Cash Equivalents - <i>Note 16</i>	2,070	
<u>27,645</u>	<u>26,005</u>	<b>Total Current Assets</b>		<u>22,092</u>
<u>64,419</u>	<u>63,303</u>	<b>Total Assets</b>		<u>58,806</u>
		<b>CURRENT LIABILITIES</b>		
(1,515)	(4,002)	Short-Term Creditors - <i>Notes 12 &amp; 17</i>	(5,339)	
0	0	Provisions - <i>Notes 2 &amp; 18</i>	(162)	
(374)	(410)	Finance Leases - <i>Note 32</i>	(414)	
<u>(1,889)</u>	<u>(4,412)</u>	<b>Total Current Liabilities</b>		<u>(5,915)</u>
<u>62,530</u>	<u>58,891</u>	<b>Total Assets Less Current Liabilities</b>		<u>52,891</u>
		<b>LONG TERM LIABILITIES</b>		
(31)	0	Long Term Borrowing	0	
(16,536)	(31,161)	Defined Pension Scheme Liability - <i>Note 35</i>	(13,064)	
(1,263)	(930)	Finance Leases - <i>Note 32</i>	(516)	
(462)	(477)	Capital Grants Receipts in Advance - <i>Note 29</i>	0	
<u>(18,292)</u>	<u>(32,568)</u>	<b>Total Long Term Liabilities</b>		<u>(13,580)</u>
<u>44,238</u>	<u>26,323</u>	<b>Net Assets</b>		<u>39,311</u>
		<b>FINANCED BY:</b>		
		<b>Usable Reserves - <i>Note 19</i></b>		
1,000	1,000	General Fund Balance	1,000	
11,999	11,186	Earmarked Reserves - <i>Note 5</i>	9,619	
13,617	9,127	Capital Receipts Reserve	6,195	
1,600	1,542	Capital Grants Unapplied Account	1,345	
		<b>Unusable Reserves - <i>Note 20</i></b>		
1,637	1,718	Revaluation Reserve	1,788	
30,829	32,881	Capital Adjustment Account	32,345	
251	223	Deferred Capital Receipts Reserve	195	
(16,536)	(31,161)	Pension Reserve - <i>Note 35</i>	(13,064)	
(29)	(47)	Collection Fund Adjustment Account	36	
(130)	(146)	Accumulated Absences Adjustment Account	(148)	
<u>44,238</u>	<u>26,323</u>	<b>Total Equity</b>		<u>39,311</u>

# CASH FLOW STATEMENT

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

2009-2010 £'000 Restated		2010-2011 £'000
<b>OPERATING ACTIVITIES</b>		
(7,018)	Taxation	(7,239)
(34,672)	Grants (Including DWP Subsidy) - <i>Note 29</i>	(30,696)
(6,752)	Sales of goods and rendering of services	(7,044)
(134)	Interest received	(163)
0	Other receipts from operating activities	(243)
<u>(48,576)</u>	<b>Cash inflows generated from operating activities</b>	<u>(45,385)</u>
8,229	Cash paid to and on behalf of employees	8,044
26,911	Housing Benefit paid out	28,742
980	Precepts paid	510
4	Payments to the Capital Receipts Pool	1
14,704	Cash paid to suppliers for goods and services	12,817
1	Interest paid	0
2,062	Other payments for operating activities	2,204
<u>52,891</u>	<b>Cash outflows generated from operating activities</b>	<u>52,318</u>
<b>4,315</b>	<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>6,933</b>
<b>INVESTING ACTIVITIES</b>		
3,542	Purchase of property, plant and equipment, investment property and intangible assets	4,000
12,000	Purchase of short-term and long term investments	12,500
1,437	Other payments for investing activities	1,333
(68)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(90)
(7,291)	Proceeds from short-term and long term investments	(15,000)
0	Other receipts from investing activities	(107)
<u>9,620</u>	<b>NET CASH FLOWS FROM INVESTING ACTIVITIES - <i>Note 22</i></b>	<u>2,636</u>
<b>FINANCING ACTIVITIES</b>		
(6,485)	Other receipts from financing activities:	(7,581)
384	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on Balance Sheet PFI contracts	411
31	Repayments of short and long term borrowing	0
<u>(6,070)</u>	<b>NET CASH FLOWS FROM FINANCING ACTIVITIES - <i>Note 23</i></b>	<u>(7,170)</u>
<b>7,865</b>	<b>NET (INCREASE) OR DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,399</b>
<b>12,334</b>	<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE REPORTING PERIOD</b>	<b>4,469</b>
<u><b>4,469</b></u>	<b>CASH AND CASH EQUIVALENTS AT THE END OF THE REPORTING PERIOD - <i>Note 16</i></b>	<u><b>2,070</b></u>



## CASH FLOW STATEMENT

Details of the cash balances are shown below:

	01/04/2009	2009/10	31/03/2010	2010/11	31/03/2011
Cash held by the authority	4	0	4	0	4
Current bank accounts	(436)	(1,102)	(1,538)	129	(1,409)
Short term deposits	12,766	(6,763)	6,003	(2,528)	3,475
	<b>12,334</b>	<b>(7,865)</b>	<b>4,469</b>	<b>(2,399)</b>	<b>2,070</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## NOTE 1. CHANGES TO ACCOUNTING POLICIES AND TO PREVIOUS YEARS' FIGURES

### Introduction

The 2010-2011 Statement of Accounts has been prepared in accordance with International Financial Reporting Standards (IFRS) and the Core Statements for 2009-2010 have been restated in line with IFRS. Where changes to accounting policies have resulted in material differences between the amounts reported in the 2009-2010 Balance Sheet and Comprehensive Income and Expenditure Statement (CIES), they are explained below.

A number of items on the Balance Sheet and in the CIES have been adjusted for non-material changes to accounting policies.

### Balance sheet

	1 April 2009 before restatement £'000	1 April 2009 after restatement £'000	Difference £'000	31 March 2010 before restatement £'000	31 March 2010 after restatement £'000	Difference £'000
Intangible Assets	653	653	0	514	513	(1)
Land & Buildings	9,342	0	(9,342)	9,363	0	(9,363)
Infrastructure Assets	4,477	0	(4,477)	8,575	0	(8,575)
Vehicles, Plant, Furniture & Equipment	232	0	(232)	330	0	(330)
Community Assets	0	0	0	17	0	(17)
Property Plant & Equipment	0	22,087	22,087	0	23,143	23,143
Investment Properties	13,108	13,108	0	13,385	13,396	11
Assets under Construction	6,526	0	(6,526)	3,663	0	(3,663)
Long-term Investments	0	659	659	0	0	0
Long-term Debtors - Mortgages	251	251	0	223	223	0
Long-term Debtors - Other	16	16	0	23	23	0
<b>Total Long-Term Assets</b>	<b>34,605</b>	<b>36,774</b>	<b>2,169</b>	<b>36,093</b>	<b>37,298</b>	<b>1,205</b>
Stocks/Inventories	15	15	0	12	12	0
Debtors/Short-term Debtors	4,377	3,909	(468)	4,892	4,331	(561)
Impairment Allowance	(468)	0	468	(561)	0	561
Short-term Deposits/Investments	24,812	11,387	(13,425)	23,196	17,193	(6,003)
Cash in Hand/Cash Equivalents	0	12,334	12,334	0	4,469	4,469
<b>Total Current Assets</b>	<b>28,736</b>	<b>27,645</b>	<b>(1,091)</b>	<b>27,539</b>	<b>26,005</b>	<b>(1,534)</b>
Creditors/Short-term Creditors	(1,515)	(1,515)	0	(4,002)	(4,002)	0
Bank Overdraft	(432)	0	432	(1,534)	0	1,534
Finance Leases (under 1 year)	0	(374)	(374)	0	(410)	(410)
<b>Total Current Liabilities</b>	<b>(1,947)</b>	<b>(1,889)</b>	<b>58</b>	<b>(5,536)</b>	<b>(4,412)</b>	<b>1,124</b>
Long Term Borrowing repayable in excess of 1 year	(31)	(31)	0	0	0	0
Capital Grants & Contributions Unapplied	(2,062)	0	2,062	(2,019)	0	2,019
Government Grants Deferred	(5,726)	0	5,726	(6,069)	0	6,069
Deferred Credits	(251)	0	251	(223)	0	223
Liability related to a Defined Benefit Pension scheme	(16,536)	(16,536)	0	(31,161)	(31,161)	0
Finance Leases (over 1 year)	0	(1,263)	(1,263)	0	(930)	(930)
Capital Grants Receipts in Advance	0	(462)	(462)	0	(477)	(477)
<b>Total Long-term Liabilities</b>	<b>(24,606)</b>	<b>(18,292)</b>	<b>6,314</b>	<b>(39,472)</b>	<b>(32,568)</b>	<b>6,904</b>
<b>Total Assets less Liabilities/Total Assets Employed</b>	<b>36,788</b>	<b>44,238</b>	<b>7,450</b>	<b>18,624</b>	<b>26,323</b>	<b>7,699</b>
Revenue Balances/General Fund Balance	1,000	1,000	0	1,000	1,000	0
Reserves/Earmarked Reserves	11,869	11,999	130	11,040	11,186	146
Usable Capital Receipts Reserve	13,617	13,617	0	9,127	9,127	0
Capital Grants Unapplied Account	0	1,600	1,600	0	1,542	1,542
Capital Adjustment Account	23,000	30,829	7,829	24,559	32,881	8,322
Deferred Capital Receipts Reserve	0	251	251	0	223	223
Revaluation Reserve	3,867	1,637	(2,230)	4,106	1,718	(2,388)
Pensions Reserve	(16,536)	(16,536)	0	(31,161)	(31,161)	0
Collection Fund Adjustment Account	(29)	(29)	0	(47)	(47)	0
Accumulated Absences Account	0	(130)	(130)	0	(146)	(146)
<b>Total Net Worth/Total Equity</b>	<b>36,788</b>	<b>44,238</b>	<b>7,450</b>	<b>18,624</b>	<b>26,323</b>	<b>7,699</b>

### PROPERTY, PLANT & EQUIPMENT

#### Reclassification of Assets

Land and Buildings Assets, Vehicles, Plant and Equipment, Infrastructure Assets, Community Assets and Assets under Construction were separately identified on the Balance Sheet. These are now classified as Property, Plant and Equipment. Further analysis is shown under Note 9.

