

# **Appendix A**

## **SOUTH HOLLAND DISTRICT COUNCIL**

### **PRE-AUDIT FINANCIAL STATEMENTS**

**For the Year Ended 31 March 2014**

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## FINANCIAL STATEMENTS

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# EXPLANATORY FOREWORD BY THE ASSISTANT DIRECTOR FINANCE

This Accounts document provides information on how the Council has used its available financial resources. This is required by law and sets out in concise form various statutory and other relevant information. The notes that follow provide a more straightforward explanation of the, often complicated, local government finance arrangements.

## 1. DISTRICT PROFILE

### *Introduction*

South Holland District covers a geographical area of 74,238 hectares and is situated in the south eastern corner of Lincolnshire. The District is located in the flat fenlands that have been reclaimed from the sea over the centuries. The District is made up of small rural communities and five towns: Crowland, Holbeach, Long Sutton, Spalding and Sutton Bridge. This area has a low population density of 1.2 persons per hectare (120 per km<sup>2</sup>) compared to an average of 2.9 in the East Midlands and an average of 3.7 for England and Wales.

### *Population*

The latest population estimate for South Holland is 88,500.

Spalding is the largest town in the District with a population of 28,722.

In the 2001 Census the total population of the District was 76,522. The population grew by 15.4% between 2001 and 2011. This rate of growth was one of the highest for a local authority area, although similar to the rise of 13.4% between 1991 and 2001.

It is predicted the population will increase to 102,063 by 2021, which is a higher rate of growth than predicted for England and Wales.

The number of households in the District was 37,300 based on information obtained from the 2011 Census.

### *Employment*

The South Holland economy is largely based upon agriculture, horticulture and food processing and their associated distribution and packaging services.

The district has low levels of unemployment, this being 2.1% at April 2014 compared to 2.7% at April 2013.

## 2. GOVERNANCE AND AUDIT

The Governance and Audit Committee was established by full Council at its Annual Meeting in May 2007. The purpose of the Committee is to monitor and, if necessary, make recommendations to review the corporate governance and audit arrangements for South Holland District Council. The key areas of responsibility for the Committee are to review:

- financial statements
- internal controls
- the internal audit programme
- Treasury Management practices and scrutinise strategy and performance.

### **3. COUNCIL PRIORITIES**

#### ***Corporate Plan***

This plan covers a 4 year period, currently up to 2015 and sets out the Council's Priorities which are to:

- be a forward looking Council
- enable our communities
- encourage pride In South Holland
- support our local economy
- develop stronger communities

The priorities define the medium term goals of the authority and as such remain relatively constant from year to year. Actions associated with them are set annually as a focus for each financial year.

### **4. REVIEW OF 2013/14**

#### ***Introduction***

The Council incurs both revenue and capital expenditure during the year. Revenue expenditure relates to items that are consumed within one year and is financed from government grants, Council tax, Retained business rates, Council house rents and fees and charges. Capital expenditure however, relates to assets that have a life beyond one year and is financed from supported borrowing, proceeds from the sale of assets (capital receipts), capital grants and contributions, major repairs reserve and direct revenue financing.

During the year Council spending is subject to regular monitoring. Quarterly reports being presented to the Management Team and Cabinet.

#### ***Accounting Policy Information***

The Accounts of the Council comply with the relevant accounting practices laid down by the Accounting Standards authorities and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. Further information is provided within the Accounting Policies (Note 1) section of the Financial Statements.

#### ***Revaluation of the Council's fixed assets***

Assets that bring longer-term benefits to the Council are generally valued in the Balance Sheet at fair value in their existing use, with the exception of infrastructure and community assets that are held at depreciated historical cost, investment properties (assets held primarily to generate rental income and/or for capital appreciation) which are held at market value and heritage assets which are held at valuation or depreciated historic cost.

A full revaluation of General Fund assets were undertaken as at 31 March 2014. These valuations are in accordance with the Royal Institution of Chartered Surveyors Valuation Standards 6<sup>th</sup> Edition which was revised to reflect the requirements of the introduction of International Financial Reporting Standards.

A "desktop" revaluation of Housing Revenue Account assets was also undertaken by an external valuer as at 31 March 2014. The revaluation was based on guidance issued for valuing housing stock. The guidance advised the continued use of an adjustment factor of 34% be applied to Council dwellings to reflect Existing Use Value for Social Housing.

The carrying value i.e. the values recorded in the balance sheet for the Council's Property, Plant and Equipment was £135.986m at 31 March 2014. Further analysis can be found at Note 12.

Asset revaluations impact significantly on the Council's Balance Sheet and Revenue Accounts, but not on Council Tax levels or Housing Rent levels.

### ***The General Fund***

This is the main revenue fund of the Council and includes the net cost of all services financed by local taxpayers and Government Grants. Some of the key services falling within the General Fund are refuse collection, recycling, street cleansing, planning and building control, licensing, economic development and collection and administration of local taxation.

In setting its budget for 2013/14, the Council reduced its Band D Council Tax charge from £156.60 to £156.15, in line with its current policy of a 0.25% reduction year on year.

The budget for the year was set at £12.790m representing the net cost of providing the Council's services, i.e. gross expenditure on day to day activities less fees and charges and service specific grants and contributions. This requirement was financed as follows:

	<b>Original Budget £000</b>
Retained Business Rates	2,923
Council Tax Income, including Town and Parish Council and Spalding Special expenses element	4,639
Revenue Support Grant	4,393
Other non-service specific grant funding	835
<b>Financing of 2013/14 General Fund Budget</b>	<b>12,790</b>

The following table compares actual outturn to the original budget for 2013/14 and provides some commentary to explain the major variances.

	Original Budget	Outturn	Variance
	£'000	£'000	£'000
<b>Expenditure</b>			
Employees	6,290	6,157	133
Other Running Costs (Premises, Transport and Supplies and Services)	5,382	5,417	(35)
Third Party Contracts	2,837	2,856	(19)
Transfer Payments – including Housing Benefits	18,932	19,784	(852)
Parish Precepts and Internal Drainage Board Levies	2,747	2,732	15
Capital Charges	697	877	(180)
<b>Income</b>			
Government and Other Grants and Contributions	(19,382)	(20,731)	1,349
Rents, Fees and Charges	(3,956)	(4,895)	939
Recharges	(647)	(777)	130
Investment Income	(50)	(100)	50
<b>Net Service Expenditure</b>	<b>12,850</b>	<b>11,320</b>	<b>1,530</b>
Movement to/(from) Earmarked Reserves	339	2,874	(2,535)
Statutory Adjustments	(399)	(665)	266
<b>Additional Financing Received</b>			
Business Rate Income retained in year and non-service specific grants	-	(739)	739
<b>General Fund Budget</b>	<b>12,790</b>	<b>12,790</b>	<b>-</b>

At service level the actual net expenditure was £1.530m below the original budget set by the Council in February 2013. Cuts in government funding have resulted in the Council identifying efficiency savings, new ways of working, additional income streams which, not only impact on the 2013/14 outturn, but future years.

#### **Explaining the major differences:**

The main differences between the budget and outturn were:

- *Transfer payments – rent allowance payments to private tenants exceeded budget by £845,000. This is offset by additional housing benefits subsidy, receivable from the Department of Works and Pensions, which is accounted for under government and other grants and contributions.*
- *Government and other grants and contributions – includes housing benefit subsidy, grants towards the new Council tax support schemes, the Grants4Growth initiative to support the Council's Economic Development strategy.*
- *Rents Fees and charges- additional income has been generated during 2013/14 from services and includes £200,000 from planning application fees and £50,000 from live shows and events at South Holland Centre, indicating increasing confidence in the*

*economic climate. On the other hand, income from the recovery of housing benefit overpayments and court income increased significantly from original expectations.*

The impact of efficiency savings, increased levels of service income and service related grants and contributions, additional income from retained business rates has resulted in a significant increase in the level of earmarked reserves at 31 March 2014.

General Fund earmarked reserves are held to finance future capital and revenue expenditure. The net transfer to earmarked reserves for the year was £2.874m. The balance of earmarked reserves at 31 March 2014 was £7.883m including Spalding Special Expenses (£5.009m at 31 March 2013). A full analysis of earmarked reserves is contained in note 8 to the accounts.

The General Fund working balance at the end of the financial year is £2.034m, which will be carried over into 2014/15. The working balance is maintained to provide a financial cushion should something unexpected occur that leads to significant unplanned expenditure that would not be met from other sources or by specific government grants. The current minimum working balance for the General Fund is set at £1.3m.

### ***Housing Revenue Account***

The Council maintains a separate revenue account for recording all income and expenditure relating to the management and maintenance of its housing stock. This is known as the Housing Revenue Account (HRA) and the items to be charged and credited to it are prescribed by statute.

The 2013/14 original budget forecast a decrease in the HRA working balance for the year, of £0.737m. The outturn position shows an increase to HRA balances of £1.622m, after accounting adjustments of £1.238m, representing an in year surplus of £2.860m.

One of the most significant costs budgeted for within the HRA was the use of revenue resources to finance capital investment. Given the underspend on the Council's capital programme 2013/14 these resources were not required hence the increase in the working balance. However as the Council looks to review its capital spending plans for 2014/15, a significant amount of revenue financing will be required.

The Housing Revenue Account working balance at the end of the financial year was £6.835m (£5.213m in 2012/13). The current minimum working balance for the Housing Revenue Account is set at £1.5m. Earmarked HRA reserves of £200,000 have been set aside for risk management and insurance purposes.

### ***Housing Revenue Account (HRA) Reforms***

The HRA reforms introduced by central government have been running throughout to end the system of housing subsidies. The self-financing regime means that local authorities retaining housing stock take on a share of government housing debt in return for greater autonomy in managing their HRA. This meant that the Council borrowed £67.456m in March 2012 in return for retaining future housing rent income streams. The Council no longer claims housing subsidy.

From April 2012 the Council has had the opportunity to run its housing 'business' more effectively, with more certainty than in the past. This freedom has the potential to deliver a much improved service to tenants, better maintenance of existing stock and the potential for the Council to build new housing for those in need.

With these new freedoms, however, come new responsibilities to undertake long term business planning and to take on new areas of risk previously borne by Central Government. A Steering Group has overseen the detailed preparations for self-financing at South Holland District Council, including the development of a new business plan and 30 year financial modeling.

### **Capital Expenditure and Income**

Capital Expenditure can be defined as that which generates an asset that has a useful life of more than one year. Capital accounts show the income and expense transactions made when the Council:

- Buys or sell land or property
- Builds new property
- Carries out major repairs to its properties
- Improves its properties
- Provides grants for the above type of activity

The original budget plan for the year was to spend £8.968m on capital investment. The final approved budget was set at £10.266m.

Outturn for the year amounted to £6.732 which was £3.534m less than the final approved budget. The capital programme is reviewed by the Cabinet on a quarterly basis.

An analysis of Capital Expenditure incurred in the year (excluding finance leases) against the final approved budget is shown below:

Directorate	Final Budget £000	Outturn £000	Variance £000
Gypsy and Traveller Sites	660	25	635
Disabled Facilities Grants – Private	481	407	74
Decent Home Grants/Loans	135	101	34
Purchase of Refuse Freighters	390	385	5
PSICA Grants	91	74	17
Leisure Facilities – Swimming Pool and Hall	152	39	113
Efficiency Investment in Environmental Health Service	111	57	54
Waste Collection – ICT Enhancements	79	76	3
ICT Development and Infrastructure	108	37	71
Works to Priory Road Offices	57	28	29
Works to Public Buildings and Other Assets	193	107	86
HRA – New Build, Improvements and Enhancements of Council Dwellings	7,290	5,232	2,058
Other HRA Schemes including Sewerage Treatment Works	519	164	355
<b>Total</b>	<b>10,266</b>	<b>6,732</b>	<b>3,534</b>

This expenditure was financed from the following sources:

	Final Budget £000	Outturn £000
Use of Capital Receipts	314	272
Capital Grants and Contributions	1,663	839
Direct Revenue Financing/Use of Reserves	8,289	5,621
<b>Total</b>	<b>10,266</b>	<b>6,732</b>

Of the £3.534m underspend; £3,432m will be carried forward into 2014/15. The majority of this relates to the Improvements and enhancements of Council dwellings.

### ***Significance of Pension liabilities and assets***

The application of International Accounting Standard (IAS) 19 has resulted in a net Pension Liability at the year end of £27.710m (£25.176m at 31 March 2013) as calculated by the actuary to the Lincolnshire County Council Pension Fund, Hymans Robertson. This represents an assessment of the Council's proportion of net assets and liabilities within the fund. This amount is matched by a Pension Reserve in the Balance Sheet, and therefore has no impact on the Council's overall financial position at 31 March 2014.

The estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.

In 2013-14 adoption of amendments to IAS 19, and hence a change in accounting policy, has resulted in re-classifications of costs/information, which are essentially a re-organisation of existing information. The Council has not restated 2012/13 on the grounds of materiality i.e. the amounts that require restating are not significant in value.

Full details on pensions are set out in the Pensions Accounting Policy on pages 25 - 26 and in note 39 to the Core Financial Statements.

### ***Treasury Management Performance***

#### ***Investments***

The Council's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement, confirms the Council's investment priorities as security of capital followed by liquidity.

The Council aims to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term, and only invest with high credit rated financial institutions, in accordance with the Council's approved Treasury Management Strategy. The shorter term investments earn lower interest rates, generally around 0.40% (bank rate currently 0.5%). Higher rates are available for longer term investments, but ability to access these is limited by the maturity limit set by the investment strategy and the level of core funds available for investment.

The value of short-term investments held at 31 March 2014 was £10.1m, with a further £7.6m held in business reserve accounts (£7.1m and £4.9m respectively at 31 March 2013).

Interest received during the year from investments was £144,000 which exceeded the Council's original budget of £62,500. This was due to higher than anticipated levels of funds for investment and higher one year interest rates. The interest received in the year is split between the General Fund and the Housing Revenue Account, in proportion to their reserve holdings.

### ***Borrowing***

The Council borrowed £67.456m from the Public Works Loan Board on 28 March 2012 to meet its liability arising from the Housing Revenue Finance Reforms. This was borrowed for a period of 50 years at a rate of 3.48%.

### ***Group Accounting - Compass Point Business Services***

These Accounts incorporate the consolidation of Compass Point Business Services (East Coast) Ltd (CPBS (EC) Ltd), a joint venture between the Council and East Lindsey District Council that began trading on 1 August 2010, to provide IT, Human Resources, Finance, Revenues and Benefits, and Customer Services. South Holland owns 37%, of the company, and East Lindsey 63%, but voting rights are split 50:50. Each Council has three directors on the company board.

In setting up the joint service company with East Lindsey, the Council relied upon the Teckal procurement exemption that allows the new working arrangements to be put in place without going through a formal exercise. The key elements of a Teckal exemption are that the principal part of the company's activities are with the authority, that the authority exercises the same kind of control over the service provider as it does over its own departments, and that there is no private sector ownership of the service provider nor any intention that there should be any. CPBS is delivering annual ongoing savings of £2.1m.

### ***Accounting Changes***

The way in which National Non-Domestic Rates (NNDR) income is collected and distributed changed from 1 April 2013. Prior to this date, NNDR income was collected by the Council and paid over to the Government, who then redistribute sums back to local authorities in the form of NNDR grant. From 1 April 2013 a new Business Rates Retention scheme came into force whereby local authorities retain a share (South Holland 40% and Lincolnshire County Council 10%) of the NNDR income collected and pay the remaining 50% to central Government. In addition to this, the Government has set a level of business rates funding baseline deemed to be applicable to each local authority and each authority pays a tariff (if NNDR collected is above this level) or receives a top-up (if NNDR collected is below this level). South Holland paid a tariff of £6.444m in 2013/14 into the Lincolnshire Pool of which it is a member along with North Kesteven District Council and the County Council.

With the introduction of this retained business rates scheme local authorities are required to pay a levy to the Lincolnshire Pool if they increase their NNDR income for the year. The levy payable to the pool in 2013/14 is £69,000.

The differences resulting from the retained business rates scheme from 2012/13 to 2013/14 show in various places within the accounts, the main differences are included in the Collection Fund, taxation and non-specific grant income and expenditure and unusable reserves – collection fund adjustment account.

### ***Audit***

The pre-audit accounts was authorised by the Assistant Director Finance on 26 June 2014. The accounts are then subject to audit by KPMG. The published version of the accounts follows the completion of the audit and formal approval by the Governance and Audit Committee which will take place in September 2014.

## 5. 2014/15 AND BEYOND

The current economic climate and reduction in Central Government funding will continue to add pressure to the Council's budgets. The Council has implemented a series of budget challenges and reviews and was able to set a balanced budget for 2014/15 without impacting on the delivery of front line services.