#### Vehicles & Equipment deployed through major contracts

Under IFRS the Council has reviewed its major outsourced contracts and identified vehicles and equipment as at 31st March 2010 that are used predominantly on the Council's contract for refuse collection and street cleansing. These assets have now been brought onto the Balance Sheet with associated depreciation calculated from the start of the contract. Further analysis is shown under Note 9.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## **LONG-TERM INVESTMENTS, SHORT-TERM INVESTMENTS, CASH & CASH EQUIVALENTS**

In accordance with the Code, Short-Term Cash deposits under 3 months managed internally have now been reclassified from Short-Term Deposits/Investments to Cash in Hand/Cash Equivalents.

As at 1st April 2009 investments valued at £659,000 were identified as being in excess of one year and therefore were reclassified as Long-Term Investments.

The Bank Overdraft has been consolidated into Cash in Hand/Cash Equivalents.

## **FINANCE LEASES**

As referred to above, vehicles and equipment deployed through major contracts have been brought onto the Balance Sheet and these are matched by an equivalent finance lease. This has been split between Short-Term (payments less than 1 year) and Long-Term (payments greater than 1 year). Within the CIES, contract payments are now split between service payments, notional interest and minimum revenue provision equivalent to the principal repayment of the notional finance lease, and this has been restated for 2009-2010.

## **GOVERNMENT GRANTS & CONTRIBUTIONS USED TO FINANCE CAPITAL EXPENDITURE**

Under previous accounting rules, grants and contributions previously used to finance capital expenditure were held in the Government Grants Deferred Account and released over a number of years through the Income and Expenditure Account to the Capital Adjustment Account (CAA) (an unusable reserve). This arrangement has been discontinued and the entire balance on the Government Grants Deferred Account transferred to the CAA. There is also an impact on the CIES with the removal of the annual credits re: Government Grant Deferred written down to Cost of Services. This has been transferred to Taxation and Non-Specific Grant Income and is part of the Surplus/Deficit on Provision of Services.

Under current accounting rules Government Grants and third party contributions are recognised when there is reasonable assurance that any conditions attached to the grant/contribution have been complied with. This is then shown in the CIES under Taxation and Non-Specific Grant Income. If there are conditions remaining this amount is transferred to the Capital Grants Receipts in Advance Account.

Adjustments have been made between the Capital Grants Unapplied Account and the Capital Grants Receipts in Advance Account for 2009-2010 in respect of monies held for the Next Wave Capital scheme.

Adjustments have also been made in respect of Capital Grants transferred to the CIES in 2009-2010.

## **REVALUATION RESERVE**

Under the Code, the balance of the Investment Property Revaluation Reserve has been written out to the Capital Adjustment Account and all gains and losses on Investment Properties are credited or charged to the CIES. The gains and losses are reversed out through the Movement in Reserves Statement in order to ensure there is no impact on the Council Tax payer.

## **ACCUMULATED ABSENCES ACCOUNT**

In accordance with IFRS the Council has established an Accumulated Absences Account to absorb 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 Account.

## **NOTE 2. MATERIAL ITEMS OF INCOME AND EXPENSE**

### **Redundancy Costs**

Included in the Comprehensive Income and Expenditure Account under Non Distributed Costs is a creditor accrual for £566k of voluntary redundancy costs and a provision of £162k for future voluntary redundancies. This relates to the Council's service resetting programme referred to in the Head of Finance's forward.

## **NOTE 3. EVENTS AFTER THE BALANCE SHEET DATE**

### **Joint Waste Collection and Street Cleaning Contract**

In June 2011 the Authority agreed to act as the administering authority for a joint waste collection and street cleansing contract from April 2013. The other three Councils are Eastbourne Borough Council, Hastings Borough Council and Wealden District Council. Rother will be the contracting authority for the new service to be phased in over a number of years to coincide with existing contract renewal dates.

### **2006-07 Housing & Council Tax Subsidy**

The Council subsequent to 31 March 2011, has agreed settlement with the Department for Work and Pensions (DWP) with regard to the 2006/07 Housing Benefit and Council Tax Benefit Subsidy claim. This had remained unresolved following problems with the conversion of the software from an in-house developed mainframe computer system to a solution provided by an external contractor. The review work was undertaken during February 2011 and had subsequently satisfied the DWP as to the validity of the claim. A final repayment of subsidy of £203,557 has been agreed, which has been fully provided for in previous years.

### **Concessionary Travel**

On the 31 March 2011, Rother ceased to be the responsible Authority dealing with Concessionary Travel which passed to East Sussex County Council. At year end there is a potential liability relating to any settlements from bus operator appeals relating to reimbursement during 2010/11, for which provision has been made.

**NOTES TO THE CORE FINANCIAL STATEMENTS**

**NOTE 4. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS**

	General Fund Balance £000	Usable Reserves 2010-2011 Capital Receipts Reserve £000	Capital Grants Unapplied £000	2010-2011 Movement in Unusable Reserves £000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation and impairment of non-current assets	920			(920)
Revaluation losses on Property Plant and Equipment	3,425			(3,425)
Movements in the market value of Investment Properties	123			(123)
Amortisation of Intangible Assets	171			(171)
Revenue expenditure funded from capital under statute	1,738			(1,738)
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	60			(60)
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Statutory provision for the financing of capital investment	(411)			411
Capital Expenditure charged against the General Fund	(133)			133
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(1,990)		1,990	
Application of grants to capital financing transferred to the Capital Adjustment Account			(2,187)	2,187
<b>Adjustments 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 Statement	(170)	170		
Use of the Capital Receipts Reserve to finance new Capital Expenditure		(3,129)		3,129
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1	(1)		
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		28		(28)
<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 (See Note 35)	(4,600)			4,600
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,646)			1,646
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which the council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(83)			83
<b>Adjustments primarily involving the Accumulated Absences Account:</b>				
Amount 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	2			(2)
<b>Total Adjustments</b>	<b>(2,593)</b>	<b>(2,932)</b>	<b>(197)</b>	<b>5,722</b>

**NOTES TO THE CORE FINANCIAL STATEMENTS**

	Usable Reserves 2009-2010			2009-2010 Movement in Unusable Reserves £000
	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>				
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Charges for depreciation and impairment of non-current assets	880			<b>(880)</b>
Revaluation losses on Property Plant and Equipment	1,865			<b>(1,865)</b>
Movements in the market value of Investment Properties	(190)			<b>190</b>
Amortisation of Intangible Assets	171			<b>(171)</b>
Capital Grants and Contributions Unapplied	(853)			<b>853</b>
Revenue expenditure funded from capital under statute	1,501			<b>(1,501)</b>
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement				
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>				
Statutory provision for the financing of capital investment	(384)			<b>384</b>
Capital expenditure charged against the General Fund	(20)			<b>20</b>
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(333)		333	
Application of grants to capital financing transferred to the Capital Adjustment Account			(391)	<b>391</b>
<b>Adjustments 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 Statement	(40)	40		
Use of the Capital Receipts Reserve to finance new Capital Expenditure		(4,554)		<b>4,554</b>
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	4	(4)		
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		28		<b>(28)</b>
<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 (See Note 35)	2,040			<b>(2,040)</b>
Employer's pensions contributions and direct payments to pensioners payable in the year	(1,638)			<b>1,638</b>
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>				
Amount by which the council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	25			<b>(25)</b>
<b>Adjustments primarily involving the Accumulated Absences Account:</b>				
Amount 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	16			<b>(16)</b>
<b>Total Adjustments</b>	<b>3,044</b>	<b>(4,490)</b>	<b>(58)</b>	<b>1,504</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 5. TRANSFERS TO/FROM EARMARKED RESERVES

The Council maintains a number of earmarked reserves for a variety of purposes.

Below is an analysis of the Council's reserves showing the movements and transfers that took place during the year.

Reserve	Balance at 1 April 2009 Restated £'000	Transfers Out 2009-2010 £'000	Transfers In 2009-2010 £'000	Balance at 31 March 2010 £'000	Transfers Out 2010-2011 £'000	Transfers In 2010-2011 £'000	Balance at 31 March 2011 £'000
Interest Equalisation	2,193	830	0	1,363	228		1,135
Repair and Renewals	1,353	20	54	1,387	429	51	1,009
Corporate Plan Projects	1,732	325	27	1,434	333	51	1,152
Invest to Save	414	0	384	798	735	964	1,027
Affordable Housing	969	0	0	969	49		920
Corporate Development	1,245	49	172	1,368	589	57	836
Planning Improvement and LDF	633	91	107	649	122		527
Waste & Recycling	321	62	87	346	7		339
BCCI Refund	306	90	0	216			216
Housing Benefit Subsidy	259	0	0	259			259
Homelessness	201	56	46	191	83	75	183
Economic Development Reserve	30	0	0	30			30
Risk Management Reserve	147	6	6	147			147
Medium Term Financial Strategy Reserve	2,196	167	0	2,029	190		1,839
	<b>11,999</b>	<b>1,696</b>	<b>883</b>	<b>11,186</b>	<b>2,765</b>	<b>1,198</b>	<b>9,619</b>

The Earmarked Reserves are used for the roll forward of specified amounts between financial years, for the replacement of equipment, repairs and maintenance and other specific purposes. As part of the Council's service resetting programme a number of reserves have been released to meet one off costs in securing on-going savings.

The Medium Term Financial Strategy Reserve primarily relates to the meeting of one-off investments as laid out in the Medium Term Financial Strategy.

#### Self Insurance Arrangements

The Risk Management Reserve exists to meet any costs arising from any risks that are self-insured, i.e. below the excess limits that apply on the Council's various insurance policies. The Council is insured against all material risks. The fund is also utilised for expenditure on reducing the risks that the Council is exposed to.