In the medium term (2015/16 and beyond) it is clear that an efficiency programme will be required to sustain the Council's budgets.

The Council will consider the following initiatives

- Additional efficiencies from shared working with Breckland Council
- Reviewing staff vacancies when they arise
- Review and/or re-tender of contracts to ensure they continue to offer value for money and support the Council's priorities.
- Restructuring of departments to allow flexibility and new ways of working with lower resource levels but maintaining quality levels of service
- Review and investigate income generating opportunities

## 6. THE ACCOUNTS

The financial statements consist of:

### ***Statement of Responsibilities (page 14)***

The responsibilities for the Accounts detail the respective responsibilities of the Assistant Director Finance, as Chief Financial Officer, and the Council.

### ***Movement in Reserves Statement (pages 15-16)***

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

### ***Comprehensive Income and Expenditure Statement (page 17)***

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

### ***Balance Sheet (page 18)***

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those

that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

### ***Cash Flow Statement (page 19)***

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

### ***Notes to the Accounts (pages 20-82)***

These are notes relating to the preceding financial statements which explain and provide additional information to the figures included within the statements. They have been prepared in accordance with the disclosure requirements of the Code of Practice. Note 1 sets out the Accounting Policies, which provide details of the framework within which the Council's accounts are prepared and published.

## **7. SUPPLEMENTARY FINANCIAL STATEMENTS:**

### ***Housing Revenue Account Income and Expenditure Statement (page 83)***

The Housing Revenue Account (HRA) reflects a statutory obligation to maintain a revenue account for local authority housing provision in accordance with Part 6 of the Local Government and Housing Act 1989. The HRA Income and Expenditure Statement shows, in more detail, the income and expenditure on HRA services which is included in the whole authority Comprehensive Income and Expenditure Statement.

### ***Movement on the Housing Revenue Account Statement (page 84)***

This statement shows how the HRA Income and Expenditure Account surplus or (deficit) reconciles to the movement on the Housing Revenue Account balance for the year.

### ***Notes to the Housing Revenue Statement (pages 85 - 90)***

These are notes relating to the preceding financial statements which explain and provide additional information to the figures included within the statements.

### ***Collection Fund Statement and Notes (pages 90 - 93)***

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and the distribution to local authorities and the Government of Council tax and non-domestic rates.

### ***Group Accounts and Notes (pages 94 - 101)***

These accounts consolidate the Council's accounts with that of its wholly owned subsidiary, South Holland Homes and its joint venture arrangement with East Lindsey District Council, Compass Point Business Services (East Coast) Ltd. The group accounts reflect the financial position of the group as a whole.

## **8. FURTHER INFORMATION**

Further information about the accounts is available from the Assistant Director Finance, Council Offices, Priory Road, Spalding, PE11 2XE.

Members of the public have a statutory right to inspect the accounts before the annual audit is completed. The availability of the accounts for inspection is advertised in the local press and on our web-site at [www.sholland.gov.uk](http://www.sholland.gov.uk).

## **STATEMENT OF RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS**

### **The Council's Responsibilities:**

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. In this Council, that officer is the Assistant Director Finance as Chief Financial Officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Financial Statements.

### **The Chief Financial Officer's Responsibilities**

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

In preparing the Financial Statements, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently
- made judgments and estimates that were reasonable and prudent
- complied with the local authority Code

The Chief Financial Officer has also:

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

### **Certification by the Chief Financial Officer**

I hereby certify that the Financial Statements gives a 'true and fair' view of the financial position of the Council at the reporting date and of its expenditure and income for the year ended 31 March 2014

Mark Finch  
Assistant Director Finance

Dated: 26 June 2014

### **Approval of the Financial Statements**

I confirm that the Financial Statements were approved by the Governance and Audit Committee at its meeting held on the 25 September 2014.

Signed on behalf of South Holland District Council:

Cllr George Aley  
Chair of meeting approving the accounts

Dated:

## MOVEMENT IN RESERVES STATEMENT

2012/13	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2012</b>	<b>1,943</b>	<b>3,428</b>	<b>1,955</b>	<b>200</b>	<b>1,457</b>	<b>2,114</b>	<b>11,097</b>	<b>48,046</b>	<b>59,143</b>
<b>Movement in Reserves during 2012/13</b>									
Surplus or (deficit) on provision of services	(2,060)	-	3,123	-	-	-	1,063	-	1,063
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	(3,577)	(3,577)
<b>Total Comprehensive Income and Expenditure</b>	<b>(2,060)</b>	<b>-</b>	<b>3,123</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,063</b>	<b>(3,577)</b>	<b>(2,514)</b>
Adjustments between accounting basis & funding basis under regulations (Note 7)	3,732	-	135	-	(38)	(471)	3,358	(3,358)	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>1,672</b>	<b>-</b>	<b>3,258</b>	<b>-</b>	<b>(38)</b>	<b>(471)</b>	<b>4,421</b>	<b>(6,935)</b>	<b>(2,514)</b>
Transfers (to)/from Earmarked Reserves (Note 8)	(1,581)	1,581	-	-	-	-	-	-	-
<b>Increase/(Decrease) in 2012/13</b>	<b>91</b>	<b>1,581</b>	<b>3,258</b>	<b>-</b>	<b>(38)</b>	<b>(471)</b>	<b>4,421</b>	<b>(6,935)</b>	<b>(2,514)</b>
<b>Balance at 31 March 2013 carried forward</b>	<b>2,034</b>	<b>5,009</b>	<b>5,213</b>	<b>200</b>	<b>1,419</b>	<b>1,643</b>	<b>15,518</b>	<b>41,111</b>	<b>56,629</b>

2013/14	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2013</b>	<b>2,034</b>	<b>5,009</b>	<b>5,213</b>	<b>200</b>	<b>1,419</b>	<b>1,643</b>	<b>15,518</b>	<b>41,111</b>	<b>56,629</b>
<b>Movement in Reserves during 2013/14</b>									
Surplus or (deficit) on provision of services	(473)	-	2,860	-	-	-	2,387	-	2,387
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	184	184
<b>Total Comprehensive Income and Expenditure</b>	<b>(473)</b>	<b>-</b>	<b>2,860</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,387</b>	<b>184</b>	<b>2,571</b>
Adjustments between accounting basis & funding basis under regulations (Note 7)	3,347	-	(1,238)	-	(9)	(31)	2,069	(2,069)	-
<b>Net Increase/Decrease before Transfers to Earmarked Reserves</b>	<b>2,874</b>	<b>-</b>	<b>1,622</b>	<b>-</b>	<b>(9)</b>	<b>(31)</b>	<b>4,456</b>	<b>(1,885)</b>	<b>2,571</b>
Transfers (to)/from Earmarked Reserves (Note 8)	(2,874)	2,874	-	-	-	-	-	-	-
<b>Increase/(Decrease) in 2013/14</b>	<b>-</b>	<b>2,874</b>	<b>1,622</b>	<b>-</b>	<b>(9)</b>	<b>(31)</b>	<b>4,456</b>	<b>(1,885)</b>	<b>2,571</b>
<b>Balance at 31 March 2014 carried forward</b>	<b>2,034</b>	<b>7,883</b>	<b>6,835</b>	<b>200</b>	<b>1,410</b>	<b>1,612</b>	<b>19,974</b>	<b>39,226</b>	<b>59,200</b>

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2012/13				2013/14		
Gross Expenditure £000	Gross Income £000	Net Expenditure of continuing operations £000		Gross Expenditure £000	Gross Income £000	Net Expenditure of continuing operations £000
7,049	(6,725)	324	Central services to the public	1,315	(1,138)	177
2,825	(880)	1,945	Cultural and related services	4,038	(937)	3,101
4,142	(1,392)	2,750	Environmental and regulatory services	4,473	(1,440)	3,033
3,136	(1,406)	1,730	Planning services	2,645	(1,569)	1,076
269	(282)	(13)	Highways and transport services	231	(278)	(47)
9,330	(15,315)	(5,985)	Local authority housing (HRA)	10,450	(16,166)	(5,716)
20,437	(19,705)	732	Other housing services	20,827	(19,827)	1,000
2,442	(574)	1,868	Corporate and democratic core	2,694	(500)	2,194
24	-	24	Non distributed costs	12	-	12
<b>49,654</b>	<b>(46,279)</b>	<b>3,375</b>	<b>Cost of Services</b>	<b>46,685</b>	<b>(41,855)</b>	<b>4,830</b>
6,372	(782)	5,590	Other operating expenditure (Note 9)	3,465	(615)	2,850
5,230	(2,403)	2,827	Financing and investment income and expenditure (Note 10)	5,706	(2,110)	3,596
-	(12,855)	(12,855)	Taxation and non-specific grant income and expenditure (Note 11)	6,513	(20,176)	(13,663)
<b>61,256</b>	<b>(62,319)</b>	<b>(1,063)</b>	<b>(Surplus)/Deficit on the Provision of Services</b>	<b>62,369</b>	<b>(64,756)</b>	<b>(2,387)</b>
		(174)	(Surplus)/deficit on revaluation of Property, Plant and Equipment assets			(1,659)
		3,751	Remeasurements of the net defined benefit liability			1,475
		<b>3,577</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(184)</b>
		<b>2,514</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(2,571)</b>

## BALANCE SHEET

31 March 2013 £000		Notes	31 March 2014 £000
135,586	Property, Plant & Equipment	12	135,986
61	Heritage Assets	13	98
1,115	Investment Property	14	857
195	Intangible Assets	15	187
156	Long Term Debtors		151
<b>137,113</b>	<b>Non-Current Assets</b>		<b>137,279</b>
7,078	Short Term Investments		10,146
210	Assets Held for Sale	20	530
32	Inventories	17	21
2,558	Short Term Debtors	18	2,996
5,551	Cash and Cash Equivalents	19	8,105
<b>15,429</b>	<b>Current Assets</b>		<b>21,798</b>
(32)	Short Term Borrowing		(29)
(2,554)	Short Term Creditors	21	(3,017)
<b>(2,586)</b>	<b>Current Liabilities</b>		<b>(3,046)</b>
(34)	Long Term Creditors		(13)
-	Provisions	22	(1,019)
(67,459)	Long Term Borrowing		(67,456)
(25,176)	Other Long Term Liabilities	39	(27,710)
(658)	Grants Receipts in Advance – Capital		(633)
<b>(93,327)</b>	<b>Long Term Liabilities</b>		<b>(96,831)</b>
<b>56,629</b>	<b>Net Assets</b>		<b>59,200</b>
	<b>Usable Reserves</b>	23	
2,034	General Fund		2,034
5,213	Housing Revenue Account		6,835
5,009	Earmarked Reserves – General Fund		7,883
200	– Housing Revenue Account		200
1,419	Capital Receipts Reserve		1,410
1,643	Capital Grants Unapplied		1,612
<b>15,518</b>	<b>Unusable Reserves</b>	24	<b>19,974</b>
9,494	Revaluation Reserve		10,896
56,767	Capital Adjustment Account		56,368
(25,176)	Pension Reserve		(27,710)
63	Deferred Capital Receipts		61
2	Collection Fund Adjustment Account		(358)
(39)	Accumulated Absences Adjustment Account		(31)
<b>41,111</b>			<b>39,226</b>
<b>56,629</b>	<b>Total Reserves</b>		<b>59,200</b>

## CASH FLOW STATEMENT

2012/13 £000	2012/13 £000		2013/14 £000	2013/14 £000
	1,063	Net (deficit)/surplus on the provision of services		2,387
7,149		Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 25)	8,561	
(1,329)	5,820	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 25)	(1,432)	7,129
	6,883	Net cash flows from Operating Activities		9,516
	(5,858)	Investing Activities (note 26)		(7,517)
	2,078	Financing Activities (note 27)		555
	3,103	Net increase/(decrease) in cash and cash equivalents		2,554
	2,448	Cash and cash equivalents at the beginning of the reporting period		5,551
	<b>5,551</b>	<b>Cash and cash equivalents at the end of the reporting period (note 19)</b>		<b>8,105</b>

## NOTES TO THE ACCOUNTS

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## **NOTE 1 – ACCOUNTING POLICIES**

### **1. General Principles**

The Financial Statements summarise the Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, 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 2013/14 and the Service Reporting Code of Practice 2013/14, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Financial Statements is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

This section discloses the specific accounting policies adopted by the Council for the completion of the financial statements.

### **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 Council 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 Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; 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, where considered material, 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.

### **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 held for the purpose of meeting short term commitments (no more than three months) rather than for investment or other purposes. During the year, the Council held amounts in Instant Access accounts for credit risk and interest return purposes rather than placing them as fixed term investments, and the sum held in these accounts at the Balance Sheet date is classed as Cash and Cash Equivalents. Other call accounts and Money Market Funds have also been classified as Cash Equivalents, as these are readily convertible to known amounts of cash with insignificant risk of change in value, and are held for the purpose of meeting short-term cash commitments.

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 Council'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 Council's financial performance.

### **5. Prior Period Adjustments, Changes in Accounting Policies, 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 Council's financial position or financial performance. Where a change is made, it is applied retrospectively 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 Council is not required to raise Council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the 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 wholly 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 for current employees and are recognised as an expense for services in the year in which employees render service to the Council. 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 entitlements 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 Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance and Housing Revenue Account Balance to be charged with the amount payable by the Council 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***

Employees of the Council are members of the Local Government Pension Scheme, administered by Lincolnshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

## **The Local Government Pension Scheme**

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

The liabilities of the Lincolnshire County Council pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices; using a discount rate of 4.1% (4.5% in 2012/13), based on the indicative rate of return on high quality corporate Bond.

The assets of the Lincolnshire County Council pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value.

The change in the net pension liability is analysed into the following components:

### **Service Cost comprising**

- **current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- **past service cost** – the increase in liabilities as a result of a scheme amendment or curtailment 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
- **net interest on the net defined benefit liability**, i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

### **Remeasurements comprising**

- **the return on plan assets** – excluding amounts included in the net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **actuarial gains and losses** – changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

**Contributions paid to the Lincolnshire County Council 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 and Housing Revenue Account Balance to be charged with the amount payable by the Council 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 transfers 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 and Housing Revenue Account 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 Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

## **8. Events after the Reporting Period**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are 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 Financial Statements are adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Financial Statements are 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 Financial Statements.

## **9. Financial Instruments**

### **Financial Liabilities**

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

For the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable plus accrued interest; and interest charged to the

Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

## **Financial Assets**

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.

## **Loans and Receivables**

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

The Council's investments have been treated as loans and receivables and are carried at their amortised cost.

The Council has made a number of loans mainly in the form of car loans to staff. These are recognised in the Balance Sheet at the amount of principal outstanding and have not been adjusted for fair value due to their scale.

## **Available-for-sale Assets**

During 2013/14 the Council did not hold any Available-for-sale financial instrument assets.

## **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 Council when there is reasonable assurance that:

- the Council 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 in the form of 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 or 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 and Expenditure (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 and Housing Revenue Account 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. Heritage Assets**

The extent of the Council's holdings of heritage assets is limited. Heritage assets are held to help increase the knowledge, understanding and appreciation of the Council's history and local area. Heritage Assets are recognised and measured, including the treatment of revaluation gains and losses, in accordance with the Council's accounting policies on property, plant and equipment. However, some of the measurement rules are relaxed in relation to heritage assets where appropriate. The Council's heritage assets are accounted for as follows:-

- Chain Bridge Forge (formerly Blacksmith's shop) – current use
- Nature reserve – historic cost
- Civic regalia and Tulip paintings – insured value
- Community Beacon, Gas Wharf, Pill box, HMS Hornet bell and model of HMS Taku submarine – not included on the balance sheet as their value is deemed immaterial

The carrying amounts of heritage assets are reviewed when there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment – see item 18 in this summary of significant accounting policies.

Depreciation is not charged as the assets are deemed to be held in perpetuity. Should any heritage assets be disposed of, the proceeds are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment.

## **12. Intangible Assets**

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

Intangible assets are measured initially at cost and are carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation and impairment losses are not permitted to have an impact on the General Fund balance or Housing Revenue Account balance. The gains and losses are therefore reversed out of the General Fund balance and Housing Revenue Account balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

### **13. Interest in Companies and Other Entities**

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to produce Group Accounts. The Group Accounts included with the financial statements incorporate South Holland Homes and Compass Point Business Services (East Coast) Ltd.

### **14. Inventories**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

### **15. 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 arms-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.

### **16. 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.

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.

#### **The Council 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 Council 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 Council at the end of the lease period).

The Council is not required to raise Council tax or housing rents to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance and Housing Revenue Account 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.