The Council has incurred the following costs in 2010-11:

- (i) £6,000 costs of settling claims below excess in respect of employers liability claim and personal injury claim
- (ii) £165,000 Premiums payable to external insurers excluding insurance broker fees

### NOTE 6. OTHER OPERATING EXPENDITURE

2009-2010 £000		2010-2011 £000
980	Parish council precepts	1,025
0	Levies	0
4	Payments to the Government Housing Capital Receipts Pool	1
(40)	Gains/losses on the disposal of non-current assets	(108)
<b>944</b>	<b>Total</b>	<b>918</b>

### NOTE 7. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2009-2010 £000		2010-2011 £000
75	Interest payable and similar charges	51
1,256	Pensions interest cost and expected return on pensions assets	651
(402)	Interest receivable and similar income	(290)
(388)	Income and expenditure in relation to investment properties and changes in their fair value	2,740
0	Other investment income	
<b>541</b>	<b>Total</b>	<b>3,152</b>

### NOTE 8. TAXATION AND NON SPECIFIC GRANT INCOMES

2009-2010 £000		2010-2011 £000
7,966	Council Tax Income	8,186
5,324	Non domestic rates	5,750
1,285	Non-ringfenced government grants	887
1,186	Capital Grants and Contributions	1,990
<b>15,761</b>	<b>Total</b>	<b>16,813</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 9. PROPERTY PLANT AND EQUIPMENT

Movements in 2010-2011 :-

	Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets under Construction £'000	Total Property, Plant and Equipment £'000
<b>Cost or Valuation</b>							
At 1st April 2010	10,028	2,948	9,132	17	0	3,663	25,788
Additions	90	211		101		3,579	3,981
Revaluation increases/(decreases) recognised in the Revaluation Reserve	101	10					111
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(350)			(154)		(2,920)	(3,424)
Derecognition - Disposals							0
Derecognition - Other	1,381	(37)		36		(925)	455
Assets reclassified (to)/from Held for Sale							0
Other movements in cost or valuation							0
<b>At 31st March 2011</b>	<b>11,250</b>	<b>3,132</b>	<b>9,132</b>	<b>0</b>	<b>0</b>	<b>3,397</b>	<b>26,911</b>
<b>Accumulated Depreciation and Impairment</b>							
At 1st April 2010	665	1,423	557	0	0	0	2,645
Depreciation charge	218	519	183	0	0	0	920
Depreciation Written Out to the revaluation Reserve							0
Depreciation Written Out to the Surplus/Deficit on the Provision of Services		(37)					(37)
<b>At 31st March 2011</b>	<b>883</b>	<b>1,905</b>	<b>740</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,528</b>
<b>Net Book Value</b>							
At 31st March 2011	10,367	1,227	8,392	0	0	3,397	23,383
At 31st March 2010	9,363	1,525	8,575	17	0	3,663	23,143

Comparative Movements in 2009-2010

	Land & Buildings £'000	Vehicles, Plant, Furniture & Equipment £'000	Infrastructure Assets £'000	Community Assets £'000	Surplus Assets £'000	Assets under Construction £'000	Total Property, Plant and Equipment £'000
<b>Cost or Valuation</b>							
At 1st April 2009	9,797	2,764	4,851	0	4,920	6,527	28,859
Additions	4	184		189		3,221	3,598
Revaluation increases/(decreases) recognised in the Revaluation Reserve	117						117
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	111			(172)		(1,804)	(1,865)
Derecognition - Disposals							0
Derecognition - Other							0
Assets reclassified (to)/from Assets under Construction			4,281			(4,281)	0
Assets reclassified (to)/from Investment Properties					(4,920)		(4,920)
Other movements in cost or valuation	(1)						(1)
<b>At 31st March 2010</b>	<b>10,028</b>	<b>2,948</b>	<b>9,132</b>	<b>17</b>	<b>0</b>	<b>3,663</b>	<b>25,788</b>
<b>Accumulated Depreciation and Impairment</b>							
At 1st April 2009	455	935	374	0	0	0	1,764
Depreciation charge	210	488	183	0	0	0	881
Depreciation Written Out to the revaluation Reserve							0
Depreciation Written Out to the Surplus/Deficit on the Provision of Services							0
<b>At 31st March 2010</b>	<b>665</b>	<b>1,423</b>	<b>557</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,645</b>

The externally funded Rye Swimming Pool extension to the Thomas Peacock School is not shown as an asset of the Council and currently a license and management agreement are being negotiated with East Sussex County Council.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Capital Commitments

The Council had three major contracts yet to be completed concerning the Next Wave project. Details of the value of outstanding contract value and retentions based on the last independent valuations before year end are shown below:

	Contract Value £'000	Payments to date £'000	Remaining Commitment £'000
Millimetre Ltd	201	178	23
English Landscapes	1,984	1,072	912
Neilcott Construction	3,374	945	2,429
<b>Total</b>	<b>5,559</b>	<b>2,195</b>	<b>3,364</b>

### NOTE 10. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2010-2011 £000	2009-2010 Restated £000
Rental Income from Investment Property	(297)	(349)
Direct operating expenses arising from investment property	37	21
Net gain/loss	<u>(260)</u>	<u>(328)</u>

Movements in Investment Properties during the year :-

	2010-2011 £000	2009-2010 Restated £000
Balance at start of year	13,396	8,189
Additions:		
Purchases		50
Construction	30	47
Impairments/disposal	(60)	(200)
Net gains/(losses) from fair value adjustments	(123)	397
Assets reclassified (to)/from Investment Properties	(492)	4,913
Balance at end of year	<u>12,751</u>	<u>13,396</u>

### NOTE 11. INTANGIBLE ASSETS

The authority 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 include both purchased licenses and internally generated software.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £170,720 charged to revenue in 2010-2011 was charged to Housing Needs, Electoral Registration, Accountancy, Payroll Services, Human Resources, Reliefs and Benefits - Housing Benefits, Cost of Collection, Information Technology and Corporate Policy Making. Part of this amount was then absorbed as an overhead across all the service headings in the Cost of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on Intangible Asset balances during the year is as follows:

	2010-2011 £'000	2009-2010 £'000	2008-2009 £'000
Balance at start of year			
Gross Book Value at 1st April	1,167	1,135	1,039
Accumulated amortisation	(654)	(483)	(317)
Net carrying amount at start of year	<u>513</u>	<u>652</u>	<u>722</u>
Additions - Purchases	0	32	95
Amortisation for the period	(170)	(171)	(165)
Depreciation Written Out on Asset Movement			
Net carrying amount at end of year	<u>343</u>	<u>513</u>	<u>652</u>
<b>Comprising</b>			
Gross carrying amounts	1,167	1,167	1,135
Accumulated amortisation	(824)	(654)	(483)
	<u>343</u>	<u>513</u>	<u>652</u>



# NOTES TO THE CORE FINANCIAL STATEMENTS

## NOTE 12. FINANCIAL INSTRUMENTS

### Financial Instruments Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories:

	31 March 2009 £000	Long - Term 31 March 2010 Restated £000	31 March 2011 £000	31 March 2009 Restated £000	Current 31 March 2010 Restated £000	31 March 2011 £000
<b>Financial Liabilities at Amortised Cost</b>						
Creditors #				1,263	3,699	5,043
Bank overdraft				432		
Notional Finance leases	1,263	930	516	374	410	414
Long term borrowing - debenture stock	31					
<b>Total Borrowings</b>	<b>1,294</b>	<b>930</b>	<b>516</b>	<b>2,069</b>	<b>4,109</b>	<b>5,457</b>
<b>Loans and Receivables at Amortised Cost</b>						
Mortgages	251	223	195			
Car Loans	16	23	42			
Debtors				4,377	4,892	5,928
Bank Deposits - more than 3 months				12,766	5,000	2,500
Bank Deposits - less than 3 months					6,003	3,475
<b>Fair Value through profit and loss</b>						
Funds externally managed	659			11,387	12,193	12,305
<b>Total Investments</b>	<b>926</b>	<b>246</b>	<b>237</b>	<b>28,530</b>	<b>28,088</b>	<b>24,208</b>

# Payments received in advance of £296,000 (£303,000 2009/10)

### Financial Instruments gains and losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	Financial Liabilities		Financial Assets		Total £000
	Liabilities measured at amortised cost	Loans and Receivables	Fair Value through Profit and Loss		
	£000	£000	£000		
Interest expense (Embedded lease within contract with Verdant)	51			51	
Loss on derecognition			0	0	
Impairment losses (bad debt provision)		162		162	
<b>Interest Payable and Similar charges</b>	<b>51</b>	<b>162</b>	<b>0</b>	<b>213</b>	
Interest income		155	136	291	
Gains on derecognition			0	0	
<b>Interest and investment income</b>		<b>155</b>	<b>136</b>	<b>291</b>	
Gains on revaluation taken to CI&ES			5	5	
Losses on revaluation taken to CI&ES			-7	-7	
<b>Net Gain/(loss) for the year</b>	<b>51</b>	<b>317</b>	<b>134</b>	<b>502</b>	

### Fair Value of assets and liabilities carried at amortised cost

The following assumptions have been made in assessing the fair value of assets and liabilities carried at amortised cost.

- (i) Estimated interest rates at 31 March 2011 of 0.98% based on the average investment rate the Council achieved during 2010/11.
- (ii) No early repayment has been recognised.
- (iii) Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- (iv) The fair value of trade and other receivables is taken to be the invoiced or billed amount.

#### Liabilities

This includes trade payables, long term borrowing and bank overdraft. It has been assessed that the carrying amount in the Balance Sheet is a proxy for the fair value of those liabilities.

#### Assets

This includes trade receivables (debtors) and as stated above the fair value has been assessed as the billed amount and therefore is the same as the carrying amount in the Balance Sheet before the application of the impairment allowance. With regard to bank deposits, these have been independently assessed and the carrying amount is a reasonable proxy for the fair value of the deposits.

The fair value is lower than the carrying amount because provision has been made for the non payment of amounts outstanding to the Authority.

# NOTES TO THE CORE FINANCIAL STATEMENTS

## NOTE 13. NATURE & EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

- (i) credit risk - the possibility that other parties might fail to pay amounts due to the Authority.
- (ii) liquidity risk - the possibility that the authority might not have funds available to meet its commitments to make payments.
- (iii) market risk - the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movement. The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on the resources available to fund services. Risk Management is carried out by the Financial Services Team in accordance with the policies laid out in the annual treasury management strategy which govern the maximum type of investment risk to which the Council can be exposed.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. Deposits are not made with banks or financial institutions unless they are rated independently with a minimum score. The minimum score will depend on the type and length of investment as detailed in the Authority's Treasury Management Strategy. Credit limits are set for each institution where deposits are placed.