### **The Council as Lessor**

#### ***Finance Leases***

The Council does not lease out any property under the terms of a finance lease.

#### **Operating Leases**

Where the Council 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. 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.

### **17. Overheads and Support Services**

The cost of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of CIPFA *Service Reporting Code of Practice 2013/14 (SeRCOP)*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

These two cost categories are defined in SeRCOP 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 Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an assets potential to deliver future economic benefits or service potential (e.g. 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 Council does not capitalise borrowing costs incurred whilst assets are under construction.

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 Council.

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

- infrastructure assets and community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- 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 (DRC) 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 in the Comprehensive Income and Expenditure Statement.

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

### ***Impairment***

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 in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line 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 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 life of the property as estimated by the valuer
- Vehicles, plant and equipment – straight line allocation over the life of the asset, as advised by a suitably qualified officer
- Infrastructure – straight line allocation.

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. Materiality levels have been assessed and a materiality level of £0.5m for major components has been applied.

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.

### **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 previous 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 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.

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 Council's underlying need to

borrow. Receipts are appropriated to the Reserve from the General Fund balance or Housing Revenue Account balance in the Movement in Reserves Statement.

The written off value of disposals is not a charge against Council tax or housing rents, 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 and Housing Revenue Account balance in the Movement in Reserves Statement.

## **19. Provisions**

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required or a lower settlement than anticipated is made, the provision is reversed 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, this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

## **20. Contingent Liabilities**

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

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

## **21. Contingent Assets**

A contingent asset arises where an event has taken place that gives the Council 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 Council.

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

## **22. Reserves**

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingences. Reserves are created by appropriating amounts out of the General Fund Balance and Housing Revenue Account 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 or Housing Revenue Account Balance in the Movement in Reserves Statement so that there is no net charge against Council tax or housing rents for the expenditure.

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

## **23. 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 Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance or Housing Revenue Account Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of Council tax or housing rents.

## **24. 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.

## **NOTE 2 – ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED**

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) has introduced several changes in accounting policies which will be required from 1 April 2014.

Accounting Standards addressing accounting for consolidation, involvements in joint arrangements and disclosure of involvement in other entities:

- IFRS 10 Consolidated financial statements: This standard introduces a new definition of control, which is used to determine which entities are consolidated for the purpose of group accounts.
- IFRS 11 Joint Arrangements: This standard addresses the accounting requirements for a 'joint arrangement' which is defined as a contractual arrangement over which two or more parties have joint control. These are classified as either a joint venture or a joint operation.
- IFRS 12 Disclosure of Interests in Other Entities: This is a consolidated disclosure standard requiring a range of disclosures about an entity's interest in subsidiaries, joint arrangements, associates and unconsolidated 'structured entities'.
- IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures: These have been amended to conform to the changes in IFRS 10, 11 and 12.

The Consolidation of Compass Point Business Services (East Coast) Ltd will fall under the provisions of IFRS 11 – Joint arrangements as the Company is classed as a Joint Venture.

### **Other Standards**

- IAS 32 Financial Instruments Presentation: The Code references application guidance when offsetting a financial asset and a financial liability. All gains and losses are separately identified in the Comprehensive Income and Expenditure Statement.
- IAS 1 Presentation of the Financial Statements: The change clarifies the disclosure requirements in respect of comparative information of the preceding accounting period. The Financial Statements fully disclose comparative information for the preceding period and therefore these changes will not have a material impact on the Statements.

## **NOTE 3 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Financial Statements are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

## **NOTE 4 – ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

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

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

### **Pensions Liability**

The estimation of the net liability (£27.710m at 31 March 2014) to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

During 2013/14, the Council's actuaries advised that the net pension liability had increased by £2.534m. This is made up of:

- £1.475m actuarial loss
- £1.059m loss arising from employer contributions of £1.257m being less than the pension obligations of £2.316m.

### **Debt Impairment**

At 31 March 2014, the Council had a balance of sundry debtor and housing benefit overpayments of £1.377m. A review of significant balances suggested that an impairment of doubtful debts of 36.2% (£0.499m) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.

If collection rates were to deteriorate, increasing the impairment for doubtful debts to 60% of the total debt would require an additional £0.327m to be set aside as an allowance.

## **NOTE 5 – MATERIAL ITEMS OF INCOME AND EXPENSE**

There are no material items of income and expenditure that are not disclosed elsewhere within the financial statements.

## **NOTE 6 – EVENTS AFTER THE BALANCE SHEET DATE**

The pre-audit financial statements were authorised for issue by the Assistant Director Finance on 26 June 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## **NOTE 7 – ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS**

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

The following sets out a description of the reserves that the adjustments are made against.

### **General Fund Balance**

The General Fund is the statutory fund into which all the receipts of a Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment at the end of the financial year. However, for Housing authorities, the balance is not available to be applied to funding HRA services.

### **Housing Revenue Account Balance**

The Housing Revenue Account Balance reflects the statutory obligation to maintain a revenue account for local authority Council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function.

### **Major Repairs Reserve**

The Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at year-end.

### **Capital Receipts Reserve**

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

### **Capital Grants Unapplied**

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

2013/14

	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
<i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</i>						
Charges for depreciation and impairment of non-current assets	841	1,601	-	-	-	(2,442)
Revaluation losses on Property Plant and Equipment	1,688	2,214	-	-	-	(3,902)
Movements in the fair value of Investment Properties	234	24	-	-	-	(258)
Amortisation of intangible assets	36	7	-	-	-	(43)
Capital grants and contributions applied	(745)	-	-	-	-	745
Revenue expenditure funded from capital under statute	616	-	-	-	-	(616)
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	6	389	-	-	-	(395)
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</i>						
Statutory provision for the financing of capital investment	(204)	(63)	-	-	-	267
Capital expenditure charged against the General Fund and HRA balances	(496)	(3,518)	-	-	-	4,014
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(63)	-	-	-	63	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	(94)	94
<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	-	(615)	615	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	(272)	-	-	272
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-	16	(16)	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	338	-	(338)	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	2	-	-	(2)

2013/14

	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the Major Repairs Reserve:</b>						
Reversal of Notional Major Repairs Allowance credited to the HRA	-	(1,608)	-	1,608	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	(1,608)	-	1,608
<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 39)	1,655	661	-	-	-	(2,316)
Employer's pensions contributions and direct payments to pensioners payable in the year	(907)	(350)	-	-	-	1,257
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which Council tax and non-domestic rating income credited to the Comprehensive Income and Expenditure Statement is different from Council tax and non-domestic rating income calculated for the year in accordance with statutory requirements	360	-	-	-	-	(360)
<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	(12)	4				8
<b>Total Adjustments</b>	<b>3,347</b>	<b>(1,238)</b>	<b>(9)</b>	<b>-</b>	<b>(31)</b>	<b>(2,069)</b>

2012/13

	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the Capital Adjustment Account:</b>						
<b><i>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</i></b>						
Charges for depreciation and impairment of non-current assets	981	1,641	-	-	-	(2,622)
Revaluation losses on Property Plant and Equipment	19	1,309	-	-	-	(1,328)
Movements in the fair value of Investment Properties	(56)	(6)	-	-	-	62
Amortisation of intangible assets	28	4	-	-	-	(32)
Capital grants and contributions applied	(511)	-	-	-	-	511
Revenue expenditure funded from capital under statute	789	-	-	-	-	(789)
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	2,936	454	-	-	-	(3,390)
<b><i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</i></b>						
Statutory provision for the financing of capital investment	(179)	(79)	-	-	-	258
Capital expenditure charged against the General Fund and HRA balances	(280)	(1,224)	-	-	-	1,504
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	(43)	-	-	-	43	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-	-	-	-	(514)	514
<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	(335)	(447)	782	-	-	-
Use of the Capital Receipts Reserve to finance new capital expenditure	-	-	(637)	-	-	637
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	-	7	(7)	-	-	-
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	178	-	(178)	-	-	-
Transfer from Deferred Capital Receipts Reserve upon receipt of cash	-	-	2	-	-	(2)

2012/13

	Usable Reserves					
	General Fund Balance	Housing Revenue Account	Capital Receipts reserve	Major Repairs Reserve	Capital Grants Unapplied	Movement in Unusable Reserves
	£000	£000	£000	£000	£000	£000
<b>Adjustments primarily involving the Major Repairs Reserve:</b>						
Reversal of Major Repairs Allowance credited to the HRA	-	(1,645)	-	1,645	-	-
Use of the Major Repairs Reserve to finance new capital expenditure	-	-	-	(1,645)	-	1,645
<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 39)	1,136	463	-	-	-	(1,599)
Employer's pensions contributions and direct payments to pensioners payable in the year	(883)	(343)	-	-	-	1,226
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>						
Amount by which Council tax income credited to the Comprehensive Income and Expenditure Statement is different from Council tax income calculated for the year in accordance with statutory requirements	(49)	-	-	-	-	49
<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	1	1	-	-	-	(2)
<b>Total Adjustments</b>	<b>3,732</b>	<b>135</b>	<b>(38)</b>	<b>-</b>	<b>(471)</b>	<b>(3,358)</b>

## NOTE 8 – TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2013/14.

	Balance at 1 April 2012 £000	Transfers Out 2012/13 £000	Transfers In 2012/13 £000	Balance at 31 March 2013 £000	Transfers Out 2013/14 £000	Transfers In 2013/14 £000	Balance at 31 March 2014 £000
<b>General Fund</b>							
Affordable Housing Reserve	118	-	-	118	-	-	118
Capital Reserve	161	-	400	561	-	200	761
Climate Change Reserve	67	(23)	-	44	-	3	47
Community Cohesion Reserve	94	(25)	-	69	(25)	-	44
Council Tax Reserve	1,272	(50)	856	2,078	(95)	1765	3,748
Emergency Planning Reserve	10	-	-	10	-	-	10
Insurance Reserve	257	-	-	257	-	-	257
Organisational Development Reserve	514	(18)	598	1,094	(173)	1207	2,128
Planning Reserve	396	(89)	7	314	(22)	18	310
Replacement and Refurbishment Reserve	456	(233)	136	359	(203)	136	292
Section 106 Reserve	20	(8)	-	12	-	29	41
Spalding Special Expenses	63	(12)	42	93	(16)	50	127
<b>Total General Fund</b>	<b>3,428</b>	<b>(458)</b>	<b>2,039</b>	<b>5,009</b>	<b>(534)</b>	<b>3408</b>	<b>7,883</b>
<b>Housing Revenue Account</b>							
Insurance Reserve	200	-	-	200	-	-	200
<b>Total Earmarked Reserves</b>	<b>3,628</b>	<b>(458)</b>	<b>2,039</b>	<b>5,209</b>	<b>(534)</b>	<b>3408</b>	<b>8,083</b>

## NOTE 9 – OTHER OPERATING EXPENDITURE

2012/13 £000		2013/14 £000
620	Parish Council precepts	562
2,144	Internal Drainage Board Levies	2,170
178	Payments to the Government Housing Capital Receipts Pool	338
2,648	(Gains)/Losses on the disposal of non-current assets	(220)
<b>5,590</b>	<b>Total</b>	<b>2,850</b>

## NOTE 10 – FINANCING AND INVESTMENT INCOME AND EXPENDITURE

2012/13 £000		2013/14 £000
2,413	Interest payable and similar charges	2,372
674	Net interest on the net defined benefit liability	1,130
(187)	Interest receivable and similar income	(144)
(73)	Income and Expenditure in relation to investment properties and changes in their fair value	238
<b>2,827</b>	<b>Total</b>	<b>3,596</b>

## NOTE 11 – TAXATION AND NON SPECIFIC GRANT INCOME AND EXPENDITURE

2012/13 £000		2013/14 £000
(5,289)	Council tax income	(4,699)
(6,530)	Non Domestic Rates Income and Expenditure	
	Share of National Pool	-
	Retained Business Rates after payment of Tariff and Levy	(2,844)
-	Revenue Support Grant	(4,393)
(864)	Non-ringfenced government grants	(1,232)
(132)	Capital Grants and contributions	(495)
(40)	Asset Exchange	-
<b>(12,855)</b>	<b>Total</b>	<b>(13,663)</b>

Revenue Support Grant for 2012/13 of £127,000 is included under Non-ringfenced government grants.

**NOTE 12 – PROPERTY, PLANT AND EQUIPMENT - Movements on Balances**

2013/14	Council Dwellings £000	Other Land and 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><u>Movements in 2013/14</u></b>								
<b>Cost or valuation</b>								
At 1 April 2013	111,497	20,873	3,304	1,919	725	134	55	138,507
Additions	4,354	124	469	173	1	25	925	6,071
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	6	1,031	-	-	-	(25)	-	1,012
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(3,378)	(1,977)	-	-	-	(26)	-	(5,381)
Derecognition – disposals	(275)	-	-	-	-	-	-	(275)
Derecognition – other	(427)	-	(785)	(3)	-	-	-	(788)
Assets reclassified (to)/from Held for Sale	(427)	-	-	-	-	-	-	(427)
Other movements in cost or valuation	961	(186)	-	(74)	40	45	(786)	-
<b>At 31 March 2014</b>	<b>112,738</b>	<b>19,865</b>	<b>2,988</b>	<b>2,015</b>	<b>766</b>	<b>153</b>	<b>194</b>	<b>138,719</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2013	-	-	(2,053)	(773)	(95)	-	-	(2,921)
Depreciation charge	(1,324)	(522)	(418)	(151)	(26)	(1)	-	(2,442)
Depreciation written out to the Revaluation Reserve	159	449	-	-	-	1	-	609
Depreciation written out to the Surplus/Deficit on the Provision of Services	1,164	71	-	-	-	-	-	1,235
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-	-	-
Derecognition – disposals	3	-	-	-	-	-	-	3
Derecognition – other	-	-	780	3	-	-	-	783
Other movements in depreciation and impairment	(2)	2	-	33	(33)	-	-	-
<b>At 31 March 2014</b>	<b>-</b>	<b>-</b>	<b>(1,691)</b>	<b>(888)</b>	<b>(154)</b>	<b>-</b>	<b>-</b>	<b>(2,733)</b>
<b>Net Book value</b>								
<b>At 31 March 2013</b>	<b>111,497</b>	<b>20,873</b>	<b>1,251</b>	<b>1,146</b>	<b>630</b>	<b>134</b>	<b>55</b>	<b>135,586</b>
<b>At 31 March 2014</b>	<b>112,738</b>	<b>19,865</b>	<b>1,297</b>	<b>1,127</b>	<b>612</b>	<b>153</b>	<b>194</b>	<b>135,986</b>

2012/13	Council Dwellings £000	Other Land and 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><u>Movements in 2012/13</u></b>								
<b>Cost or valuation</b>								
At 1 April 2012	111,669	23,784	3,716	1,975	685	69	22	141,920
Additions	3,300	414	127	45	40	-	46	3,972
Revaluation increases/ (decreases) recognised in the Revaluation Reserve	(337)	373	-	-	-	-	-	36
Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,577)	(709)	-	-	-	-	-	(3,288)
Derecognition – disposals	(178)	(2,917)	(559)	(101)	-	-	-	(3,755)
Assets reclassified (to)/from Held for Sale	(380)	-	-	-	-	-	-	(380)
Assets reclassified (to)/from Other fixed asset categories	-	(72)	20	-	-	65	(13)	-
Other movements in cost or valuation	-	-	-	-	-	-	-	-
<b>At 31 March 2013</b>	<b>111,497</b>	<b>20,873</b>	<b>3,304</b>	<b>1,919</b>	<b>725</b>	<b>134</b>	<b>55</b>	<b>138,507</b>
<b>Accumulated Depreciation and Impairment</b>								
At 1 April 2012	-	-	(2,157)	(618)	(70)	-	-	(2,845)
Depreciation charge	(1,327)	(568)	(454)	(155)	(25)	-	-	(2,529)
Depreciation written out to the Revaluation Reserve	12	124	-	-	-	1	-	137
Depreciation written out to the Surplus/Deficit on the Provision of Services	1,268	476	-	-	-	-	-	1,744
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	(92)	-	-	-	-	-	(92)
Derecognition – disposals	45	59	558	-	-	-	-	662
Other movements in depreciation and impairment	2	1	-	-	-	(1)	-	2
<b>At 31 March 2013</b>	<b>-</b>	<b>-</b>	<b>(2,053)</b>	<b>(773)</b>	<b>(95)</b>	<b>-</b>	<b>-</b>	<b>(2,921)</b>
<b>Net Book value</b>								
<b>At 31 March 2012</b>	<b>111,669</b>	<b>23,784</b>	<b>1,559</b>	<b>1,357</b>	<b>615</b>	<b>69</b>	<b>22</b>	<b>139,075</b>
<b>At 31 March 2013</b>	<b>111,497</b>	<b>20,873</b>	<b>1,251</b>	<b>1,146</b>	<b>630</b>	<b>134</b>	<b>55</b>	<b>135,586</b>

## Depreciation

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

- Council Dwellings – 30-65 years
- Other Land and Buildings – 2-88 years
- Vehicles, Plant, Furniture & Equipment – 4% - 25% of carrying value
- Infrastructure – 2-19 years

## Capital Commitments

At 31 March 2014, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2013/14 and future years budgeted at a cost of £7.4m. Similar commitments at 31 March 2013 were £1.304m, mainly relating to works to dwellings. The major commitments are:

<i>Re-Roofing</i>	<i>£650,000</i>
<i>Kitchen and Bathroom</i>	<i>£4,960,000</i>
<i>Central Heating</i>	<i>£1,800,000</i>

## Effects of Changes in Estimates

In 2013/14, no material changes were made to the Council's accounting estimates for Property, Plant and Equipment.

## Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is regularly revalued. A full revaluation of all Council housing stock and other land and buildings is undertaken every 5 years. In addition, a desktop review of all assets is carried out in each of the intervening years. All valuations are carried out externally. Valuations of land and buildings are carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

In addition due regard has been taken of amendments introduced in the CLG document "Stock Valuation for Resource Accounting – Guidance for Valuers 2010". The basis of valuation is Fair Value (EUV) for non-housing property and Existing Use Value for Social Housing (EUV – SH) for Council dwellings. Surplus property is valued at Market Value.

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	-	-	1,297	1,127	612	153	194	3,383
Valued at fair value as at:								
31 March 2014	112,738	19,865	-	-	-	-	-	132,603
31 March 2013	111,497	20,873	-	-	-	-	-	132,370
31 March 2012	111,669	23,784	-	-	-	-	-	135,453
31 March 2011	112,281	23,778	-	-	-	-	-	136,059
31 March 2010	112,932	20,945	-	-	-	-	-	133,877
<b>Total Cost or Valuation</b>	<b>112,738</b>	<b>19,865</b>	<b>1,297</b>	<b>1,127</b>	<b>612</b>	<b>153</b>	<b>194</b>	<b>135,986</b>

### NOTE 13 – HERITAGE ASSETS

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

2012/13 £000	Cost or valuation	2013/14 £000
60	1 April	61
1	Revaluations	37
<b>61</b>	<b>31 March</b>	<b>98</b>

The Council's heritage assets are valued in accordance with the CIPFA Code of Practice and are detailed in the accounting policy on page 48.

The Council has not recognised any museum artefacts as Heritage Assets

## NOTE 14 – INVESTMENT PROPERTY

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:

2012/13 £000		2013/14 £000
(63)	Rental Income from investment property	(65)
52	Direct operating expenses arising from investment property	45
(62)	Net (gains)/losses from fair value adjustments	258
<b>(73)</b>	<b>Net (gain)/loss</b>	<b>238</b>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year.

2012/13 £000		2013/14 £000
1,054	Balance at start of the year	1,115
62	Net gains/(losses) from fair value adjustments	(258)
(1)	Other Changes	-
<b>1,115</b>	<b>Balance at end of the year</b>	<b>857</b>

## NOTE 15 – INTANGIBLE ASSETS

The Council accounts for its software as intangible assets. Intangible assets include purchased licenses.

Most software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £43,438 charged to revenue in 2013/14 was charged to the IT Service cost centre and then absorbed as an overhead across 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:

2012/13 £000		2013/14 £000
704	<b>Balance at start of year:</b>	731
(550)	- Gross carrying amounts	(536)
<b>154</b>	- Accumulated amortisation	
	Net carrying amount at start of year	<b>195</b>
90	Additions:	35
(32)	- Purchases	(43)
(17)	Amortisation for the period	-
<b>195</b>	Other changes- write off obsolete assets	
	<b>Net carrying amount at end of year</b>	<b>187</b>
731	<b>Comprising:</b>	420
(536)	- Gross carrying amounts	(233)
<b>195</b>	- Accumulated amortisation	<b>187</b>

## NOTE 16 – FINANCIAL INSTRUMENTS

### *Categories of Financial Instruments*

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

	Long Term		Current	
	31 March 2014 £000	31 March 2013 £000	31 March 2014 £000	31 March 2013 £000
<b>Investments</b>				
Loans and receivables	-	-	10,146	7,078
<b>Total investments</b>	-	-	<b>10,146</b>	<b>7,078</b>
<b>Debtors</b>				
Loans and receivables	151	156	-	-
Financial assets carried at contract amounts	-	-	670	670
<b>Total included in Debtors</b>	<b>151</b>	<b>156</b>	<b>670</b>	<b>670</b>
<b>Borrowings</b>				
Financial liabilities at amortised cost	(67,456)	(67,459)	(29)	(32)
<b>Total included in borrowings</b>	<b>(67,456)</b>	<b>(67,459)</b>	<b>(29)</b>	<b>(32)</b>
<b>Other Long Term Liabilities</b>				
Finance lease liabilities	(13)	(34)	(21)	(251)
<b>Total other long term liabilities</b>	<b>(13)</b>	<b>(34)</b>	<b>(21)</b>	<b>(251)</b>
<b>Creditors</b>				
Financial liabilities carried at contract amount	-	-	(1,115)	(1,140)
<b>Total creditors</b>	-	-	<b>(1,115)</b>	<b>(1,140)</b>

At 31 March 2014 the Council's borrowings consisted of £67.482m (including £26,000 accrued interest) following the introduction of the Government's HRA reforms and an Interest Free Energy Efficiency Loan (granted during 2010/11), with £3,000 outstanding at the year end. Any further borrowing will be subject to the Council deciding whether prudent to do so; this will be informed by the setting of the Annual Prudential Indicators.

***Income, expense, gains and losses***

2013/14			
	Financial Liabilities measured at amortised cost	Financial Assets: Loans and receivables	Total
	£000	£000	£000
Interest expense	2,372	-	2,372
Interest income	-	(144)	(144)
<b>Net expenditure in Surplus or Deficit on the Provision of Services</b>	<b>2,372</b>	<b>(144)</b>	<b>2,228</b>
<b>Net loss/(gain) for the year</b>	<b>2,372</b>	<b>(144)</b>	<b>2,228</b>

2012/13			
	Financial Liabilities measured at amortized cost	Financial Assets: Loans and receivables	Total
	£000	£000	£000
Interest expense	2,413	-	2,413
Interest income	-	(187)	(187)
<b>Net expenditure in Surplus or Deficit on the Provision of Services</b>	<b>2,413</b>	<b>(187)</b>	<b>2,226</b>
<b>Net loss/(gain) for the year</b>	<b>2,413</b>	<b>(187)</b>	<b>2,226</b>

## **Fair Values of Assets and Liabilities**

Financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

<b>LIABILITIES</b>	<b>31 March 2014</b>		<b>31 March 2013</b>	
	<b>Carrying amount £000</b>	<b>Fair Value £000</b>	<b>Carrying amount £000</b>	<b>Fair Value £000</b>
Borrowing	(67,485)	(56,406)	(67,491)	(59,579)
Financial liabilities (trade creditors)	(1,115)	(1,115)	(1,140)	(1,140)
Finance lease liabilities	(34)	(34)	(285)	(285)

For long-term borrowing, the fair value is lower than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2014) arising from a commitment to pay interest to lenders below current market rates.

<b>ASSETS</b>	<b>31 March 2014</b>		<b>31 March 2013</b>	
	<b>Carrying amount £000</b>	<b>Fair Value £000</b>	<b>Carrying amount £000</b>	<b>Fair Value £000</b>
Investments	10,146	10,151	7,078	7,096
Long-Term Debtors	151	151	156	156
Financial assets carried at contract amounts (trade debtors)	670	670	670	670

The fair value of the investments is higher than the principal amount because the Council's portfolio includes investments where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2014) attributable to the commitment to receive interest above current market rates.

Trade debtors and creditors are carried at cost as this is a fair approximation of their value.

## **NOTE 17 – INVENTORIES**

At 31 March 2014, the Council held £21,000 (2012/13 £32,000) worth of stock in the form of building maintenance materials, museum goods for resale and sundry items.

## NOTE 18 – DEBTORS

31 March 2013 £000			31 March 2014 £000	31 March 2014 £000	31 March 2014 £000
Net			Gross	Impairment Allowance	Net
976	Central Government Bodies		1,246	-	1,246
341	Other Local Authorities		196	-	196
1,241	Other entities and individuals		2,479	(925)	1,554
<b>2,558</b>	<b>Total</b>		<b>3,921</b>	<b>(925)</b>	<b>2,996</b>

## NOTE 19 – CASH AND CASH EQUIVALENTS

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

31 March 2013 £000			31 March 2014 £000
1	Cash held by the Council		1
456	Bank current accounts		245
5,094	Short-term deposits with banks		7,859
<b>5,551</b>	<b>Total Cash and Cash Equivalents</b>		<b>8,105</b>

## NOTE 20 – ASSETS HELD FOR SALE

2012/13 £000		2013/14 £000
<b>152</b>	<b>Balance outstanding at start of year</b>	<b>210</b>
	Assets newly classified as held for sale:	-
378	- Property, Plant and Equipment	530
	Assets declassified as held for sale:	
	- Property, Plant and Equipment	(103)
(320)	Assets sold	(117)
-	Capital Expenditure in year	10
<b>210</b>	<b>Balance outstanding at year-end</b>	<b>530</b>

## NOTE 21 – CREDITORS

2012/13 £000		2013/14 £000
(697)	Central government bodies	(909)
(242)	Other local authorities	(669)
(7)	NHS bodies	-
(1,608)	Other entities and individuals	(1,439)
<b>(2,554)</b>	<b>Total</b>	<b>(3,017)</b>

## NOTE 22 – PROVISIONS

	Business Rate Appeals £000
<b>Balance at 1 April 2013</b>	-
Provision made in 2013/14	1,019
<b>Balance at 31 March 2014</b>	<b>1,019</b>

The provision represents South Holland's share (40% of £2.548m) of the total provision for appeals against the rateable valuation set by the Valuation Office Agency (VOA) not settled as at the 31 March 2014. The total provision has been recognised in the Collection Fund Statement (page 90).

## NOTE 23 – USABLE RESERVES

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

## NOTE 24 – UNUSABLE RESERVES

31 March 2013 £000		31 March 2014 £000
9,494	Revaluation Reserve	10,896
56,767	Capital Adjustment Account	56,368
(25,176)	Pensions Reserve	(27,710)
63	Deferred Capital Receipts Reserve	61
2	Collection Fund Adjustment Account	(358)
(39)	Accumulated Absences Account	(31)
<b>41,111</b>	<b>Total Unusable Reserves</b>	<b>39,226</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

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

2012/13 £000	2012/13 £000		2013/14 £000	2013/14 £000
	<b>9,719</b>	<b>Balance at 1 April</b>		<b>9,494</b>
546		Upward revaluation of assets	2,787	
(372)		Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(1,128)	
	174	Surplus or deficit on revaluation of non- current assets not posted to the Surplus or Deficit on the Provision of Services		<b>1,659</b>
(226)		Difference between fair value depreciation and historical cost depreciation	(256)	
(173)		Accumulated gains on assets sold or scrapped	(1)	
	(399)	Amount written off to the Capital Adjustment Account		<b>(257)</b>
	<b>9,494</b>	<b>Balance at 31 March</b>		<b>10,896</b>

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or additions to those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction subsequent costs.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

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

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2012/13 £000	2012/13 £000		2013/14 £000	2013/14 £000
	59,398	<b>Balance at 1 April</b>		<b>56,767</b>
		<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>		
(2,622)		Charges for depreciation and impairment of non-current assets	(2,442)	-
(1,328)		Revaluation losses on Property, Plant and Equipment	(3,902)	
(32)		Amortisation of intangible assets	(43)	
(789)		Revenue expenditure funded from capital under statute	(616)	
(3,390)		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	(395)	
	(8,161)			(7,398)
	173	Adjusting amounts written out of the Revaluation Reserve		1
	226	Net written out amount of the cost of non-current assets consumed in the year		256
		<b>Capital financing applied in the year:</b>		
637		Use of the Capital Receipts Reserve to finance new capital expenditure	272	
1,645		Use of the Major Repairs Reserve to finance new capital expenditure	1,608	
511		Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	745	
514		Application of grants to capital financing from the Capital Grants Unapplied Account	94	
258		Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	267	
1,504		Capital expenditure charged against the General Fund and HRA balances	4,014	
	5,069			7,000
	62	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(258)
	<b>56,767</b>	<b>Balance at 31 March</b>		<b>56,368</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 Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2012/13 £000		2013/14 £000
<b>(21,052)</b>	<b>Balance at 1 April</b>	<b>(25,176)</b>
(3,751)	Remeasurements of the net defined benefit liability	(1,475)
(1,599)	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	(2,316)
1,226	Employer's pensions contributions and direct payments to pensioners payable in the year	1,257
<b>(25,176)</b>	<b>Balance at 31 March</b>	<b>(27,710)</b>

## Deferred Capital Receipts Reserve

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

2012/13 £000		2013/14 £000
<b>65</b>	<b>Balance at 1 April</b>	<b>63</b>
(2)	Transfer to the Capital Receipts Reserve upon receipt of cash	(2)
<b>63</b>	<b>Balance at 31 March</b>	<b>61</b>

## Collection Fund Adjustment Account

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

2012/13 £000		2013/14 £000
(47)	<b>Balance at 1 April</b> Amount by which Council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from Council tax and non domestic rates income calculated for the year in accordance with statutory requirements	2
49		(360)
2	<b>Balance at 31 March</b>	<b>(358)</b>

## Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund balance or Housing Revenue Account 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 and Housing Revenue Account balance is neutralised by transfers to or from the Account.

2012/13 £000	2012/13 £000		2013/14 £000	2013/14 £000
	(37)	<b>Balance at 1 April</b>		(39)
37		Settlement or cancellation of accrual made at end of the preceding year	39	
(39)		Amounts accrued at the end of the current year	(31)	
	(2)	Amount by which officer remuneration charges to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		8
	(39)	<b>Balance at 31 March</b>		<b>(31)</b>

## NOTE 25 – CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items

2012/13 £000		2013/14 £000
136	Interest received	176
(2,413)	Interest paid	(2,372)

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2012/13 £000		2013/14 £000
2,622	Depreciation	2,442
1,328	Impairment and downward valuations	3,902
215	Impairment & revaluation losses on HRA non dwellings	243
32	Amortisation of intangible assets	43
(51)	Increase/decrease in interest and dividend debtors	32
(445)	Increase/decrease in creditors	(263)
(244)	Increase/decrease in debtors	(554)
(16)	Increase/decrease in inventories	11
373	Movement in Pension Liability	1,059
-	Contribution to/(from) provisions	1,019
3,390	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	395
(62)	Movement in Investment Property Values	258
7	Other non-cash items charged to the net surplus or deficit on the provision of services	(26)
<b>7,149</b>		<b>8,561</b>
	<i>Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities</i>	
(554)	Capital Grants credited to surplus or deficit on the provision of services	(817)
(775)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(615)
<b>5,820</b>		<b>7,129</b>

## NOTE 26 – CASH FLOW STATEMENT – INVESTING ACTIVITIES

2012/13 £000		2013/14 £000
(4,095)	Purchase of property, plant and equipment, investment property, plant and intangible assets	(5,825)
(5,000)	Purchase of short-term investments	(3,100)
(66)	Other payments for investing activities	(65)
2,767	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	618
536	Other receipts from investing activities	855
<b>(5,858)</b>	<b>Net cash flows from investing activities</b>	<b>(7,517)</b>

## NOTE 27 – CASH FLOW STATEMENT – FINANCING ACTIVITIES

2012/13 £000		2013/14 £000
(240)	Cash payments for the reduction of outstanding liabilities relating to finance leases	(250)
(6)	Repayments of short- and long-term borrowing	(6)
2,324	Council Tax and NNDR adjustments	811
<b>2,078</b>	<b>Net cash flows from financing activities</b>	<b>555</b>

## NOTE 28 – 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 Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across the Directorate structure. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- only some charges are made in relation to capital expenditure (whereas revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pension's contributions) rather than current service cost of benefits accrued in the year.