The following analysis summarises the authority's potential maximum exposure to credit risk, based on a review during 2010-2011 of past experience:

	Amount at 31 March 2011 £000	Estimated Maximum exposure to default %	Estimated Maximum exposure to default £000	Amount at 31 March 2010 Restated £000	Credit Rating Fitch & Moody As at 1st April 2011
<b>Deposits with banks and financial institutions Managed by External Fund Managers:</b>		0%	Nil		
<b>UK</b>					AAA
Royal Bank of Scotland		0%	Nil	2,504	F1+
Barclays Bank	1,215	0%	Nil	2,516	F1+
Nationwide	1,311	0%	Nil	1,400	F1+
Lloyds Bank	2,215	0%	Nil	1,303	F1+
United Kingdom Gilts	503	0%			AAA
United Kingdom Commercial Paper	3,425	0%			AAA
<b>USA</b>					AAA
Cash	15	0%	Nil	29	
<b>FINLAND</b>					AAA
Nordea Group		0%	Nil	1,101	F1+
<b>SPAIN</b>					AA+
Bilbao Vizcaya		0%	Nil	901	F1+
Santander		0%	Nil	1,201	F1+
<b>SWITZERLAND</b>					AAA
Credit Suisse First Boston		0%	Nil	637	F1+
UBS AG		0%	Nil	0	F1+
<b>EUROPEAN COMMUNITY</b>					AAA
European Investment Bank		0%	Nil	601	F1+
<b>NETHERLANDS</b>					AAA
ING Bank		0%	Nil	0	F1+
Radobank	1,211				F1+
<b>FRANCE</b>					AAA
BNP Paribas	2,410	0%	Nil	0	F1+
<b>Total Externally Managed</b>	<b>12,305</b>			<b>12,193</b>	
<b>Managed In-house</b>					
<b>Deposits more than 3 months</b>					
<b>UK</b>					AAA
Bank of Scotland	1,500	0%	Nil	5,000	F1+
<b>SPAIN</b>					AA+
Santander	1,000	0%	Nil		F1+
<b>Total In-house Investments</b>	<b>2,500</b>			<b>5,000</b>	
<b>TOTAL INVESTMENTS</b>	<b>14,805</b>			<b>17,193</b>	
<b>Short Term Deposits - less than 3 months</b>					
<b>UK</b>					AAA
Bank of Scotland	10	0%	Nil	310	F1+
National Westminster Bank	2,815			2,530	F1+
<b>SPAIN</b>					AA+
Santander	650	0%	Nil	3,163	F1+
<b>TOTAL SHORT TERM DEPOSITS</b>	<b>3,475</b>			<b>6,003</b>	
<b>Mortgages, loans and Debtors excluding prepayments</b>	5,620	12.86%	723	4,260	

## NOTES TO THE CORE FINANCIAL STATEMENTS

No credit limits were exceeded during the reporting period and the Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits. The Council is relying on sovereign Government guarantees and advice from treasury advisors and fund managers. Currently lending is kept at a duration of less than one year. All major investment decisions are taken with regard to the Council's Treasury Management Policies and advice from Treasury experts.

The Authority generally does not allow credit beyond its normal terms of payment of 28 days or in line with statutory requirements for Council Tax and Business Rates. Due to changes in accounting for the collection of Council Tax and Non Domestic Rates to an agency basis, only the net liability to Rother as agent plus its share of the Council Tax is shown below:

2009-2010 £'000		Government	Mortgages	Housing Benefit	Receivables	2010-2011 TOTAL £'000
		Bodies & Council Tax# £000	£000	Overpayments £000	and Sundry provisions £000	
3,071	Within Due Date	2,911	2	64	1,220	4,197
553	Payment Plan			520	87	607
5	1st reminder 28 to 42 days			7	22	29
7	2nd Reminder 42 to 56 days			7	2	9
401	Legal Recovery			483	100	583
<b>4,037</b>	<b>Total</b>	<b>2,911</b>	<b>2</b>	<b>1,081</b>	<b>1,431</b>	<b>5,425</b>

# Included in this total are Rother's proportion of amounts due from Council Tax. A full aged debtors analysis for both Council Tax and Non Domestic Rates is shown in Note 5 of The Collection Fund Statement.

Payments received in advance by the Council are excluded from the above figures.

### Liquidity Risk

As the Authority has substantial reserves in place in addition to access to borrowing from the Public Works Loan Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

### Market Risk

#### Interest rate risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its investments. Changes in interest rates on variable rate investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund balance.

In assessing the expected return on investments the Council has established an interest equalisation reserve to manage fluctuations in interest rates so this does not effect its ability to meet its day to day commitments. The average investment rate for the reported year was 0.98%.

### Price Risk

The Authority uses an external fund manager to manage part of its surplus cash holdings (£12.3m as at 31 March 2011). The fund has been determined at fair value meaning that all movements in price will impact on the Comprehensive Income and Expenditure Statement. A shift of 1% in the market value of the fund would therefore have resulted in a gain or loss of £123,000.

## NOTE 14. INVENTORIES

Small stocks of consumable items are held by a number of service providers.

2008-2009 £'000		2009-2010 £'000	2010-2011 £'000
<b>15</b>	Stocks of car park tickets, paper, stationery and postage stamps	<b>12</b>	<b>12</b>

## NOTE 15. DEBTORS

2008-2009 Restated £'000	AMOUNTS FALLING DUE WITHIN ONE YEAR:	2009-2010 Restated £'000	2010-2011 £'000
185	Local Taxpayers	189	192
357	East Sussex County Council (ESCC)	460	61
42	Sussex Police	55	0
26	East Sussex Fire & Rescue (ESF&R)	33	0
1,302	Government Departments / Bodies	1,210	2,658
2	Mortgage Instalments	2	2
2,127	Other Debtors	2,088	2,512
(468)	Impairment allowance	(561)	(723)
3,573		3,476	4,702
336	Payments made in advance by the Council	855	503
<b>3,909</b>		<b>4,331</b>	<b>5,205</b>

2008-2009 Restated £'000	The impairment allowance (provision for bad debts) is made up as follows:	2009-2010 Restated £'000	2010-2011 £'000
66	Council Taxpayers	69	80
402	Other Debtors	492	643
<b>468</b>		<b>561</b>	<b>723</b>

# NOTES TO THE CORE FINANCIAL STATEMENTS

## NOTE 16 CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

2008-2009 31 March £000		2009-2010 31 March £000	2010-2011 31 March £000
4	Cash held by the Authority	4	4
(436)	Bank current accounts	(1,538)	(1,409)
12,766	Short-term deposits with building societies	6,003	3,475
<b>12,334</b>		<b>4,469</b>	<b>2,070</b>

## NOTE 17. CREDITORS

2008-2009 Restated £'000	AMOUNTS FALLING DUE WITHIN ONE YEAR:	2009-2010 Restated £'000	2010-2011 £'000
133	Government Departments/Bodies	2,679	2,736
0	East Sussex County Council	0	114
0	Sussex Police	0	14
0	East Sussex Fire & Rescue	0	8
0	Local Taxpayers	7	9
1,130	Other Creditors	1,014	2,162
1,263		3,700	5,043
252	Payments received in advance by the Council	302	296
<b>1,515</b>		<b>4,002</b>	<b>5,339</b>

## NOTE 18. PROVISIONS

2008-2009 £'000		2009-2010 £'000	2010-2011 £'000
0	Balance At 1 April	0	0
0	Provisions made in year - Voluntary Redundancy payments - (See Note 2)	0	162
<b>0</b>	Balance at 31 March	<b>0</b>	<b>162</b>

## NOTE 19. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement.

## NOTE 20. UNUSABLE RESERVES

2008-2009 31 March £000		2009-2010 31 March £000	2010-2011 31 March £000
1,637	Revaluation Reserve	1,718	1,788
30,829	Capital Adjustment Account	32,881	32,345
251	Deferred Capital Receipts Reserve	223	195
(16,536)	Pensions Reserve	(31,161)	(13,064)
(29)	Collection Fund Adjustment Account	(47)	36
(130)	Accumulated Absences Account	(146)	(148)
<b>16,022</b>	Total Unusable Reserves	<b>3,468</b>	<b>21,152</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment (and Intangible 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.

2008-2009 Restated £'000		2009-2010 Restated £'000	2010-2011 £'000
2,795	Balance as at 1 April	1,637	1,718
0	Upward revaluation of assets	133	111
(1,135)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(16)	0
(1,135)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	117 #	111
(23)	Difference between fair value depreciation and historical cost depreciation	(36)	(41)
0	Accumulated gains on assets sold or scrapped	0	0
(1,158)	Amount written off to the Capital Adjustment Account	81	70
<b>1,637</b>	Balance as at 31 March	<b>1,718</b>	<b>1,788</b>

# Excludes the sum of £42,000 relating to non-enhancing capital expenditure which is accounted for through the Capital Adjustment Account the net figure of £75,000 appears in the Comprehensive Income and Expenditure Statement

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing difference 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 amortisation 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 Authority 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 Authority. 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.

Note 4 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2008-2009 Restated £'000		2009-2010 Restated £'000	2010-2011 £'000
<b>32,063</b>	<b>Balance as at 1 April</b>	<b>30,829</b>	<b>32,881</b>
	<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>		
(759)	Charges for depreciation and impairment of non-current assets	(880)	(920)
(1,001)	Revaluation losses on Property, Plant and Equipment	(2,062)	(3,547)
0	Revaluation gains on Property, Plant and Equipment	156	0
(165)	Amortisation of intangible assets	(171)	(171)
(2,520)	Revenue Expenditure funded from capital under statute	(1,501)	(1,738)
(1,040)	Amounts of non-current assets written off on disposal to the Comprehensive Income and Expenditure Statement	0	(60)
(5,485)		(4,458)	(6,436)
218	Adjusting amounts written out of the Revaluation Reserve	36	41
(5,267)	Net amount written out of the cost of non-current assets consumed in the year	(4,422)	(6,395)
	<b>Capital Financing applied in the year:</b>		
1,962	Use of the Capital Receipts Reserve to finance new capital expenditure	4,554	3,129
180	Capital Expenditure financed from Earmarked Reserves	83	133
2,039	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,244	2,187
319	Application of grants to capital financing from the Capital Grants Unapplied Account	383	410
(767)	Statutory provision for the financing of capital investment charged against the General Fund	20	(536)
(467)	Capital expenditure charged against the General Fund	1,862	(536)
(467)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	190	0
<b>30,829</b>	<b>Balance at 31 March</b>	<b>32,881</b>	<b>32,345</b>

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2008-2009 £'000		2009-2010 £'000	2010-2011 £'000
<b>(9,371)</b>	<b>Balance at 1 April</b>	<b>(16,536)</b>	<b>(31,161)</b>
(6,780)	Actuarial gains or losses on pensions assets and liabilities	(14,223)	11,851
(1,498)	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	(2,040)	(2,047)
(423)	Past Service Gains (Loss)	0	6,647
1,536	Employer's pensions contributions and direct payments to pensioners payable in the year	1,638	1,646
<b>(16,536)</b>	<b>Balance at 31 March</b>	<b>(31,161)</b>	<b>(13,064)</b>

### Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gain recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Authority 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.