The income and expenditure of the Council, based on its Directorate structure, as recorded in the budget reports for the year is as follows:

Directorate Income and Expenditure 2013/14	Place and Governance	Commissioning	Housing Revenue Account	Total
	£000	£000	£000	£000
Fees, charges & other service income	(1,437)	(4,575)	(15,524)	(21,536)
Government grants	(19,291)	(451)	(642)	(20,384)
<b>Total Income</b>	<b>(20,728)</b>	<b>(5,026)</b>	<b>(16,166)</b>	<b>(41,920)</b>
Employee expenses	1,496	4,660	2,354	8,510
Other service expenses	22,054	5,149	4,457	31,660
Capital Charges	30	847	1,608	2,485
<b>Total Expenditure</b>	<b>23,580</b>	<b>10,656</b>	<b>8,419</b>	<b>42,655</b>
<b>Net Expenditure</b>	<b>2,852</b>	<b>5,630</b>	<b>(7,747)</b>	<b>735</b>

<b>Directorate Income and Expenditure 2012/13</b>	<b>Place and Governance</b>	<b>Commissioning</b>	<b>Housing Revenue Account</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fees, charges & other service income	(1,515)	(4,025)	(14,689)	(20,229)
Government grants	(24,804)	(684)	(626)	(26,114)
<b>Total Income</b>	<b>(26,319)</b>	<b>(4,709)</b>	<b>(15,315)</b>	<b>(46,343)</b>
Employee expenses	1,599	4,560	2,391	8,550
Other service expenses	28,079	4,998	4,184	37,261
Capital Charges	84	833	1,645	2,562
<b>Total Expenditure</b>	<b>29,762</b>	<b>10,391</b>	<b>8,220</b>	<b>48,373</b>
<b>Net Expenditure</b>	<b>3,443</b>	<b>5,682</b>	<b>(7,095)</b>	<b>2,030</b>

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

This reconciliation shows how the figures in the analysis of Directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	<b>2013/14 £000</b>	<b>2012/13 £000</b>
Net expenditure in the Directorate Analysis	735	2,030
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	4,075	1,334
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	20	11
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>4,830</b>	<b>3,375</b>

## Reconciliation to Subjective Analysis

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

2013/14	Directorate analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Cost of Services £000	Corporate £000	Group Accounts adjustments £000	Total £000
Fees, charges & other service income	(21,536)	-	65	(21,471)	(65)	(196)	(21,732)
Interest and investment income	-	-	-	-	(144)	-	(144)
Income from Council Tax	-	-	-	-	(4,699)	-	(4,699)
Income from Business Rates	-	-	-	-	(9,357)	-	(9,357)
Government grants and contributions	(20,384)	-	-	(20,384)	(6,120)	-	(26,504)
Gain or loss on disposal of fixed assets	-	-	-	-	(615)	-	(615)
Change in investment property value	-	-	-	-	(75)	-	(75)
<b>Total Income</b>	<b>(41,920)</b>	<b>-</b>	<b>65</b>	<b>(41,855)</b>	<b>(21,075)</b>	<b>(196)</b>	<b>(63,126)</b>
Employee expenses	8,510	-	(19)	8,491	19	-	8,510
Other service expenses	31,660	-	(26)	31,634	26	(33)	31,627
Pensions accounting adjustments	-	(71)	-	(71)	-	-	(71)
Depreciation, amortisation and impairment	2,485	4,146	-	6,631	-	-	6,631
Interest payments	-	-	-	-	2,372	-	2,372
Precepts & Levies	-	-	-	-	2,732	-	2,732
Payments to Housing Capital Receipts Pool	-	-	-	-	338	-	338
Net interest on the net defined benefit liability	-	-	-	-	1,130	-	1,130
Gain or loss on disposal of fixed assets	-	-	-	-	395	-	395
Change in investment property value	-	-	-	-	333	-	333
Business rates tariff and levy	-	-	-	-	6,513	-	6,513
<b>Total expenditure</b>	<b>42,655</b>	<b>4,075</b>	<b>(45)</b>	<b>46,685</b>	<b>13,858</b>	<b>(33)</b>	<b>60,510</b>
<b>Surplus or deficit on the provision of services</b>	<b>735</b>	<b>4,075</b>	<b>20</b>	<b>4,830</b>	<b>(7,217)</b>	<b>(229)</b>	<b>(2,616)</b>

2012/13	Directorate analysis £000	Amounts not reported to management for decision making £000	Amounts not included in I&E £000	Cost of Services £000	Corporate £000	Group Accounts adjustments £000	Total £000
Fees, charges & other service income	(20,229)	-	64	(20,165)	(63)	(150)	(20,378)
Interest and investment income	-	-	-	-	(187)	-	(187)
Income from Council Tax	-	-	-	-	(5,289)	-	(5,289)
Government grants and contributions	(26,114)	-	-	(26,114)	(7,566)	-	(33,680)
Gain or loss on disposal of fixed assets	-	-	-	-	(782)	-	(782)
Change in investment property value	-	-	-	-	(62)	-	(62)
<b>Total Income</b>	<b>(46,343)</b>	<b>-</b>	<b>64</b>	<b>(46,279)</b>	<b>(13,949)</b>	<b>(150)</b>	<b>(60,378)</b>
Employee expenses	8,550	-	(19)	8,531	19	-	8,550
Other service expenses	37,261	-	(34)	37,227	33	(32)	37,228
Pensions accounting adjustments	-	(301)	-	(301)	-	-	(301)
Depreciation, amortisation and impairment	2,562	1,635	-	4,197	-	-	4,197
Interest payments	-	-	-	-	2,413	(2)	2,411
Precepts & Levies	-	-	-	-	2,764	-	2,764
Payments to Housing Capital Receipts Pool	-	-	-	-	178	-	178
Net interest on the net defined benefit liability	-	-	-	-	674	-	674
Gain or loss on disposal of fixed assets	-	-	-	-	3,430	-	3,430
<b>Total expenditure</b>	<b>48,373</b>	<b>1,334</b>	<b>(53)</b>	<b>49,654</b>	<b>9,511</b>	<b>(34)</b>	<b>59,131</b>
<b>Surplus or deficit on the provision of services</b>	<b>2,030</b>	<b>1,334</b>	<b>11</b>	<b>3,375</b>	<b>(4,438)</b>	<b>(184)</b>	<b>(1,247)</b>

## NOTE 29 – TRADING OPERATIONS

The Council has established 3 trading units (industrial units, off street car parking and markets) where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of those units in 2013/14 are as follows:

		2013/14		2012/13	
		£000	£000	£000	£000
Markets are provided in Spalding, Holbeach, Long Sutton and Crowland	Turnover	(128)		(131)	
	Expenditure	173		160	
	Deficit		45		29
The Council provides off street car parking predominantly within Spalding	Turnover	(270)		(277)	
	Expenditure	164		242	
	(Surplus)		(106)		(35)
The Council lets 10 industrial units at Crowland	Turnover	(47)		(59)	
	Expenditure	81		30	
	(Surplus)/Deficit		34		(29)
<b>Net (Surplus)/Deficit on trading operations</b>			<b>(27)</b>		<b>(35)</b>

## NOTE 30 – MEMBERS' ALLOWANCES

The Council paid the following amounts to members of the Council during the year.

	2013/14	2012/13
	£000	£000
Salaries	220	212
Allowances	123	108
Expenses	17	18
<b>Total</b>	<b>360</b>	<b>338</b>

## NOTE 31 – OFFICERS’ REMUNERATION

The remuneration paid to the Council’s senior employees is as follows:

		Salary, Fees and Allowances £	Expenses Allowances £	Pension Contribution £	Total £
<b>Chief Executive (Retired January 2013)</b>	2013/14	-	-	-	-
	2012/13	103,333	4,641	25,627	<b>133,601</b>
<b>Monitoring Officer</b>	2013/14	63,289	963	14,641	<b>78,893</b>
	2012/13	57,521	963	14,265	<b>72,749</b>

The Council has entered into a shared management arrangement with Breckland Council where the two councils share members of the management team. The senior employees shown in the above table provide services for both the Council and for Breckland Council. These employees are formally employed by South Holland District, and Breckland Council is recharged 50% of their salary and other remuneration and expenses. As South Holland District Council is the employing Council, their full costs are shown in the note above.

Breckland Council employs five other members of the management team, the Chief Executive, two Executive Directors, the Assistant Director Finance, and the Assistant Director Commissioning. The Council is charged 50% of their salaries and other remuneration and expenses.

The Council’s other employees receiving more than £50,000 remuneration for the year (excluding employer’s pension contributions) were paid the following amounts:

Remuneration Band	2013/14 Number of Employees	2012/13 Number of Employees
£50,000 – £54,999	-	1
£55,000 – £59,999	2	1
£60,000 – £64,999	-	-
£65,000 – £69,999	-	-

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

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14 £	2012/13 £
£0-£20,000	7	7	3	-	10	7	50,375	43,825
<b>Total cost included in bandings and in CIES</b>							<b>50,375</b>	<b>43,825</b>

## NOTE 32 – EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the financial statements, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors:

	2013/14 £000	2012/13 £000
Fees payable to the appointed auditor, KPMG, with regard to external audit services carried out for the year	58	58
Fees payable to the appointed auditor, KPMG, for the certification of grant claims and returns for the year	8	9
Fees payable in respect of other services	-	2
<b>TOTAL</b>	<b>66</b>	<b>69</b>

## NOTE 33 – GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14.

	2013/14 £000	2012/13 £000
<b>Credited to Taxation and Non Specific Grant income</b>		
Revenue Support Grant	(4,393)	(127)
Distribution of Non domestic rates income from National Pool	-	(6,530)
S31 Grant – Small Business Rate Relief	(341)	-
Council Tax Freeze Grant	(46)	(117)
New Homes Bonus Scheme Grant	(786)	(528)
Local Services Support Grant	-	(78)
New Burdens Grant	(16)	(14)
Other non specific Grants	(43)	
Grants in relation to capital expenditure	(495)	(132)
<b>Total</b>	<b>(6,120)</b>	<b>(7,526)</b>
<b>Credited to Services</b>		
Housing Benefit Subsidy (includes Council Tax subsidy in 2012/13)	(18,452)	(23,936)
Council Tax and Housing Benefit Administration	(522)	(575)
Supporting People Grant	(642)	(626)
Disabled Facilities Grant	(247)	(320)
English Heritage PSICA Conservation grant	(47)	(99)
Choosing Health	(104)	(144)
Arts Council	(41)	(44)
Council Tax Reform Grant	-	(84)
Police and Crime Commissioner Elections and Panel	(59)	(102)
Waste Collection Support Scheme Grant	(116)	(356)
Welfare Reform Grants DWP	(107)	-
Lincolnshire County Council Elections	(110)	-
Other Grants	(483)	(177)
<b>Total</b>	<b>(20,930)</b>	<b>(26,463)</b>

The Council 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:

### Long-term Liabilities

	2013/14 £000	2012/13 £000
<b>Grants Received in Advance (Capital)</b>		
DCLG – Gypsy and Travellers	(633)	(658)

### NOTE 34 – 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

UK Central government has significant influence 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 prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council tax bills, housing benefits). Grants received from government departments are set out in the subjective analysis in Note 28 on reporting for resources allocation decisions. Grant Receipts outstanding at 31 March 2014 are shown in Note 33.

#### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2013/14 is shown in Note 30. During 2013/14, a number of members were also directors of the Council's wholly owned subsidiary company, South Holland Local Housing Community Interest Company and also directors of Compass Point Business Services (East Coast) Ltd (joint venture with South Holland District Council), and members of Internal Drainage Boards, Citizens' Advice Bureau and other local community associations.

Details of specific transactions where members declared their interest are recorded in the Register of Members' Interest, open to public inspection at the Council Offices during office hours. The Council is compliant with the Localism Act 2012.

#### Officers

No other material transactions were identified.

## **Other Public Bodies**

In April 2011, joint senior management arrangements between the Council and Breckland District Council were implemented. The costs of these arrangements are shared 50:50 with Breckland. In 2013/14, the Council contributed £747,000 (£606,000 in 2012/13) towards the cost of Breckland-employed managers under this arrangement, and received £319,000 (£292,000 in 2012/13) in reimbursement towards the costs of South Holland-employed managers.

## **Entities Controlled or Significantly Influenced by the Council**

Joint merged service organisation arrangements for the shared provision of a number of back office services with East Lindsey District Council were implemented with effect from 1 August 2010, delivered through Compass Point Business Services (CPBS) (East Coast) Ltd. Information regarding the company and the transactions between the Council and CPBS, are shown in the group Accounts at pages 94 -101.

The Council also has a wholly owned subsidiary company, South Holland Local Housing Community Interest Company. Information and transactions for the year are set out in the Group Accounts.

## **NOTE 35 – 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 Council, the expenditure results in an increase in the Capital Financing Requirement (CFR). This is a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2013/14	2012/13
	£000	£000
<b>Opening Capital Financing Requirement</b>	<b>70,905</b>	<b>71,378</b>
<b>Capital Investment</b>		
Property, Plant and Equipment	6,071	3,972
Intangible Assets	35	90
Revenue Expenditure Funded from Capital under Statute	616	789
Assets Held for Sale - Current	10	-
<b>Sources of finance</b>		
Capital receipts	(272)	(637)
Government grants and other contributions	(839)	(1,025)
Major Repairs Reserve	(1,608)	(1,645)
Land swap at no cost	-	(40)
<b>Sums set aside from revenue:</b>		
Direct revenue contributions	(4,014)	(1,504)
Sums set aside from revenue	(17)	(17)
Finance leases - repayments	(250)	(241)
Impairment & revaluation losses on HRA non dwellings	(243)	(215)
<b>Closing Capital Financing Requirement</b>	<b>70,394</b>	<b>70,905</b>
<b>Explanation of movements in year</b>		
Increase/(Decrease) in underlying need to borrowing (unsupported by government financial assistance)	(511)	(473)
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>(511)</b>	<b>(473)</b>

## NOTE 36 – LEASES

### Council as Lessee

#### Finance Leases

The Council has acquired a number of Vehicles, Plant and Equipment under finance leases. The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following amounts:

	31 March 2014 £000	31 March 2013 £000
Vehicles, Plant, Furniture and Equipment	36	220
	<b>36</b>	<b>220</b>

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property acquired by the 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 amounts:

	31 March 2014 £000	31 March 2013 £000
Finance lease liabilities (net present value of minimum lease payments):		
Current	21	251
Non-Current	13	34
Finance costs payable in future years	2	26
<b>Minimum lease payments</b>	<b>36</b>	<b>311</b>

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

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2014 £000	31 March 2013 £000	31 March 2014 £000	31 March 2013 £000
Not later than 1 year	21	251	23	275
Later than 1 year and not later than 5 years	13	34	13	36
	<b>34</b>	<b>285</b>	<b>36</b>	<b>311</b>

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2013/14 no contingent rents were payable by the Council (nil in 2012/13).

### ***Operating Leases***

The Council has acquired a small number of items of equipment by entering into operating leases, with typical lives of 2-3 years. The values are not material.

### **Council as Lessor**

### ***Finance Leases***

The Council does not lease out any property under the terms of a finance lease

### ***Operating Leases***

The Council leases out a number of items of land and property under operating leases.

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

	31 March 2014 £000	31 March 2013 £000
Not later than 1 year	57	46
Later than 1 year and not later than 5 years	53	96
Later than 5 years	3	3
	<b>113</b>	<b>145</b>

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2013/14 no contingent rents were receivable by the Council (nil in 2012/13).

#### **NOTE 37 – IMPAIRMENT LOSSES**

The Code requires disclosure by class of assets of the amounts for impairment losses and impairment reversals charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure. These disclosures are consolidated in Note 12 reconciling the movement over the year in the Property, Plant and Equipment balances.

No material losses were recognised during 2013/14.

#### **NOTE 38 – TERMINATION BENEFITS**

The Council terminated the contracts of a number of employees in 2013/14 incurring liabilities of £50,375 (£43,825 in 2012/13) – see Note 31 for the number of exit packages and total cost per band.

## **NOTE 39 – DEFINED BENEFIT PENSION SCHEMES**

### **Participation in Pension Schemes**

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

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

The Lincolnshire pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Lincolnshire County Council. Policy is determined in accordance with the Pensions Fund Regulations.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme, changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

### **Transactions Relating to Post-employment Benefits**

We recognise 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 we are required to make against Council tax and housing rents 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 and Housing Revenue Account via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement, the General Fund balance and the Housing Revenue Account balance via the Movement in Reserves Statement during the year

	Local Government Pension Scheme	
	2013/14 £000	2012/13 £000
<b>Comprehensive Income and Expenditure Statement</b>		
<i>Cost of Services:</i>		
<i>Service cost comprising</i>		
Current service cost	1,186	901
Past Service costs	-	24
<i>Financing and Investment Income and Expenditure</i>		
Net interest expense	1,130	674
<b>Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services</b>	<b>2,316</b>	<b>1,599</b>
<i>Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</i>		
<i>Remeasurement of net defined benefit liability comprising:</i>		
Return on plan assets (excluding the amount included in the net interest expense)	1,806	(2,859)
Actuarial gains and losses arising on changes in demographic assumptions	1,197	-
Actuarial gains and losses arising on changes in financial assumptions	192	6,711
Other experience	(1,720)	(101)
<b>Total Remeasurements recognised in Other Comprehensive Income and Expenditure</b>	<b>1,475</b>	<b>3,751</b>
<b>Total Post-employment Benefit charged to the Comprehensive Income and Expenditure Statement</b>	<b>3,791</b>	<b>5,350</b>
<b>Movement in Reserves Statement</b>		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post-employment benefits in accordance with the Code	(1,059)	(373)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>		
Employers' contributions payable to scheme	1,154	1,122
Contributions in respect of unfunded benefits	103	104

## Pensions Assets and Liabilities Recognised in the Balance Sheet.

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans is as follows.

	Local Government Pension Scheme	
	2013/14 £000	2012/13 £000
Present Value of the funded liabilities	(66,370)	(64,837)
Present Value of unfunded liabilities	(1,430)	(1,452)
Fair Value of plan assets	40,090	41,113
<b>Net Liability arising from defined benefit obligation</b>	<b>(27,710)</b>	<b>(25,176)</b>

## Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	Local Government Pension Scheme	
	2013/14 £000	2012/13 £000
Opening fair value scheme assets	41,113	37,209
Interest Income	1,826	2,091
Remeasurement gain/(loss)		
The return on plan assets, excluding the amount included in the net interest expense	(1,806)	2,859
Contributions from employer	1,154	1,122
Contributions from employees into the scheme	292	278
Contributions in respect of unfunded benefits	103	104
Benefits Paid	(2,592)	(2,550)
<b>Closing fair value of scheme assets</b>	<b>40,090</b>	<b>41,113</b>

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

	Funded Liabilities: Local Government Pension Scheme	
	2013/14 £000	2012/13 £000
Opening Balance at 1 April	66,289	58,261
Current Service Cost	1,186	901
Interest Cost	2,956	2,765
Contributions from scheme participants	292	278
<i>Remeasurements (gains) and losses:</i>		
Actuarial gains/losses arising from changes in demographic assumptions	1,197	-
Actuarial gains/losses arising from changes in financial assumptions	192	6,711
Other experience	(1,720)	(101)
Past service cost	-	24
Benefits paid	(2,592)	(2,550)
<b>Closing Balance at 31 March</b>	<b>67,800</b>	<b>66,289</b>

## Local Government Pension Scheme assets compromised

	Fair Value of Scheme Assets			
	2013/14		2012/13	
	Quoted prices in active markets £000	% of total assets	Quoted prices in active markets £000	% of total assets
Cash and Cash Equivalents	619	2%	465	1%
Equity Instruments				
Consumer	7,376	18%	7,662	18%
Manufacturing	1,354	3%	1,698	4%
Energy and utilities	2,944	7%	3,343	8%
Financial institutions	4,737	12%	4,409	11%
Information technology	1,095	3%	1,474	4%
Other	5,091	13%	4,668	11%
Debt Securities				
Corporate Bonds	1,250	3%	1,328	3%
UK Government	737	2%	815	2%
Other	478	1%	536	1%
Property				
UK Property	3,769	9%	3,518	9%
Overseas Property	607	2%	762	2%
Private Equity	2,197	5%	2,727	7%
Investment Funds and Unit Trusts				
Equities	1,872	5%	2,043	5%
Bonds	2,528	6%	2,427	6%
Other	3,436	9%	3,238	8%
<b>Total Assets</b>	<b>40,090</b>	<b>100%</b>	<b>41,113</b>	<b>100%</b>

### 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 dependant on assumptions about mortality rates, salary levels, etc.

The Local Government Pension Scheme has been assessed by Hymans Robertson, an independent firm of actuaries; estimates for the Lincolnshire County Council Fund are based on the latest full valuation of the scheme as at 1 April 2013.

The significant assumptions used by the actuary have been:

	Local Government Pension Scheme	
	2013/14	2012/13
<i>Mortality assumptions:</i>		
Longevity at 65 for current pensioners (years):		
- Men	22.2	21.2
- Women	24.4	23.4
Longevity at 65 for future pensioners (years):		
- Men	24.5	23.7
- Women	26.8	25.7
Rate of inflation	3.4%	3.2%
Rate of increase in salaries	3.9%	5.1%
Rate of increase in pensions	2.6%	2.8%
Rate for discounting scheme liabilities	4.1%	4.5%

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

	Impact on the Defined Benefit Obligation in the Scheme	
	Approximate increase to Employer Liability	Approximate monetary amount
		£000
0.5 decrease in Real Discount Rate	9%	5,799
1 year increase in member life expectancy	3%	2,034
0.5% increase in the Salary Increase Rate	2%	1,440
0.5% increase in the Pension Increase Rate	6%	4,311

### Impact on the Authorities Cash Flows

The contributions paid by the Council are set by the Fund Actuary at each triennial actuarial valuation, the most recent being 31 March 2013. The employer's contributions rate, over the period to 31 March 2017, has been stabilised. The stabilisation mechanism implemented is for employer contribution rates to increase at 1% p.a from the 2013/14 level.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales may not provide benefits in relation to service after 31 March 2014. The

Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipates paying £1.183m as Employer's contributions to the scheme in 2014/15.

The weighted average duration of the defined benefit obligation for scheme members is 17 years, 2013/14 (17 years 2012/13).

#### **NOTE 40 – CONTINGENT LIABILITIES**

At 31 March 2014 the Council has identified the following material contingent liabilities.

##### **NNDR Appeals**

The Council has made provision for NNDR Appeals based upon its best estimate of known appeals as at the 31 March 2014. It is not possible to quantify appeals that have yet to be lodged with the Valuation Office Agency, so there is a risk that national and local appeals will have a significant impact on the Financial Statements.

##### **Planning Issue**

The authority is involved with a planning complaint that had been referred to the Local Government Ombudsman. It is a complex issue which has been considered by Council at a number of meetings, the most recent on 15 May 2013. The Council has accepted the Ombudsman's findings and approved an alternative compensation payment. The other party initiated judicial review proceedings against the Council which was not upheld by the court. Consequently the other party submitted leave to appeal which the court is considering.

#### **NOTE 41 – CONTINGENT ASSETS**

At 31 March 2014 the Council has identified the following material contingent assets:

##### **Section 106 Agreements**

The Council has signed a number of S106 agreements that require developers to make payments to the Council at some future date dependant upon certain events taking place, for example, when a development actually starts on site. The contributions generally have conditions attached to them requiring the Council to spend the monies in specific areas and on specific items. The total value of the contributions is unknown but could be in excess of £5m.

##### **Decent Homes Loans**

The Council has, for a number of years, been giving property owners loans to enable them to improve their homes to meet a decent standard. These loans have been registered with Land Registry and will only become repayable, together with interest and a proportion of the increased property value, once the dwelling is sold or otherwise disposed of. The disposal and therefore repayment could be many years in the future. Loans outstanding as at 31 March 2014 are £500,000 (31 March 2013 are £427,000).

## NOTE 42– NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Key risks

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

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

### Overall procedures for managing risk

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

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

These are required to be reported and approved at or before the Council's annual Council Tax budget setting meeting. They are reported with the annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported at the end of each financial year as is a mid year report.

The annual Treasury Management Strategy which incorporates the prudential indicators was approved by Council on 27 February 2013 and is available on the Council's website. The key issues within the strategy are:

- the Authorised Limit for 2013/14 was set at £75.456m. This is the maximum limit of external borrowings or other long term liabilities.
- the Operational Boundary was expected to be £72.456m. This is the expected level of debt and other long term liabilities during the year.
- the maximum amounts of fixed and variable interest rate exposure were set at £75.456m and £8m respectively, based on the Council's net debt.
- the maximum and minimum exposures to the maturity structure of any new fixed rate debt were set at 100% and 0% respectively.

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

### **Credit Risk**

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poors Credit Ratings Services. The Annual Investment Strategy also considers maximum amounts and time limits in respect of each financial institution. Deposits are not made with banks and financial institutions unless they meet the minimum requirements of the investment criteria outlined above. Additional selection criteria are also applied. Details of the Investment Strategy, approved by Council on 27 February 2013, can be found on the Council's website.

One of the key areas of the Investment Strategy is that the minimum criteria for investment counterparties include the creditworthiness service provided by Capita Asset Services. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poors - forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

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

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2014 that this was likely to crystallise.

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

	Amount at 31 March 2014 £000	Historical experience of default %	Historical experience adjusted for conditions at 31 March 2014 %	Estimated maximum exposure to default and uncollectability at 31 March 2014 £000	Estimated maximum exposure at 31 March 2013 £000
	A	B	C	(A x C)	
Customers	557	11.42	11.42	64	65

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

The Council does not generally allow credit for its customers, such that £312,000 of the £557,000 balance is past its due date for payment. The past due but not impaired amount can be analysed by age as follows:

	31 March 2014 £000	31 March 2013 £000
Less than three months	291	402
Three to six months	25	2
Six months to one year	98	66
More than one year	143	200
<b>TOTAL</b>	<b>557</b>	<b>670</b>

## Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial liabilities (borrowing plus finance lease principal payments) is as follows:

	31 March 2014 £000	31 March 2013 £000
Less than one year	50	283
Between one and two years	13	37
More than ten years	67,456	67,456
	<b>67,519</b>	<b>67,776</b>

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

## **Refinancing and maturity risk**

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

The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments for greater than one year in duration are the key parameters used to address this risk. The approved treasury and investment strategies address the main risks whilst the treasury team address the operational risks within the approved parameters. This includes monitoring the maturity profile of investments to ensure that sufficient liquidity is available for the Council's day to day cash flow needs.

## **Market Risk**

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

- borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise
- borrowings at fixed rates – the fair value of the borrowing will fall
- investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise
- investments at fixed rates – the fair value of the assets will fall

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

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

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

	£000
Increase in interest receivable on variable rate investments	72
Increase in government grant receivable for financing costs	44
Impact on Surplus or Deficit on the Provision of Services	<b>116</b>
Share of overall impact debited to the HRA	14

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

**Price Risk** - The Council does not generally invest in equity share or marketable bonds. However, it does have shareholdings in the Compass Point Business Services (East Coast) Ltd joint venture with East Lindsey District Council.

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

#### **NOTE 43 – TRUST FUNDS**

The Council is custodian trustee for:

##### ***IVO Day Care Centre***

The Council holds and invests £10,000 on behalf of the trust. This is not held on the Council's Balance Sheet.

##### ***Weston St Mary's Village Hall***

The Council is a custodian trustee for the village hall. It has no liability for debts and is not responsible for the management of the trust property.

##### ***Ayscoughfee Hall and Gardens (registered charity 515905)***

The Council, as trustee, holds the deeds on behalf of the people of Spalding.

##### ***Sir Halley Stewart Playing Field (registered charity 1084450)***

Day to day running costs for Ayscoughfee Hall and Gardens and the Sir Halley Stewart Playing Field are included in the Council's Comprehensive Income and Expenditure Statement

Values placed on these assets, by an external RICS qualified valuer are shown below. They are not included in the Council's Balance Sheet.

Ayscoughfee Hall and Gardens £470,000, last revalued as at 31 March 2011

Sir Halley Stewart Playing Field £145,000, last revalued as at 31 March 2011

Trust fund revenue Account	Expend £000	2013/14			2012/13		
		Income £000	Net £000		Expend £000	Income £000	Net £000
Ayscoughfee Hall and Gardens	335	(34)	<b>301</b>		318	(24)	<b>294</b>
Sir Halley Stewart Playing Field	25	(4)	<b>21</b>		23	(7)	<b>16</b>

## HOUSING REVENUE ACCOUNT (HRA) INCOME AND EXPENDITURE STATEMENT

2012/13 £000		2013/14 £000
	<b>Expenditure</b>	
3,096	Repairs and maintenance	3,188
2,988	Supervision and management	3,073
43	Rents, rates, taxes and other charges	57
(11)	Negative HRA Subsidy Payable	-
1,645	Depreciation of non-current assets (Note 5)	1,608
1,524	Revaluation of non-current assets	2,457
1	Debt management expenses	1
44	Movement in the allowance for bad debts	66
<b>9,330</b>	<b>Total Expenditure</b>	<b>10,450</b>
	<b>Income</b>	
(13,594)	Dwelling rents	(14,252)
(133)	Non- dwelling rents	(134)
(1,361)	Charges for services & facilities	(1,387)
(227)	Contribution towards expenditure	(393)
<b>(15,315)</b>	<b>Total Income</b>	<b>(16,166)</b>
	<b>Net income of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement</b>	
<b>(5,985)</b>		<b>(5,716)</b>
334	HRA share of Corporate and Democratic Core	427
1	HRA share of other amounts included in the whole authority Cost of Services but not allocated to specific services	-
<b>(5,650)</b>	<b>Net income for HRA Services</b>	<b>(5,289)</b>
	<b>HRA Share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement</b>	
7	(Gain) or loss on sale of HRA non-current assets	(226)
2,367	Interest Payable and similar charges	2,354
(39)	Interest and investment income	(45)
198	Net interest on the net defined benefit liability	322
(6)	Movement in the market value of investment property	24
<b>(3,123)</b>	<b>Surplus for the year on HRA services</b>	<b>(2,860)</b>

## MOVEMENT ON THE HRA STATEMENT

2012/13 £000		2013/14 £000
<b>1,955</b>	Balance on the HRA at the end of the previous reporting period	<b>5,213</b>
<b>3,123</b>	Surplus for the year on the HRA Income and Expenditure Statement	<b>2,860</b>
135	Adjustments between accounting basis and funding basis under statute (Note 10)	(1,238)
<b>5,213</b>	<b>Balance on the HRA at the end of the current reporting period</b>	<b>6,835</b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

### NOTE 1 – HOUSING STOCK

The Council was responsible for managing 3,888 dwellings at 31 March 2014 (3,876 at 31 March 2013). The stock is analysed below by number of bedrooms. In addition the Council has an equity share in 8 shared ownership properties, with the Council's equity share being equivalent to 3.5 dwellings.

Analysis of Housing Stock at 31 March 2014					
	1 Bed	2 Bed	3 Bed	3+ Bed	Total
HRA Housing Stock					
Houses	-	342	1,578	13	1,933
Bungalow	667	1,011	-	-	1,678
Flats	114	155	-	-	269
Shared Ownership	1	5	2	-	8
<b>Total</b>	<b>782</b>	<b>1,513</b>	<b>1,580</b>	<b>13</b>	<b>3,888</b>

### NOTE 2 – RENT ARREARS

The net rent arrears at 31 March 2014 amounted to £255,000 (£259,000 in 2012/13) and are analysed as follows:

	31 March 2014 £000	31 March 2013 £000
<b>Rent Arrears Due From</b>		
Current Tenants	148	174
Former Tenants	109	83
Garages	(2)	2
<b>Total</b>	<b>255</b>	<b>259</b>
These arrears include all charges due from tenants: rents, service charges and other charges.		
Allowance for doubtful debts	(150)	(115)

### NOTE 3 – ASSET VALUES

The balance sheet value of assets within the Council's HRA is shown below:

	2013/14 £000	2012/13 £000
<b>Property, Plant and Equipment</b>		
Council Dwellings	112,738	111,497
Other Land and Buildings	728	1,217
Infrastructure – Housing Sewerage	892	905
Vehicles, Plant and Equipment	69	168
Surplus Assets	19	50
Community Assets	46	-
<b>Non-operational assets</b>		
Assets Under Construction	127	46
<b>Intangible Non-Current Assets</b>	25	32
<b>Investment Properties</b>	44	67
<b>Assets Held For Sale</b>	530	210
<b>Total</b>	<b>115,218</b>	<b>114,192</b>

### NOTE 4 – VACANT POSSESSION

The vacant possession value is the Council's estimate of the total sum that it would receive if all the dwellings were sold on the open market. The balance sheet value is calculated on the basis of rents receivable on existing tenancies. These are less than would be obtainable on the open market, and the balance sheet value is therefore lower than the vacant possession valuation. The difference between the two values therefore shows the economic cost of providing housing at less than market value. The vacant possession value of dwellings within the HRA is shown below:

	2013/14 £000	2012/13 £000
Vacant possession value	331,582	327,932

## NOTE 5 - DEPRECIATION

	2013/14 £000	2012/13 £000
Depreciation		
Council dwellings	1,324	1,327
Other Land and Buildings	61	65
Infrastructure - Housing Sewerage	117	122
Vehicles, Plant & Equipment	99	127
	<b>1,601</b>	<b>1,641</b>
Amortisation		
Intangible Assets	7	4
<b>Total</b>	<b>1,608</b>	<b>1,645</b>

## NOTE 6 – IMPAIRMENT OF HOUSING NON CURRENT ASSETS

Whilst there was an overall upward movement in the valuation of Housing non-current assets, following a revaluation review undertaken by Countrywide Plc, there were no impairment losses due to obsolescence or physical damage during the year.