2008-2009 Restated £'000		2009-2010 Restated £'000	2010-2011 £'000
<b>196</b>	<b>Balance at 1 April</b>	<b>251</b>	<b>223</b>
80	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	0
(25)	Transfer to the Capital Receipts Reserve upon receipt of cash	(28)	(28)
<b>251</b>	<b>Balance at 31 March</b>	<b>223</b>	<b>195</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### Collection Fund Adjustment Account

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

2008-2009 Restated £'000		2009-2010 Restated £'000	2010-2011 £'000
(58)	<b>Balance at 1 April</b>	(29)	(47)
29	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory arrangements	(18)	83
<u>(29)</u>	<b>Balance at 31 March</b>	<u>(47)</u>	<u>36</u>

### 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 Account.

2008-2009 Restated £'000		2009-2010 Restated £'000	2010-2011 £'000
(90)	<b>Balance at 1 April</b>	(130)	(146)
90	Cancellation of accrual made at the end of the preceding year	130	146
<u>(130)</u>	Amounts accrued at the end of the current year	<u>(146)</u>	<u>(148)</u>
(40)	Amount 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	(16)	(2)
<u>(130)</u>		<u>(146)</u>	<u>(148)</u>

### NOTE 21. CASH FLOW STATEMENT - OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

2009-2010 Restated £'000		2010-2011 £'000
(134)	Interest received	(163)
1	Interest paid	0

### NOTE 22. CASH FLOW STATEMENT - INVESTING ACTIVITIES

2009-2010 Restated £'000		2010-2011 £'000
3,542	Purchase of property, plant and equipment, investment property and intangible assets	4,000
12,000	Purchase of short-term and long-term investments	12,500
1,437	Other payments for investing activities	1,333
(68)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(90)
(7,291)	Proceeds from short-term and long-term investments	(15,000)
0	Other receipts from investing activities	(107)
<u>9,620</u>	<b>Net Cash Flows from investing activities</b>	<u>2,636</u>

### NOTE 23. CASH FLOW STATEMENT - FINANCING ACTIVITIES

2009-2010 Restated £'000		2010-2011 £'000
(6,485)	Other receipts from financing activities	(7,581)
384	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	411
31	Repayments of short and long-term borrowing	0
<u>(6,070)</u>	<b>Net cash flows from financing activities</b>	<u>(7,170)</u>

### NOTE 24. AMOUNTS 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 Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority's Cabinet on the basis of budget reports analysed across services. These reports are prepared on a different basis from the accounting policies used in the financial statements. Annex A to the Statement details the reconciliation between the Comprehensive Income and Expenditure Statement and the subjective analysis.

### NOTE 25. ACQUIRED AND DISCONTINUED OPERATIONS

No operations were discontinued during 2010-2011.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 26. MEMBERS ALLOWANCES

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

2009-2010 £'000		2010-2011 £'000
203	Members Allowances	206
27	Conferences, Training and Travelling Expenses	19
<u>230</u>		<u>225</u>

### NOTE 27. OFFICERS' REMUNERATION

The Council's Senior Employees' remuneration and expenses was as follows:-

2009-2010 Restated £'000		Salary & Allowances £'000	Expenses £'000	Employers Pension Contribn £'000	Other £'000	2010-2011 £'000
121	Chief Executive	94	0	23	5	122
95	Director	77	2	17	0	96
88	Director	75	0	17	0	92
75	Head of Service	62	0	14	0	76
72	Head of Service	62	1	13	0	76
75	Head of Service	62	0	14	0	76
76	Head of Service	62	0	15	0	77
66	Head of Service	56	0	13	0	69
0	Head of Service	53	1	12	0	66
63	Head of Service	53	1	11	0	65
62	Head of Service	53	0	12	0	65
62	Head of Service	0	0	0	0	0
61	Head of Service	53	0	12	0	65
<u>916</u>						<u>945</u>

The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

2009-2010 Restated		2010-2011
7	£50,000 - £54,999	6
1	£55,000 - £59,999	1
3	£60,000 - £64,999	4
0	£65,000 - £69,999	0
1	£70,000 - £74,999	0
1	£75,000 - £79,999	2
0	£80,000 - £84,999	0
0	£85,000 - £89,999	0
0	£90,000 - £95,999	0
1	£95,000 - £99,999	1
<u>14</u>		<u>14</u>

### NOTE 28. EXTERNAL AUDIT COSTS

Fees were paid to PKF (UK) LLP as the Council's external auditors and to the Audit Commission for Statutory Inspections carried out as follows:-

2009-2010 £'000		2010-2011 £'000
104	Fees payable to PKF (UK) LLP with regard to external audit services carried out by the appointed auditor	111
39	Fees payable to PKF (UK) LLP for the certification of grant claims and returns	56
13	Fees payable to the Audit Commission in respect of statutory inspection	1
3	Fees payable in respect of other services provided by the appointed auditor	31
<u>159</u>		<u>199</u>

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 29. GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

2009-2010 Restated £'000		2010-2011 £'000
	<b>Credited to Services</b>	
304	Concessionary Travel	174
132	Leader Plus	129
(15)	ESCC - Coast Protection	0
107	Planning Development Grant	0
89	ESCC - Better Safer Communities	113
31	Local Strategic Partnership	0
3	Hastings Borough Council-Strategic Housing Market Assessment	0
4	Home Office	0
137	DCLG - Ndr Cost of Collection	137
8	Wealden District Council - Joint BPI	0
46	Homelessness	46
43	Free Swimming Grant	45
36	LABGI	3
30	Empty Homes (Under Occupancy)	0
29	DWP Mortgage Rescue	0
0	DWP Atlas Project	27
87	Performance Reward Grant	0
14	DCLG Bus Rate deferred billing	10
0	ESCC re HB under 18s	5
35,528	DWP (Including Subsidy)	34,944
25	ESCC Kiosk support	24
0	Wealden District Council - Food Safety	5
5	DCLG re Council Efficiencies and Charges	0
<b>36,643</b>	<b>Total within Cost of Services</b>	<b>35,662</b>
	<b>Credited to Taxation and Non Specific Grant Income</b>	
291	Regional Housing Pot	277
87	Waste Efficiency	0
5	Efficiency on Council Tax	0
0	Marley Lane Development	236
0	Elva Business Centre	287
0	Adizone, Egerton Park	75
(50)	Bexhill Museum	0
468	Disabled Facility Grant	538
385	Bexhill Seafront	577
1,229	Revenue Support Grant	835
5,324	National Non-Domestic Rates redistribution	5,750
56	Area Based Grant - Planning Policy Climate Change	52
<b>7,795</b>	<b>Total within Taxation &amp; Non-Specific Grant Income</b>	<b>8,627</b>
<b>44,438</b>	<b>Total within Comprehensive Income &amp; Expenditure Statement</b>	<b>44,289</b>
(4,252)	Adjustment for variation in accruals and Support Services	(7,843)
<b>40,186</b>	<b>Adjusted Total</b>	<b>36,446</b>
	<b>Reconciliation to Cash Flow Statement</b>	
34,672	Grants (including DWP Subsidy)	30,696
5,514	National Non-Domestic Rates redistribution	5,750
<b>40,186</b>		<b>36,446</b>

The Authority has received a number of grants, contributions and donations 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 the year-end are as follows:

2009-2010 £'000		2010-2011 £'000
	<b>Capital Grants Receipts in Advance</b>	
15	Bexhill Seafront	0
<b>15</b>		<b>0</b>



## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 30. RELATED PARTIES

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

#### Central Government

Central Government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and subsidies and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits). Details of transactions with Government departments are set out in a note relating to the Cash Flow Statement.

#### Members

Members of the Council have direct control over the Council's financial and operating policies. During 2010-2011 grants and payments to the value of £1,053,047, as shown below, were paid to organisations in which eighteen Members had an interest. 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.

Organisation	£
De La Warr Pavilion Trust	542,025
In Touch Support Ltd	182,339
Rother District Citizens Advice Bureau	119,660
Romney Marsh Internal Drainage Board	111,114
The Rye Partnership Ltd	44,139
Action in Rural Sussex	27,124
Society of Bexhill Museums Ltd	8,623
Hastings & Rother Mediation Service	8,168
Environment Agency	3,754
Hastings Furniture Service	2,101
Battle and District Partnership	2,000
Rye Harbour Nature Reserve	1,000
Farming & Wildlife Advisory Group	1,000
	<b>1,053,047</b>

#### Officers

During 2010-2011, Officers with pecuniary interests made appropriate declarations during Committee meetings and took no part of decision making. Interests are recorded in the minutes of the relevant meetings and are available at [www.rother.gov.uk](http://www.rother.gov.uk).

#### East Sussex County Council pension fund - see note 35.

The Council made cash payments totalling £1,635,439 during 2010-2011 to East Sussex County Council as the administering body for the East Sussex Local Government pension fund. Note 35 provides further information on the Authority's pension arrangements.

#### Members elected to East Sussex County Council

At the date of approving the Accounts there are 4 Members of Rother District Council who are also members of East Sussex County Council listed below:

Cllr K Field  
Cllr J Hughes  
Cllr M Kenward  
Cllr C Maynard

Cash payments of £1,586,213 were made to East Sussex County Council and receipts in the sum of £851,999 were received during 2010-2011.

### NOTE 31. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

2009-2010 Restated £'000		2010-2011 £'000	2010-2011 £'000
0	<b>Opening Capital Financing Requirement</b>		0
	<b>Capital Expenditure requiring finance</b>		
3,618	- Property Plant and Equipment	2,884	
97	- Investment Properties	826	
32	- Intangible Assets	0	
1,501	- revenue expenditure funded from capital under statute	1,738	5,448
	<b>Less: sources of Finance</b>		
3,900	- capital receipts	3,129	
909	- Government Grants	880	
335	- other grants and contributions	1,307	
104	- capital expenditure met from earmarked reserves	132	5,448
0	<b>Closing Capital Financing Requirement</b>		0

During 2009-10, the Council undertook a review of its Balance Sheet with the support of its Financial Advisors. This identified a calculation error with the Council's Capital Financing requirement dating back to 2004/05. This error notionally gave rise to a requirement to provide for MRP but due to the level of Capital Receipts available this liability has been reduced to nil through the transfer of £654k from usable capital receipts reserve to the Capital Adjustment Account.

The above shows the cash position for the capital expenditure and its financing. No account is taken of capital accruals.