## NOTE 7 – HOUSING REVENUE ACCOUNT CAPITAL EXPENDITURE AND FINANCING

	2013/14 £000	2012/13 £000
<b>Housing Capital Expenditure and Financing</b>		
<b>Expenditure</b>		
Improvements and enhancements to Council dwellings	4,364	3,212
New Build – Council dwellings	868	27
Improvements to wastewater treatments	149	-
Improvements to sheltered accommodation	16	150
Information systems	-	33
<b>Total</b>	<b>5,397</b>	<b>3,422</b>
<b>Financing</b>		
Capital receipts	271	536
Grants & contributions	-	17
Major Repairs Reserve	1,608	1,645
Direct Revenue Financing	3,518	1,224
<b>Total</b>	<b>5,397</b>	<b>3,422</b>

## NOTE 8 – HOUSING REVENUE ACCOUNT CAPITAL RECEIPTS

	2013/14 £000	2012/13 £000
<b>Housing Revenue Account Capital Receipts</b>		
<b>Usable Capital Receipts at 1 April</b>	<b>421</b>	<b>693</b>
Right to buy sales in relation to dwellings	615	294
Mortgage repayments	2	2
Sale of HRA Land	-	153
Administration costs	(16)	(7)
Receipts used to finance capital expenditure	(271)	(536)
Payments to the Government Housing Capital Receipts Pool	(338)	(178)
<b>Usable Capital Receipts at 31 March</b>	<b>413</b>	<b>421</b>

## NOTE 9 – MAJOR REPAIRS RESERVE

The Major Repairs Reserve is maintained to meet HRA Capital Investment. Movements on the reserve were:

	2013/14 £000	2012/13 £000
<b>Major Repairs Reserve</b>		
<b>Balance at 1 April</b>	-	-
Depreciation on Fixed Assets		
Dwellings	1,324	1,327
Other Assets	284	318
Capital investment funded from MRA	(1,608)	(1,645)
<b>Balance at 31 March</b>	-	-

**NOTE 10 – STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE**

	2013/14 £000	2012/13 £000
<b>Adjustments between accounting basis and funding basis under statute</b>		
Gain or loss on sale of HRA non-current assets	(210)	14
Reversal of items relating to retirement benefits debited or credited to the HRA Income and Expenditure Statement	661	463
Employer's pension contributions and direct payments to pensioner's payable in the year.	(350)	(343)
Employee Benefit Accrual	4	1
Capital Expenditure funded by the HRA	(3,518)	(1,224)
Transfer to/from the Capital Adjustment Account*	2,175	1,224
<b>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year</b>	<b>(1,238)</b>	<b>135</b>

\* For 2012/13 – items transferred to/from the Capital Adjustment Account of £1.224m were included under 'Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements'. This line has been removed from the above table.

## COLLECTION FUND STATEMENT

2012/13			2013/14			
Council Tax £000	Non- Domestic Rates £000	Total £000		Council Tax £000	Non- Domestic Rates £000	Total £000
(35,378)		(35,378)	<b>Income</b>	(36,627)		(36,627)
(5,657)		(5,657)	Council Tax Receivable (Note 2)	-		-
	(22,767)	(22,767)	Council Tax Benefit		(24,377)	(24,377)
	-	-	Non-Domestic Rates Receivable (Note 3)		(1,466)	(1,466)
			Transitional Protection Payments Receivable			
(47)	-	(47)	Contribution towards previous year's estimated			
(319)	-	(319)	Collection deficit			
(54)		(54)	South Holland District Council	-	-	-
			Lincolnshire County Council	-	-	-
			Police and Crime Commissioner for Lincolnshire	-		-
<b>(41,455)</b>	<b>(22,767)</b>	<b>(64,222)</b>	<b>Total Income</b>	<b>(36,627)</b>	<b>(25,843)</b>	<b>(62,470)</b>
			<b>Expenditure</b>			
	22,654	22,654	Precepts, demands and shares			
			Central Government		12,222	12,222
5,288	-	5,288	South Holland District Council	4,639	9,777	14,416
30,331	-	30,331	Lincolnshire County Council	26,548	2,444	28,992
5,305		5,305	Police and Crime Commissioner for Lincolnshire	4,735		4,735
			Impairment of debts/appeals			
39	-	39	Write-offs of uncollectable amounts	52	70	122
116	-	116	Increase in allowance for impairment	184	7	191
	-		Increase in provision for appeals (Note 4)		2,548	2,548
	113	113	Cost of Collection Allowance		114	114
	-	-	Reconciliation Adjustments – Renewable Energy		193	193
<b>41,079</b>	<b>22,767</b>	<b>63,846</b>	<b>Total Expenditure</b>	<b>36,158</b>	<b>27,375</b>	<b>63,533</b>
<b>(376)</b>	<b>-</b>	<b>(376)</b>	<b>(Surplus)/Deficit arising during year</b>	<b>(469)</b>	<b>1,532</b>	<b>1,063</b>
362	-	362	Deficit/(surplus) at beginning of year	(14)	-	(14)
<b>(14)</b>	<b>-</b>	<b>(14)</b>	<b>Deficit/(surplus) at end of year (Note 5)</b>	<b>(483)</b>	<b>1,532</b>	<b>1,049</b>

## NOTES TO THE COLLECTION FUND STATEMENT

### NOTE 1 – PURPOSE OF COLLECTION FUND STATEMENT

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and the distribution to local authorities and the Government of Council tax and non-domestic rates.

### NOTE 2 – COUNCIL TAX RECEIVABLE

Council Tax income derives from charges raised according to the value of residential properties that have been classified into eight Valuation Bands (A to H). Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Lincolnshire County Council, Police and Crime Commissioner for Lincolnshire (previously Lincolnshire Police Authority) and South Holland District Council, together with the relevant Parish requirement.

This is then divided by the Council Tax base, i.e. the number of properties in each valuation band, converted to an equivalent number of band D dwellings and adjusted for discounts and exemptions.

The national Council Tax Benefit scheme was abolished 31 March 2013 and replaced in 2013/14 by local Council Tax Support schemes. Central funding changed from demand led subsidy to a reduced fixed grant to Councils, who were required to implement local Council Tax Support schemes. These now form part of tax base and collection fund arrangements.

The Council Tax base was calculated as follows:

Band	No. of properties on Valuation List	No. of chargeable dwellings	Ratio	Band D equivalent dwellings
A (with Disabled Relief)	-	25	5/9	14
A	14,804	11,193	6/9	7,462
B	8,293	6,499	7/9	5,055
C	9,576	7,657	8/9	6,806
D	3,964	3,586	9/9	3,586
E	1,740	1,422	11/9	1,738
F	352	287	13/9	415
G	99	79	15/9	132
H	13	5	18/9	9
Band D Equivalentents				25,217
Allowance for non-collection (1.21%)				(305)
<b>District Tax Base</b>				<b>24,912</b>

The basic amount of Council Tax for a band D property including an average parish charge, £1,441.97 (2012/13 £1,437.87), is then multiplied by the ratio specified for the particular band to give an individual amount due.

### NOTE 3 – NON-DOMESTIC RATES RECEIVABLE

Under the arrangements for Non-Domestic Rates, the Council collects rates for its area based on local rateable values (determined by the Valuation Office Agency, an executive agency of HM Revenue and Customs) multiplied by the multiplier (determined by the Government). For 2013/14 there are two multipliers, the non-domestic rating multiplier of 47.1p and the small business non-domestic rating multiplier of 46.2p.

The Council's total Non-Domestic Rates Rateable Value at 31 March 2014 was £63.114m (31 March 2013 £63.014m).

Before April 2013 all business rate income collected by Councils formed a single, national pool, which was then distributed to Councils by government in the form of formula grant. The amount paid to the pool by South Holland in 2012/13 was £22.654m. The Council also participated in Lincolnshire pool for 2013/14.

These national pooling arrangements were replaced from 2013/14 with local business rate retention arrangements, and in turn new accounting requirements. Under the new arrangements, the Government has given a financial incentive to Councils to grow local economies, as part of the increase in business rates is retained locally. The new arrangements have though introduced risk to local Councils, including the potential for loss due to rateable value appeals. The new system's arrangements include a levy payable to the government if growth exceeds the authority's baseline, and safety net provisions to cap the loss on individual local authorities in any one year.

Under the new arrangements South Holland retain 40% of Business Rate Income with the remainder being distributed to Central Government (50%) and Lincolnshire County Council (10%).

### NOTE 4 – NON-DOMESTIC RATES PROVISION FOR APPEALS

The Collection Fund provides for provision for appeals against the Rateable Value set by the Valuation Office Agency (VOA) not settled at 31 March 2014.

2012/13 £000		2013/14 £000
-	Balance at 1 April	-
-	Increase in Provision during the year	2,548
-	<b>Balance at 31 March</b>	<b>2,548</b>
-	<b>South Holland Share</b>	<b>1,019</b>

## NOTE 5 – COLLECTION FUND DEFICIT/ (SURPLUS)

Council Tax surplus or deficits are apportioned to the relevant precepting bodies based on the following years Council Tax requirement. Non Domestic Rates surplus or deficits are apportioned in accordance with the new arrangements i.e. South Holland 40%, Central Government 50% and Lincolnshire County Council 10%.

As at 31 March 2014, the total deficit on the Collection Fund is £1,049,000 (31 March 2013, a surplus of £14,000). The balance on the Collection Fund is allocated as follows:-

2012/13			2013/14	
Council Tax	Non-Domestic Rates		Council Tax	Non-Domestic Rates
£'000	£'000		£'000	£'000
		Central Government		766
(2)		South Holland District Council	(62)	613
(10)		Lincolnshire County Council	(356)	153
(2)		Police and Crime Commissioner for Lincolnshire	(65)	
<b>(14)</b>		<b>(Surplus)/deficit</b>	<b>(483)</b>	<b>1,532</b>

**GROUP ACCOUNTS**  
**Group Movement in Reserves Statement**

2012/13	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's Share of Reserves of Subsidiaries and Joint Ventures £000	Total Reserves £000
<b>Balance at 31 March 2012</b>	<b>1,943</b>	<b>3,428</b>	<b>1,955</b>	<b>200</b>	<b>1,457</b>	<b>2,114</b>	<b>11,097</b>	<b>48,046</b>	<b>59,143</b>	<b>(270)</b>	<b>58,873</b>
<b>Movement in Reserves during 2012/13</b>											
Surplus or (deficit) on the provision of services	(2,060)	-	3,123	-	-	-	1,063	-	1,063	184	1,247
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	(3,577)	(3,577)	(344)	(3,921)
<b>Total Comprehensive Income and Expenditure</b>	<b>(2,060)</b>	<b>-</b>	<b>3,123</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,063</b>	<b>(3,577)</b>	<b>(2,514)</b>	<b>(160)</b>	<b>(2,674)</b>
Adjustments between Group Accounts and authority accounts	-	-	-	-	-	-	-	-	-	187	187
Adjustments between accounting basis & funding basis under regulations	3,732	-	135	-	(38)	(471)	3,358	(3,358)	-	-	-
<b>Net Increase/Decrease before transfers to Earmarked Reserves</b>	<b>1,672</b>	<b>-</b>	<b>3,258</b>	<b>-</b>	<b>(38)</b>	<b>(471)</b>	<b>4,421</b>	<b>(6,935)</b>	<b>(2,514)</b>	<b>27</b>	<b>(2,487)</b>
Transfers to/from Earmarked Reserves	(1,581)	1,581	-	-	-	-	-	-	-	-	-
<b>Increase/Decrease in 2012/13</b>	<b>91</b>	<b>1,581</b>	<b>3,258</b>	<b>-</b>	<b>(38)</b>	<b>(471)</b>	<b>4,421</b>	<b>(6,935)</b>	<b>(2,514)</b>	<b>27</b>	<b>(2,487)</b>
<b>Balance at 31 March 2013</b>	<b>2,034</b>	<b>5,009</b>	<b>5,213</b>	<b>200</b>	<b>1,419</b>	<b>1,643</b>	<b>15,518</b>	<b>41,111</b>	<b>56,629</b>	<b>(243)</b>	<b>56,386</b>

2013/14	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Authority's Share of Reserves of Subsidiaries and Joint Ventures £000	Total Reserves £000
<b>Balance at 31 March 2013</b>	<b>2,034</b>	<b>5,009</b>	<b>5,213</b>	<b>200</b>	<b>1,419</b>	<b>1,643</b>	<b>15,518</b>	<b>41,111</b>	<b>56,629</b>	<b>(243)</b>	<b>56,386</b>
<b>Movement in Reserves during 2013/14</b>											
Surplus or (deficit) on the provision of services	(473)	-	2,860	-	-	-	2,387	-	2,387	229	2,616
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-	184	184	(915)	(731)
<b>Total Comprehensive Income and Expenditure</b>	<b>(473)</b>	<b>-</b>	<b>2,860</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,387</b>	<b>184</b>	<b>2,571</b>	<b>(686)</b>	<b>1,885</b>
Adjustments between Group Accounts and authority accounts										7	7
Adjustments between accounting basis & funding basis under regulations	3,347	-	(1,238)	-	(9)	(31)	2,069	(2,069)	-	-	-
<b>Net Increase/Decrease before transfers to Earmarked Reserves</b>	<b>2,874</b>	<b>-</b>	<b>1,622</b>	<b>-</b>	<b>(9)</b>	<b>(31)</b>	<b>4,456</b>	<b>(1,885)</b>	<b>2,571</b>	<b>(679)</b>	<b>1,892</b>
Transfers to/from Earmarked Reserves	(2,874)	2,874	-	-	-	-	-	-	-	-	-
<b>Increase/Decrease in 2013/14</b>	<b>-</b>	<b>2,874</b>	<b>1,622</b>	<b>-</b>	<b>(9)</b>	<b>(31)</b>	<b>4,456</b>	<b>(1,885)</b>	<b>2,571</b>	<b>(679)</b>	<b>1,892</b>
<b>Balance at 31 March 2014</b>	<b>2,034</b>	<b>7,883</b>	<b>6,835</b>	<b>200</b>	<b>1,410</b>	<b>1,612</b>	<b>19,974</b>	<b>39,226</b>	<b>59,200</b>	<b>(922)</b>	<b>58,278</b>

## Group Comprehensive Income and Expenditure Statement

2012/13				2013/14		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
7,049	(6,725)	324	Central services to the public	1,315	(1,138)	177
2,817	(880)	1,937	Cultural and Related services	4,030	(937)	3,093
4,142	(1,392)	2,750	Environment and Regulatory services	4,473	(1,440)	3,033
3,136	(1,406)	1,730	Planning services	2,645	(1,569)	1,076
269	(282)	(13)	Highways and transport services	231	(278)	(47)
9,330	(15,315)	(5,985)	Local authority housing (HRA)	10,450	(16,166)	(5,716)
20,413	(19,855)	558	Other housing services	20,802	(20,023)	779
2,442	(574)	1,868	Corporate and democratic core	2,694	(500)	2,194
24	-	24	Non distributed costs	12	-	12
<b>49,622</b>	<b>(46,429)</b>	<b>3,193</b>	<b>Cost of Services</b>	<b>46,652</b>	<b>(42,051)</b>	<b>4,601</b>
6,372	(782)	5,590	Other operating expenditure	3,465	(615)	2,850
5,228	(2,403)	2,825	Financing and investment income and expenditure	5,706	(2,110)	3,596
-	(12,855)	(12,855)	Taxation and non-specific grant income and expenditure	6,513	(20,176)	(13,663)
<b>61,222</b>	<b>(62,469)</b>	<b>(1,247)</b>	<b>Group (Surplus) or Deficit on Provision of Services</b>	<b>62,336</b>	<b>(64,952)</b>	<b>(2,616)</b>
		(174)	Surplus or deficit on revaluation of non-current assets			(1,659)
		3,751	Actuarial gains/losses on pension assets/liabilities			1,475
		344	Share of other comprehensive income and expenditure of joint ventures			915
		<b>3,921</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>731</b>
		<b>2,674</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(1,885)</b>

## Group Balance Sheet

<b>31 March 2013 £000</b>		<b>31 March 2014 £000</b>
136,276	Property, Plant & Equipment	136,724
61	Heritage Assets	98
1,115	Investment Property	857
195	Intangible Assets	187
67	Long Term Debtors	151
<b>137,714</b>	<b>Non-Current Assets</b>	<b>138,017</b>
7,078	Short Term Investments	10,146
210	Assets Held for Sale	530
40	Inventories	21
2,561	Short Term Debtors	2,997
5,839	Cash and Cash Equivalents	8,561
<b>15,728</b>	<b>Current Assets</b>	<b>22,255</b>
(32)	Short Term Borrowing	(29)
(2,544)	Short Term Creditors	(3,019)
(954)	Liabilities in Joint Ventures	(1,869)
<b>(3,530)</b>	<b>Current Liabilities</b>	<b>(4,917)</b>
(233)	Long Term Creditors	(259)
-	Provisions	(1,019)
(67,459)	Long Term Borrowing	(67,456)
(25,176)	Other Long Term Liabilities	(27,710)
(658)	Capital Grants Receipts in Advance	(633)
<b>(93,526)</b>	<b>Long Term Liabilities</b>	<b>(97,077)</b>
<b>56,386</b>	<b>Net Assets</b>	<b>58,278</b>
16,055	Usable Reserves	20,699
40,331	Unusable Reserves	37,579
<b>56,386</b>	<b>Total Reserves</b>	<b>58,278</b>

## Group Cash Flow

2012/13 £000		2013/14 £000
1,247	Net (surplus) or deficit on the provision of services	2,616
7,118	Adjustments to net surplus or deficit on the provision of services for non-cash movements	8,393
(1,348)	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(1,326)
<b>7,017</b>	<b>Net cash flows from Operating Activities</b>	<b>9,683</b>
(5,910)	Investing Activities	(7,517)
2,078	Financing Activities	556
<b>3,185</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>2,722</b>
2,659	Cash and cash equivalents at the beginning of the reporting period	5,839
(5)	Removal of Red Lion Quarter cash included at the beginning of the reporting period	-
<b>5,839</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>8,561</b>

The Council has prepared group account statements that include the financial transactions of South Holland Local Housing Community Interest Company as a wholly owned subsidiary company together with the relevant proportion of Compass Point Business Services (East Coast) Limited - using the equity method - as it is a joint venture between the Council and East Lindsey District Council.