## NOTES TO THE CORE FINANCIAL STATEMENTS

### CAPITAL EXPENDITURE SUMMARY

2009-2010 £'000		2010-2011 £'000	2010-2011 £'000
	<b>Long-Term Assets:</b>		
	Other Land & Buildings:		
0	New Car Park, Camber	54	
1	Office Accommodation	0	
110	Museum	0	
4	Public Conveniences	0	
			54
	Infrastructure Assets:		
8	Coast Protection	0	
385	Bexhill Seafront Improvements	2,379	
			2,379
230	Vehicles, Plant & Equipment		211
32	Intangible Assets - Software & Systems / Project Evaluation		0
	Community Assets:		
0	Bexhill Cemetery	91	
17	Egerton Park	139	
17	Summerhill Allotments	0	
172	Little Common Sports Pitch	10	
			240
976	<b>Total of Long-Term Assets</b>		2,884
	<b>Investment Properties</b>		
47	Bexhill Rowing Club	31	
50	Marley Cottage, Brede	0	
2674	Sidley Goods yard	795	
			826
	<b>Revenue Expenditure funded from Capital under Statute</b>		
91	Village Halls and Community Projects	58	
725	Disabled Facilities Grants	724	
226	Housing Aid Grants	51	
60	Private Sector Renewal	56	
60	Houses in Multiple Occupation	52	
226	Energy Efficiency	240	
0	Multi Use Games Area - Rye	33	
61	Marley Lane Development	281	
0	Housing Development - Netherfield	120	
0	Empty Homes	35	
0	Small Works Scheme	33	
52	Other	55	
			1,738
4,272	<b>Total Capital Expenditure for year</b>		2,564
	<b>Financed by :-</b>		
3,900	Capital Receipts (proceeds of the sale of non-current assets)		3,129
909	Grant receipts		880
335	Contributions from other bodies		1,307
20	Revenue Contribution		0
84	Use of Reserves		132
5,248	<b>Total Financing</b>		5,448

# NOTES TO THE CORE FINANCIAL STATEMENTS

## NOTE 32. LEASES

### Council as a Lessee

#### Finance Leases

The Council has entered into an arrangement for the provision of refuse collection and street cleansing services which, while not itself a lease, nevertheless contains a right to use assets in the same way as a lease. This arrangement is being treated as a finance lease. The assets acquired under this lease are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	<b>2009/10</b>	<b>2010/11</b>
	£000	£000
Vehicles, Plant, Furniture and Equipment	1,195	793

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

	<b>2009/10</b>	<b>2010/11</b>
	£000	£000
Finance lease liabilities (net present value of minimum lease payments)		
Current	410	413
Non-current	930	516
Finance costs payable in future years	99	48
Minimum lease payments	1,439	977

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

	Minimum Lease Payments		Finance Lease Liabilities	
	2009/10	2010/11	2009/10	2010/11
	£000	£000	£000	£000
Not later than one year	463	446	410	413
Later than one year and not later than five years	976	531	930	516
Later than five years	0	0	0	0
	1,439	977	1,340	929

#### Operating Leases

Vehicles and equipment have been acquired through operating leases.

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

	Minimum Lease Payments	
	2009/10	2010/11
	£000	£000
Not later than one year	19	77
Later than one year and not later than five years	79	34
Later than five years	0	0
	98	111

In addition, under the Grounds Maintenance Contract the Council has use of various assets; vehicles and equipment. The total contract payment to the contractor includes an element for the use of these assets. It is not practicable to separate out the payment reliably. The future minimum contract payments (including the element relating to the use of these assets) are:

	Minimum Lease Payments	
	2009/10	2010/11
	£000	£000
Not later than one year	948	992
Later than one year and not later than five years	1,488	496
Later than five years	0	0
	2,436	1,488

### Council as Lessor:

The Council leases out property, a number of industrial and commercial units, land and other buildings under operating leases.

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

	Minimum Lease Payments	
	2009/10	2010/11
	£000	£000
Not later than one year	157	156
Later than one year and not later than five years	443	428
Later than five years	2,765	2,684
	3,365	3,268

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2010/11 £368,000 contingent rents were receivable by the Council (2009/10 £363,000).

## NOTE 33. PRIVATE FINANCE INITIATIVES

The Council has not entered into any arrangements that would be treated as a Private Finance Initiative during 2010/11

## NOTES TO THE CORE FINANCIAL STATEMENTS

### NOTE 34. IMPAIRMENT LOSSES

During 2010-2011, the Authority has recognised impairment losses of £3,547,534.98 (£2,151,010 2009-2010), chargeable to the Cost of Services in the Comprehensive Income and Expenditure Statement. A breakdown of this amount is shown below:-

	£000
<b>Land &amp; Buildings</b>	
Bexhill Museum - capital expenditure works on an asset revalued at £1,000	37
Former Arnold Palmer Putting Course - Converted to a new Car Park and revalued as an Operational Asset	313
	350
<b>Community Assets</b>	
Bexhill Cemetery - purchase of land revalued to zero	91
Little Common Recreation Ground - drainage works on an asset valued at zero	10
Levetts Wood, Bexhill - reclassified as a Community Asset and revalued to zero	19
Land West of Buckholt Lane, Bexhill	13
Land adj Darvel Down, Netherfield	21
	154
<b>Assets Under Construction</b>	
Elva Business Centre - Cost of works written out on creation of new business park	2,920
<b>Investment Properties</b>	
Auction Galleries, Bexhill - Dilapidation works	44
Rowing Club Boathouse - demolished	79
	123

### NOTE 35. DEFINED BENEFIT PENSION SCHEMES

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 authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

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

The cost of retirement benefits is recognised in the Cost of Services when employees earn them, rather than when the benefits are eventually paid as pensions. However, the charge that the Council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Comprehensive Income and Expenditure Statement after Cost of Services.

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1st April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has the effect of reducing Rother's liabilities in East Sussex Pension Fund by £6.7m and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact upon the General Fund.

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

#### Comprehensive Income and Expenditure Statement

2009-10 £'000		2010-11 £'000
	<u>Cost of Services:</u>	
(784)	Current service costs	(1,396)
0	Past service (costs)/Gains	6,647
0	Settlements and Curtailments	0
	<u>Financing and Investment Income and Expenditure</u>	
(3,603)	Interest costs	(4,081)
2,347	Expected return on assets in the scheme	3,430
(2,040)	<b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>	<b>4,600</b>
	<b>Other Post Employment Benefit charged to Comprehensive Income and Expenditure Account</b>	
(14,223)	Actuarial Gains/(losses)	11,851
(16,263)	<b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Account</b>	<b>16,451</b>

#### Movement in Reserves Statement

2,040	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(4,600)
<b>1,638</b>	<b>Employers contributions payable to the scheme</b>	<b>1,646</b>

## NOTES TO THE CORE FINANCIAL STATEMENTS

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Account is £12.2m (£24m 2009/10)

### Assets and Liabilities in relation to Post Employment Benefits

Reconciliation of present value of scheme liabilities:

2009-10 £'000		2010-11 £'000
52,972	1 April	79,937
784	Current Service Cost	1,396
3,603	Interest Cost	4,081
438	Contributions by scheme participants	436
24,897	Actuarial Losses/ (Gains)	(11,658)
0	Past Service Costs/(Gains)	(6,647)
(132)	Unfunded Benefits Paid	(132)
(2,625)	Benefits paid	(2,828)
<b>79,937</b>	Closing Defined Benefits obligation	<b>64,585</b>

### Reconciliation of fair value of the scheme assets:

2009-10 £'000		2010-11 £'000
36,436	1 April	48,776
2,347	Expected Return on Assets	3,430
438	Contributions by scheme participants	436
1,506	Contributions by the Employer	1,514
132	Contributions in respect of unfunded benefits	132
10,674	Actuarial gains/ (losses)	193
(132)	Unfunded Benefits paid	(132)
(2,625)	Benefits paid	(2,828)
<b>48,776</b>		<b>51,521</b>
<b>(31,161)</b>	<b>Net Liability at 31 March</b>	<b>(13,064)</b>

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

The actual return on scheme assets in the year was £3.3m (£13m 2009-10)

### Scheme History

	2006-07 £000	2007-08 £000	2008-09 £000	2009-10 £000	2010-11 £000
Present value of liabilities	(57,744)	(54,410)	(52,972)	(79,937)	(64,585)
Fair Value of Assets	46,956	45,039	36,436	48,776	51,521
Surplus/(deficit) in the scheme	<b>(10,788)</b>	<b>(9,371)</b>	<b>(16,536)</b>	<b>(31,161)</b>	<b>(13,064)</b>

The liabilities show the underlying commitments that the Authority has in the long term to pay post employment (retirement) benefits. The total liability of £13m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However statutory arrangements for funding the deficit mean that the financial position of the authority remain healthy and the deficit on the pension scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme Actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 is £1,424,000.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension scheme liabilities have been assessed by Hymans an independent firm of Actuaries on the basis of the following assumptions:

Assumptions as at 31 March	2009-2010	2010-11
<b>Financial Assumptions:</b>		
Price increases - inflation/ Pension Increase Rate	3.8%	2.8%
Salary increases	5.3%	5.1%
Expected Return on Assets	7.1%	6.9%
Discount rate	5.5%	5.5%
<b>Breakdown of the expected return on Assets by Category:</b>		
Equities	7.8%	7.5%
Bonds	5.0%	4.9%
Property	5.8%	5.5%
Cash	4.8%	4.6%

# NOTES TO THE CORE FINANCIAL STATEMENTS

## Mortality

Life expectancy is based on the PFA92 and PMA92 tables, projected to calendar year 2033 for non pensioners and 2017 for pensioners. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	<b>Males</b>	<b>Females</b>
Current Pensioners	21.3 years	23.4 years
Future Pensioners	23.3 years	25.7 years

The appointed Pension Fund Actuary has provided the following historic life expectancy information for current employees and current pensioners:

Year Ended	<b>Prospective Pensioner</b>	<b>Current Pensioner</b>
31 March 2010	year of birth, medium cohort and 1% pa minimum improvements from 2007	year of birth, medium cohort and 1% pa minimum improvements from 2007
31 March 2009	calendar year 2033	calendar year 2017
31 March 2008	calendar year 2033	calendar year 2017
31 March 2007	calendar year 2017	calendar year 2004

## Commutation

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HARK limits for pre April 2008 service and 75% of the maximum tax-free cash for post April 2008 service.

## Fair Value of Employer Assets

Assets in the County Council Pension Fund are valued at bid value as required by FRS17.

Assets (Employer)	2009-2010 Fund Value		2010-11 Fund Value	
	£'000	%	£'000	%
Equities	36,094	74%	<b>40,186</b>	<b>78%</b>
Bonds	2,439	5%	<b>4,122</b>	<b>8%</b>
Property	3,414	7%	<b>4,122</b>	<b>8%</b>
Cash	6,829	14%	<b>3,091</b>	<b>6%</b>
<b>Total</b>	<b>48,776</b>	<b>100%</b>	<b>51,521</b>	<b>100%</b>

## History of experience gains and losses

The actuarial gains/losses identified as movements on the Pension Reserve can be analysed into the following categories at 31 March 2011:

	2006-07 £000	2007-08 £000	2008-09 £000	2009-10 £000	2010-11 £000
Experience gains and losses on Assets	22	(4,071)	(11,014)	10,674	193
Experience gains and losses on liabilities	14	(2,972)	50	(103)	4,011
<b>Net Gains and Losses</b>	<b>36</b>	<b>(7,043)</b>	<b>(10,964)</b>	<b>10,571</b>	<b>4,204</b>
Scheme Assets	46,956	45,039	36,436	48,776	51,521
Gain/Losses as a % of Scheme Assets	0.08%	-15.64%	-30.09%	21.67%	8.16%

## NOTE 36. CONTINGENT LIABILITIES

When the Council transferred its housing stock to Rother Homes in May 1998, part of the legal transaction involved the inclusion of certain warranties for a period up to twenty-eight years, for example, in respect of contaminated land. A liability may, therefore, arise at some time within this period. No provision has been made for this.

The Council's Solicitor has confirmed as of the 30 June 2011, there were no significant legal actions being taken by or against the Council.

In 1993 the Council's insurers, Municipal Mutual Insurance Limited, ceased accepting new business. The company is still paying from its reserves and hopes to remain solvent until all claims are settled. Arrangements have been made with creditors that if the company is unable to meet all of its liabilities, then all creditors will accept a reduced settlement. Rother District Council could be affected by this arrangement but as the company is still solvent no liability has been included in the year's accounts.

Grants awarded to the Council under the Leader Plus Programme are conditional and elements may be repayable in certain circumstances such as breach of conditions and sale of assets acquired with grant monies. At 31 March 2009 a total of £2,998,544 had been received from the programme. From January 2009 the Council commenced a new Leader Programme for six years the liability to repay for up to the end of March 2011 was £258,646. This has not been provided for due to the high uncertainty that any breach will occur.

On the 27 July 2010 the Ministry of Justice and the Department for Communities and Local Government informed all Councils in England responsible for the provision of Land Searches that charging a fee for a personal search of the local land charges register is incompatible with the Environmental Information Regulations 2004 and the underlying 2003 EU Directive. The Government have revoked the current fee of £22 from 17 August 2010. This change does not preclude Councils from charging for assisted searches. It is possible that claims for reimbursement may be made by customers dating back to January 2005. The Government have indicated that it is acceptable for Councils to consider the cost of administering the reimbursement of fees and should avoid unjustly enriching search agents.

To support the Council's homelessness prevention strategy the Council acts as guarantor for 1 year for private rented accommodation and as at 31st March 2011, there were 9 tenancies being supported under this scheme. The maximum liability was £4,980.

## NOTE 37. CONTINGENT ASSETS

The Council has not identified any Contingent Assets as at 30th June 2011.

**AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS**
**Annex A**

<b>Service Income and Expenditure 2010-11</b>	<b>Cultural &amp; Related Services £000</b>	<b>Environmental Services £000</b>	<b>Planning &amp; Development £000</b>	<b>Highways £000</b>	<b>Housing £000</b>	<b>Corporate &amp; Democratic Core £000</b>	<b>Central Services £000</b>	<b>Non Distributed Costs £000</b>	<b>Cost of Services £000</b>	<b>Corporate Amounts £000</b>	<b>Total £000</b>
Fees, charges & other service income	(289)	(1,211)	(803)	(1,072)	(1,306)	(9)	(953)	(2)	(5,645)	(298)	(5,943)
Interest & Investment Income									0	(290)	(290)
Income from Council Tax									0	(8,186)	(8,186)
Government Grants & Contributions - <i>Note 29</i>	(45)	(119)	(132)	(174)	(26,425)	(24)	(8,743)		(35,662)	(8,627)	(44,289)
Gain on disposal of non-current assets									0	(171)	(171)
Pension								(129)	(129)	(3,430)	(3,559)
<b>Total Income</b>	<b>(334)</b>	<b>(1,330)</b>	<b>(935)</b>	<b>(1,246)</b>	<b>(27,731)</b>	<b>(33)</b>	<b>(9,696)</b>	<b>(131)</b>	<b>(41,436)</b>	<b>(21,002)</b>	<b>(62,438)</b>
Employee Expenses	719	1,260	2,049	157	1,019	1,540	995	728	8,467		8,467
Other Service Expenses	2,628	3,807	353	921	516	528	709	129	9,591	38	9,629
Support service recharges	253	456	823	62	452	809	542		3,397	40	3,437
Depreciation, Amortisation & Impairment	107	659		49	66	12	62		955		955
Interest Payments									0	51	51
Pensions Interest on Obligations									0	4,081	4,081
Parish Precepts									0	1,025	1,025
Drainage Board Levies		115							115		115
Payments to Housing Capital receipts Pool									0	1	1
Loss on revaluation of non-current assets	100	92					393		585	2,963	3,548
Writing out of non-current assets									0	60	60
Revenue Expenditure funded from capital under statute	75		281		1,313		70		1,739		1,739
Benefit payments					26,805		8,146		34,951		34,951
Pension - Past Service Gains								(6,647)	(6,647)		(6,647)
<b>Total Expenditure</b>	<b>3,882</b>	<b>6,389</b>	<b>3,506</b>	<b>1,189</b>	<b>30,171</b>	<b>2,889</b>	<b>10,917</b>	<b>(5,790)</b>	<b>53,153</b>	<b>8,259</b>	<b>61,412</b>
<b>Net Expenditure</b>	<b>3,548</b>	<b>5,059</b>	<b>2,571</b>	<b>(57)</b>	<b>2,440</b>	<b>2,856</b>	<b>1,221</b>	<b>(5,921)</b>	<b>11,717</b>	<b>(12,743)</b>	<b>(1,026)</b>

**Service Income and Expenditure 2009-10**

Fees, charges & other service income	(385)	(770)	(773)	(977)	(1,075)	(8)	(1,017)	(413)	(5,418)	(350)	(5,768)
Interest & Investment Income									0	(402)	(402)
Income from Council Tax									0	(7,966)	(7,966)
Government Grants & Contributions - <i>Note 29</i>	(43)	(165)	(278)	(304)	(27,433)	(64)	(8,356)		(36,643)	(7,795)	(44,438)
Gain on disposal of non-current assets									0	(40)	(40)
Gain on revaluation of non-current assets	(82)	(39)		(31)			(104)		(256)	(217)	(473)
Pension								(127)	(127)	(2,347)	(2,474)
<b>Total Income</b>	<b>(510)</b>	<b>(974)</b>	<b>(1,051)</b>	<b>(1,312)</b>	<b>(28,508)</b>	<b>(72)</b>	<b>(9,477)</b>	<b>(540)</b>	<b>(42,444)</b>	<b>(19,117)</b>	<b>(61,561)</b>
Employee Expenses	667	1,201	1,966	138	990	1,482	956		7,400		7,400
Other Service Expenses	2,622	3,901	446	991	428	538	678	127	9,731	22	9,753
Support service recharges	235	440	864	64	407	794	538	9	3,351	34	3,385
Depreciation, Amortisation & Impairment	84	659		46	66	12	57		924		924
Interest Payments									0	75	75
Pensions Interest on Obligations									0	3,603	3,603
Parish Precepts									0	980	980
Drainage Board Levies		116							116		116
Payments to Housing Capital receipts Pool									0	4	4
Loss on revaluation of non-current assets	2,021						7		2,028	123	2,151
Revenue Expenditure funded from capital under statute	52		61		1,296		91		1,500		1,500
Revenue Financing of Capital Programme						83			83		83
Benefit payments					27,585		7,769		35,354		35,354
<b>Total Expenditure</b>	<b>5,681</b>	<b>6,317</b>	<b>3,337</b>	<b>1,239</b>	<b>30,772</b>	<b>2,909</b>	<b>10,096</b>	<b>136</b>	<b>60,487</b>	<b>4,841</b>	<b>65,328</b>
<b>Net Expenditure</b>	<b>5,171</b>	<b>5,343</b>	<b>2,286</b>	<b>(73)</b>	<b>2,264</b>	<b>2,837</b>	<b>619</b>	<b>(404)</b>	<b>18,043</b>	<b>(14,276)</b>	<b>3,767</b>

# COLLECTION FUND STATEMENT

2009-2010 Restated £'000	<b>INCOME</b>	2010-2011 £'000
52,314	Income from Council Taxpayers	54,086
	Transfers from General Fund re Council Tax	
7,749	- Council Tax Benefit awarded	8,124
(1)	- Transitional Relief	(1)
	Sums recovered from Preceptors re previous year's Collection Fund deficit	
25	- East Sussex County Council	155
3	- Sussex Police Authority	19
2	- East Sussex Fire Authority	11
5	- Rother District Council	28
<hr/> 60,097	Total from Council Tax	<hr/> 62,422
0	Income collected from old system Community Charge	0
14,184	Income collectable from Business Ratepayers - <i>Note 2</i>	13,126
<hr/> 74,281		<hr/> 75,548
	<b>EXPENDITURE</b>	
43,834	East Sussex County Council Precept on Collection Fund - <i>Note 3</i>	44,870
5,238	Sussex Police Authority Precept on Collection Fund - <i>Note 3</i>	5,362
3,113	East Sussex Fire Authority - <i>Note 3</i>	3,171
7,906	Rother District Council Demand on Collection Fund - <i>Note 3</i>	8,130
	Business Rate - <i>Note 2</i>	
14,048	- Payment to National Pool	12,989
136	- Cost of Collection	137
1	Adjustments incl. Community Charge Income	2
	Sums payable to Preceptors re previous year's Collection Fund surplus	
0	- East Sussex County Council	0
0	- Sussex Police Authority	0
0	- East Sussex Fire Authority	0
0	- Rother District Council	0
	Bad & Doubtful Debts	
119	- Write offs of uncollectable Council Tax	176
20	- Provision for uncollectable Council Tax-addition to the sum required	80
<hr/> 74,415		<hr/> 74,917
<hr/> 134	Movement on Fund Balance - (surplus) / deficit	<hr/> (631)
	<b>FUND BALANCE - <i>Note 4</i></b>	
222	Balance brought forward	356
134	(Surplus) / deficit for year	(631)
<hr/> 356	Balance carried forward	<hr/> (275)