### Accounting Policies

The financial statements of South Holland Local Housing have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008), and therefore not under IFRS. There are no significant differences in the accounting policies of the companies and the Council that would cause a material adjustment in the consolidation of the Group Accounts. Otherwise, the accounting policies of the group entities are in accordance with those of the Council.

There are no additional notes which require disclosure for these Group Accounts other than those already included within the single entity accounts. The notes that follow relating to each entity are produced to assist the reader's understanding of the relationship between the Council and the entity.

### Contingent Liabilities

There are no contingent liabilities for 2013/14 relating to the interests in the companies and joint venture or in the entities themselves that are not disclosed elsewhere in the Accounts.

## **South Holland Local Housing Community Interest Company (SHLHCIC) – South Holland Homes**

In 2008/09 the Council set up a wholly owned subsidiary company, South Holland Homes, for the purpose of accessing social housing grant from the Homes and Communities Agency. This was in order to provide affordable and social housing for the benefit of the local community.

In 2009/10, 6 new properties were constructed. These are tenanted and managed by the Council. In 2010/11 the Company was gifted 8 former Council houses which it prepared for sale and put on the market in the autumn of 2010. One sale was completed in 2010/11, another two in 2011/12, and a further 2 in 2012/13. The remaining 3 properties were disposed of during 2013/14. Receipts from the sale of these properties will be reinvested into the provision of further affordable homes.

### ***Voting Rights***

The Council controls the majority of the voting rights of the company.

### ***Retained Surplus/Deficit***

In 2013/14 the company made a profit of £171,212 (2012/13 £125,751). This is included in the Group Comprehensive Income and Expenditure Statement. The Council's liability in respect of meeting any deficits is limited to the unpaid share capital (the share capital is £100 fully paid up).

### ***Assets and Liabilities***

At 31 March 2014, South Holland Homes held fixed assets valued at £738,412 and current assets totalling £457,996, Liabilities consisted of short term creditors of £5,000, and long term creditors of £516,162 including loans of £249,162 to be repaid to the Council in future years.

### ***Commitments under capital contracts***

At 31 March 2014 the company had no commitments under capital contracts (31 March 2013 nil).

### ***Inter-organisation Balances***

Group accounting regulations require that inter-organisation balances be removed. The following balances were removed in 2013/14:-

- Debtors – for rent due on new build properties £2,007 (2012/13 £14,382)
- Creditors – for other expenses £1,440 (2012/13 £2,862)
- Loans – to assist property refurbishment has been repaid (2012/13 £20,802)

### ***Inter-organisation transactions***

Group accounting regulations require that inter-organisation transactions be removed. The following transactions were removed in 2012/13:-

- Rent £24,986 (2012/13 £23,364)
- Management fees £7,510 (2012/13 £7,510)
- Other expenses of £0 (2012/13 £412)
- Loan repayment and interest £20,802 and £162 respectively (2012/13 £27,612 and £409 respectively)

### ***South Holland Homes Accounts***

Further information about the accounts of South Holland Homes is available from the Company Secretary, Mr M Stinson, Council Offices, Priory Road, Spalding, Lincolnshire, PE11 2XE.

### **Compass Point Business Services (East Coast) Limited - (CPBS)**

On 1 August 2010, the Council and East Lindsey District Council transferred the operations of a number of their back-office services (IT, Finance, Human Resources, Revenues and Benefits, and Customer Services) to CPBS.

CPBS is accounted for as a joint venture between the two founding Councils, and has been incorporated into the group accounts using the equity method. This requires that each Council incorporates the relevant proportion of CPBS' financial position at the year end into its Group Accounts. For South Holland, the relevant proportion is 37%.

In 2013/14 the company's comprehensive income statement shows a deficit of £2.472m (2012/13 a deficit of £0.931m). Of this, the Council's proportion of £0.915m (2012/13 £0.344m) is included in the Group Comprehensive Income and Expenditure Statement. At 31 March 2014, the net worth of CPBS was (£5.051m) (2012/13 (£2.579m)), taking into account the pension deficit of £1.840m calculated as at 31 March 2014 (31 March 2013 deficit of £1.840m). The Council's proportion of the net worth that has been incorporated into the Group Accounts Balance Sheet is (£1.869m), (2012/13 (£0.954m)).

### ***Voting Rights***

At 31 March 2014, the Council had 50% of the voting rights of the company.

### ***Accounting Policies***

The company's accounting policies are in line with the Council's accounting policies

### **Council Interest**

The Council has the following interest in its joint venture company, Compass Point Business Services (East Coast) Limited.

<b>2012/13 £000</b>		<b>2013/14 £000</b>
342	Current Assets	416
655	Non Current Assets	521
(546)	Current Liabilities	(574)
(1,405)	Long term Liabilities	(2,232)
<b>(954)</b>	<b>Shown in Balance Sheet</b>	<b>(1,869)</b>
(344)	Interest in Income and Expenditure	(915)
<b>(1,298)</b>	<b>Total interest in joint venture company</b>	<b>(2,784)</b>

Further information about the accounts of CPBS is available from the Company Secretary, Eversheds House, 70 Great Bridgewater Street, Manchester, M1 5ES

## GLOSSARY OF TERMS

### **Accounting Period**

This is the period of time covered by the accounts, normally twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

### **Accruals Basis**

The accruals principle is that income is recorded when it is earned rather than when it is received and expenses are recorded when goods and services are received rather than when the payment is made.

### **Actuarial Gains and Losses**

Actuaries assess financial and non-financial information by the Council to project levels of future pension fund requirements. Changes in actuarial deficits or surpluses can arise leading to a loss or gain because:

- events have not coincided with the actuarial assumptions made for the last valuation
- the actuarial assumptions have changed

### **Appointed Auditors**

The Audit Commission appoints external auditors to every Local Authority from one of the major firms of registered auditors. For South Holland this is KPMG.

### **Balance Sheet**

This is a statement of the recorded assets, liabilities and other balances held at the end of the accounting period.

### **Balances**

The balances of the Council represent the accumulated surplus of income over expenditure on any of the funds.

### **Capital Adjustment Account**

The Account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure. The same process applies to capital expenditure that is only capital by statutory definition (e.g. Disabled Facilities Grants). The balance on this account thus represents timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

### **Capital Expenditure**

This is expenditure on the acquisition of a non-current asset (fixed asset), or expenditure, which adds to, and not merely maintains, the value of an existing non-current asset.

### **Capital Receipts**

Income received from the sale of land or other capital assets, a proportion of which may be used to finance new capital expenditure, subject to the provisions contained within the Local Government Act 2003.

### **Carrying Amount**

The Balance Sheet value recorded of either an asset or a liability.

### **Cash Flow Statement**

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the financial year.

## **Chartered Institute of Public Finance and Accountancy (CIPFA)**

CIPFA is the leading professional accountancy body for public services

### **Collection Fund**

A fund administered by the Council showing the transactions of the billing authority (South Holland) in relation to the collection from taxpayers and the distribution to local authorities and the Government of Council tax and non-domestic rates.

### **Community Assets**

These are non-current assets that the Council intends to hold in perpetuity which have no determinable finite useful life and, in addition, may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

### **Contingent Liabilities or Assets**

These are amounts potentially due to or from individuals or organisations which may arise in the future but which at this time cannot be determined accurately and for which, provision has not been made in the Council's accounts.

### **Council Tax**

This is one of the main sources of local taxation to Local Authorities. Council Tax is levied on households within its area by the Billing Authority (South Holland) and the proceeds are paid into its Collection Fund for distribution to precepting Authorities and for use by its own General Fund.

### **Council Tax Requirement**

This is the estimated revenue expenditure on General Fund services that is required to be financed from Council Tax after deducting income from fees and charges, certain specific grants and any funding from reserves,

### **Creditors**

Amounts owed by the Council for work done, goods received or services rendered, for which payment has not been made at the balance sheet date.

### **Current Service Cost**

Current Service Cost is the increase in the present value of a defined benefit pension scheme's liabilities expected to arise from employee service in the current period, i.e. the ultimate pension benefits "earned" by employees in the current year's employment.

### **Curtailement**

Curtailements will allow the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year

### **Debtors**

These are sums of money due to the Council that have not been received at the balance sheet date.

### **Deferred Capital Receipts**

These represent capital income still to be received after disposals have taken place.

### **Defined benefit Scheme**

Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

## **Department for Communities and Local Government (CLG)**

The CLG is a key Department within Central Government with the overriding responsibility for determining the allocation of general resources to Local Authorities.

## **Depreciation**

This is the measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed (non-current) asset.

## **Earmarked Reserves**

The Council holds a number of reserves earmarked to be used to meet specific, known or predicted future expenditure.

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

Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Accounts are authorised for issue.

## **Exceptional Items**

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

## **External Audit**

The independent examination of the Council's activities and accounts to ensure that the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the Council has made proper arrangements to secure value for money in its use of resources.

## **Expenditure**

This is amounts paid by the Council for goods and services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment since expenditure is deemed to have been incurred once the goods or services have been received even if they have not been paid for.

## **Fair Value**

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

## **Finance Lease**

A finance lease is a lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

## **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. The term 'financial instrument' covers both financial assets and financial liabilities and includes Investments, trade receivables and trade payables.

## **General Fund**

This is the main revenue fund of the Council and includes the net cost of all services financed by local taxpayers and Government Grants.

## **Group Accounts**

Group Accounts consolidate the financial results of the Council, South Holland Homes and its joint venture Compass Point Business Services.

## **Heritage Assets**

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

## **Housing Revenue Account**

Local Authorities are required to maintain a separate account – the Housing Revenue Account – which sets out the expenditure and income arising from the provision of Council housing. Other services are charged to the General Fund.

## **Impairment**

A reduction in the value of a fixed asset to below its carrying amount on the Balance Sheet. Examples of factors which may cause such a reduction in value include general price decreases, a significant decline in a fixed asset's market value and evidence of obsolescence or physical damage to the asset.

## **Income**

These are amounts due to the Council for goods supplied or services rendered of either a capital or a revenue nature. This does not necessarily involve a cash payment. Income is deemed to have been earned once the goods or the services have been supplied even if the payment hasn't been received (in which case the recipient is a debtor to the Council).

## **Infrastructure Assets**

Fixed assets belonging to the Council that cannot be transferred or sold, on which expenditure is only recoverable by the continued use of the asset created. Examples are highways, footpaths and bridges.

## **Intangible Assets**

These are assets that do not have physical substance but are identifiable and controlled by the Council. Examples include Software Licenses.

## **International Financial Reporting Standards**

These are defined Accounting Standards that must be applied by all reporting entities to all financial statements in order to provide a true and fair view of the entity's financial position, and a standardised method of comparison with financial statements of other entities.

## **Liabilities**

These are amounts due to individuals or organisations which will have to be paid at some time in the future. Current Liabilities are usually payable within one year of the Balance Sheet date.

## **Materiality**

The concept that the Accounts should include all amounts which, if omitted or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

## **National Non Domestic Rates (Business Rates)**

This is one of the main sources of local taxation to Local Authorities. NNDR is the levy on business property, based on a national rate in the pound applied to the rateable value of the property.

**Net Book Value (NBV)**

The amount at which fixed assets are included in the Balance Sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

**Net Debt**

Net debt is the Council's borrowings less cash and liquid resources.

**Net Realisable Value (NRV)**

NRV is the open market value of the asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

**Non-Current Assets Fixed Assets)**

Assets that yield benefits to the Council and the services it provides for a period of more than one year. Examples include land, buildings and vehicles.

**Non-Distributed Costs**

These are overheads for which no user now benefits and as such are not apportioned to services.

**Non-Operational Assets**

Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. Examples are investment properties, assets under construction or assets surplus to requirements pending sale or redevelopment.

**Operational Assets**

Fixed assets held and occupied, used or consumed by the Council in the pursuit of its strategy and in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

**Operational Boundary**

This reflects the maximum anticipated level of external debt consistent with budgets and forecast cash flows.

**Operating Lease**

This is a type of lease usually for computer equipment or office furniture and equipment where the balance of risks and rewards of holding assets remains with the lessor. The assets remain the property of the lessor and the lease costs are revenue expenditure to the Council.

**Precept**

The amount levied by various Authorities that is collected by the Council on their behalf. The precepting authorities in South Holland are Lincolnshire County Council and the Police and Crime Commissioner for Lincolnshire.

**Prior Year Adjustment**

These are material adjustments which are applicable to an earlier accounting period arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Provision**

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

**Public works loan board (PWLB)**

A Central Government Agency which provides loans, for one year and above, to Councils at interest rates only slightly higher than those at which the government can borrow itself.

**Related Parties**

Related parties are Central Government, other Local Councils, precepting and levying bodies, subsidiary and associated companies. Related parties are deemed to include the Council's elected members, the Chief Executive and its directors. For individuals identified as related parties, the following are also presumed to be related parties:-

- members of the close family, or the same household; and
- partnerships, companies, trusts or other entities in which the individual or member of their close family or the same household has a controlling interest.

**Remuneration**

All sums paid to or receivable by an employee and sums due by way of expense allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received. Pension contributions payable by the employer are excluded.

**Reserves**

The accumulation of surpluses, deficits and appropriations arising from previous financial years. Reserves can either be usable; that is, available to meet the Council's future expenditure plans and unusable; that is, those maintained purely for accounting purposes.

**Revaluation Reserve**

The Reserve records the accumulated gains on the fixed assets held by the Council arising from increases in value as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movements in value).

**Revenue Expenditure**

Expenditure incurred on the day-to-day running of the Council. This mainly includes employee costs, general running expenses and capital financing costs.

**Revenue Expenditure Funded From Capital under Statute (REFCUS)**

Expenditure incurred in year that may be capitalised under statutory provision but that does not result in the creation of a non-current asset that has been charged as expenditure to the Comprehensive Income and Expenditure Statement.

**Revenue Support Grant**

A grant paid by Central Government towards the cost of providing General Fund services.

**Service Reporting Code of Practice (SeRCOP)**

Prepared and published by CIPFA, SeRCOP establishes proper practices with regard to consistent financial reporting for services in England and Wales. It is given legislative backing by regulations which identify the accounting practices it propounds as proper practices under the Local Government Act 2003.

**Treasury Management**

This is the process by which the Council controls its cash flow and its borrowing and lending activities.

**Treasury Management Strategy**

A strategy prepared with regard to legislative and CIPFA requirements setting out the framework for treasury management activity for the Council.