# COLLECTION FUND STATEMENT

## NOTE 1. GENERAL

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

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

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

2009-2010 £'000		2010-2011 £'000
14,257	Non-Domestic rates billed at uniform business rate of 41.4p (2009-2010:48.5p)	13,352
(73)		(226)
14,184	Amount Collectable	13,126
(136)	Less allowance for the Cost of Collection	(137)
14,048	Net contribution to National Pool	12,989
£5,324	Redistribution from National Pool - credited to General Fund	£5,750
£46,816	Rateable Value of Business Premises at 31 March	£47,273
£36,204	Rateable Value of Business Premises in 2009/10 before 2010 Valuation	£36,204

## NOTE 3. COUNCIL TAX BASE

Band & Value	Number of Properties	Relationship to Band D	Annual Amount
Band A - up to £40,000	3,585	6/9	£1,058.81
Band B - over £40,000 up to £52,000	5,759	7/9	£1,235.27
Band C - over £52,000 up to £68,000	8,200	8/9	£1,411.74
Band D - over £68,000 up to £88,000	7,801	1	£1,588.21
Band E - over £88,000 up to £120,000	6,362	11/9	£1,941.15
Band F - over £120,000 up to £160,000	3,329	13/9	£2,294.08
Band G - over £160,000 up to £320,000	2,261	15/9	£2,647.02
Band H - over £320,000	211	18/9	£3,176.42
	37,508		

Council Tax Base and amount originally expected for 2010-2011:

East Sussex County Council share	£44,869,693
Sussex Police Authority share	£5,362,050
East Sussex Fire Authority share	£3,171,055
Rother District Council share	£8,130,290
	£61,533,088

# COLLECTION FUND STATEMENT

## NOTE 4. COUNCIL TAX SURPLUSES & DEFICITS

The surplus of £275,338 in respect of Council Tax is distributed between Rother District Council, East Sussex County Council, East Sussex Fire Authority and Sussex Police Authority in future years in accordance with Fund Regulations and a prescribed timetable.

## NOTE 5. ANALYSIS OF AGED DEBT

<b>Total 2009-2010</b>	<b>Local Taxpayer</b>	<b>Within due date</b>	<b>1st Reminder 12 days</b>	<b>Final Notice 19 days</b>	<b>Recovery Action</b>	<b>Total 2010-2011</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
1,429	Council Tax	208	28	36	1,182	1,454
504	Non Domestic Rates	28	21	42	365	456
<b>1,933</b>	<b>Total</b>	<b>236</b>	<b>49</b>	<b>78</b>	<b>1,547</b>	<b>1,910</b>

# GLOSSARY

## **ACCRUALS**

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

## **ACTUARIAL GAINS & LOSSES**

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

## **AMORTISATION**

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

## **BUDGET**

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

## **CAPITAL EXPENDITURE**

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

## **CAPITAL RECEIPTS**

The proceeds from the sale of fixed assets.

## **CODE OF PRACTICE ON LOCAL GOVERNMENT ACCOUNTING**

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

## **COMMUNITY ASSETS**

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

## **CONTINGENCY**

A condition which exists at the balance sheet date and where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

## **CREDITORS**

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

## **DEBTORS**

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

## **DEPRECIATION**

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

## **EXCEPTIONAL ITEMS**

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

## **EXTRAORDINARY ITEMS**

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

## **FINANCIAL INSTRUMENTS**

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

## **GENERAL FUND**

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

## **GOVERNMENT GRANTS**

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

## **INFRASTRUCTURE ASSETS**

Long-Term Assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. An example is the sea wall and promenade.

## **NATIONAL BUSINESS RATE POOL**

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

## **PRECEPT**

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

## **PROVISIONS**

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

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

Tangible assets that yield up benefit to the Authority over more than one accounting period, e.g. Land and Buildings.

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

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

## **RESERVES**

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

## **REVENUE EXPENDITURE**

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

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

Expenditure which may properly be deferred, but which does not result in, or remain matched with, tangible assets. An example is improvement grants.

## **REVENUE SUPPORT GRANT**

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

## **SURPLUS ASSETS**

Long-Term Assets that are actively marketed for sale.

# Letter of representation

PKF (UK) LLP  
Farringdon Place  
20 Farringdon Road  
London  
EC1M 3AP

Dear Sirs

## Financial statements of Rother District Council for the year ended 31 March 2011

This representation letter is provided in connection with your audit of the financial statements of Rother District Council for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with the relevant financial reporting framework and have been prepared in accordance with the requirements of applicable law.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of directors and management of the Council, the following representations given to you in connection with your audit of the Council's financial statements:

### FINANCIAL STATEMENTS

#### Responsibility for the financial statements

I acknowledge as the Deputy Head of Finance and s151 Officer my responsibilities for the financial statements and for ensuring that these are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

#### Accounting policies

I confirm that the selection and application of the accounting policies used in the preparation of the financial statements are appropriate.

#### Significant assumptions

##### Pension fund assumptions

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

- |  |       |
|--|-------|
| • Rate of inflation  | 2.8%  |
| • Rate of increase in salaries                                       | 5.1%  |
| • Rate of increase in pensions                                       | 2.8%  |
| • Rate for discounting scheme liabilities                            | 5.5%  |
| • Take up option to convert the annual pension into retirement grant | 50.0% |

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

#### Plans or intentions

The Council has no plans or intentions that may materially alter the carrying value and, where relevant, the fair value measurements or classification of assets and liabilities reflected in the financial statements.

#### Litigation and claims

I am not aware of any pending claims, proceedings or litigation involving the Council.

## **Related parties**

I confirm that related party relationships and transactions have been appropriately accounted for and disclosed in the financial statements in accordance with the requirements of the applicable financial reporting framework.

## **Subsequent events**

There have been no events since the balance sheet date which necessitate revision of the figures included in the financial statements or inclusion of a note thereto. Should any material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

## **Uncorrected misstatements**

You have brought to my attention uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter. I do not wish to correct these misstatements as I consider them to be immaterial to the view given by the financial statements.

## **Going concern**

I confirm that I am satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this conclusion I have taken into account all relevant matters of which I am aware, including the availability of working capital, levels of announced and forecast Government funding, constraints and ability to raise council taxes, assumption that the functions of the Council will continue in operational existence for the foreseeable future; and have considered a future period of at least one year from the date on which the financial statements will be approved.

## **INFORMATION PROVIDED**

### **Completeness of information**

The Council has provided you with access to all information of which I am aware is relevant to the financial statements. The Council has provided you with all other information that you have requested from us and given you unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence. All other records and related information, including minutes of all management and committee meetings (held during the year and up to the date of this letter) have been made available to you.

All transactions undertaken by the Council have been recorded in the accounting records and are reflected in the financial statements.

So far as I am aware, there is no information needed by you in connection with preparing your audit report (relevant audit information) of which you are unaware. I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you are aware of that information.

### **Internal control**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

There have been no deficiencies in internal control other than that reported by Internal Audit or brought to my attention in the auditors' Annual Governance Reports, of which I am aware.

### **Fraud**

I have disclosed to you the results of my assessment of the risk that the financial statements could be materially misstated as a result of fraud.

I have disclosed to you my knowledge of fraud or suspected fraud affecting the Council and of any allegations of fraud or suspected fraud affecting the financial statements communicated to me by employees, former employees, councillors, regulators or others.

### **Compliance with laws and regulations**

I am not aware of any actual or possible instances of non-compliance with laws or regulations whose effects should be considered when preparing financial statements of the Council.

### **Related parties**

I confirm that I have disclosed to you the identity of all the Council's related parties, related party relationships and transactions of which I am aware.

### **Liabilities, contingent liabilities and guarantees**

There are no liabilities, contingent liabilities or guarantees to third parties other than those disclosed in the financial statements.

### **Title to assets**

The Council has satisfactory title to all assets and there are no liens or encumbrances on the assets except for those disclosed in the financial statements.

### **Contractual agreements**

The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Yours faithfully

**Robin Vennard**  
Head of Finance

### ***Representations of the Council***

We confirm to the best of our knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's financial statements.

### **Responsibility for the financial statements**

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the financial statements. The Head of Finance is responsible for the preparation of the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

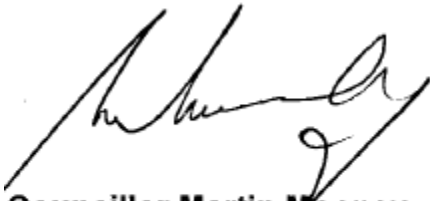
### **Uncorrected misstatements**

We have considered the uncorrected misstatements in the financial statements as listed in Appendix 1 to this letter together with the explanations provided by the Head of Finance for not correcting these misstatements, and we consider them to be immaterial to the view given by the financial statements.

### **Annual Governance Statement**

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully



**Councillor Martin Mooney**  
Chairman  
Resources, Overview and Scrutiny Committee

Signed on behalf of the Council

## Uncorrected misstatements

The table below details the potential differences recorded during the audit that have not been adjusted for within the financial statements:

Uncorrected misstatements	Income Over/ (Under) £'000	Expenses (Over)/ Under £'000	Assets (Over)/ Under £'000	Liabilities Over/ (Under) £'000	Reserves Over/ (Under) £'000
<b>Factual misstatements</b> Reclassification of the cash held by ALLPAY as a cash equivalent balance in the Balance Sheet			199 (199)		
<b>Judgemental misstatements</b> None					
<b>Projected misstatements (extrapolation of errors)</b> None					
<b>Total net misstatements</b>	-	-			
- Net understatement of costs					
- Net overstatement of net assets			-	-	-



# Independent auditor's report to the Members of Rother District Council

## **Opinion on the accounting statements**

We have audited the accounting statements of Rother District Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the [*Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and Collection Fund*] and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (based on International Financial Reporting Standards).

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

## **Respective responsibilities of the Head of Finance and auditor**

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

## **Scope of the audit of the accounting statements**

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

## **Opinion on accounting statements**

In our opinion the accounting statements:

- give a true and fair view of the state of Rother District Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

## **Opinion on other matter**

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

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

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

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

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

Our responsibility requires us to review and, where appropriate, examine evidence that is relevant to the Council's corporate performance and financial management arrangements. It therefore excludes arrangements relating specifically to the delivery of front-line services, unless we have identified a significant risk with implications for corporate arrangements.

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Council has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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

### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, Rother District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

## ***Certificate***

We certify that we have completed the audit of the accounts of Rother District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

**Robert Grant**

for and on behalf of PKF (UK) LLP

London, UK

30 September 2011