

**SOUTH HOLLAND  
DISTRICT COUNCIL**

**STATEMENT OF  
ACCOUNTS**

**For the Year Ended 31 March 2011**

# STATEMENT OF ACCOUNTS

2010/11

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## **EXPLANATORY FOREWORD BY THE ASSISTANT DIRECTOR FINANCE**

The Statement of Accounts provides information on how the Council has used the financial resources available to it. The document 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 with 1.03 persons per hectare compared to an average for England and Wales of 3.77 people.

#### ***Population***

In the 2001 Census the total population of the District was 76,522, an increase of 13.4% since the 1991 Census.

The latest population estimate for South Holland is 84,100 people. (Source: ONS revised mid 2009 population estimates, released mid 2010)

The District's population is growing rapidly. In the years between 2001 and 2007 the population of the district grew by 7.9% compared with 7.1% for Lincolnshire and 3.9% for England and Wales. It is predicted to grow by a further 14% in the period to 2018.

The number of households in the District as at 31 March 2011 was 38,480.

#### ***Employment***

The South Holland economy is largely based upon agriculture, horticulture and food processing, as well as services connected to these industries such as distribution and packaging.

Unemployment rates remained very low in the District up until June 2008 when, as a result of the current economic problems, rates started rising. In February 2011 the claimant count was 3.2%. The regional level at the same time was 3.7% and the England & Wales comparative was 4.1%.

The median gross weekly pay for a full time worker living in South Holland is £443.60 compared with the national figure of £491.00 (ONS 2009)

In the 10 years between 1995 and 2005 the number of employee jobs in the District grew by 64%, considerably higher than any other local district. (NOMIS, ONS Annual Business Inquiry Employee Analysis).

## **2. Political Structure**

The Council holds elections for all District Councillors once every four years. Following the election on 5 May 2011 there were 25 Conservative, 11 Independent, and 1 Lincolnshire Independent councillor.

The Council operates with a Cabinet and Overview and Scrutiny function which comprises a Policy Development Panel and Performance Monitoring Panel.

The Cabinet is chaired by the Leader of the Council. The Cabinet has executive decision making powers and meets on a 5 - 6 weekly cycle.

Each of the Cabinet members has an area of responsibility known as a 'portfolio' for which they have delegated powers to make executive decisions within their remit.

Although a number of areas of decision making are delegated to the Cabinet or the Senior Management Team, the full Council remains the ultimate decision making body of the Council. The Overview and Scrutiny Panels provide the role of challenge and scrutiny of recent and/or forthcoming executive decisions. Also the role of the Panels is to undertake reviews of specific issues or projects relevant to the Council's services or external scrutiny of partners who provide services that impact on the Council and/or residents of South Holland.

In accordance with the Local Government and Public Involvement in Health Act 2007 the Council was required to review its executive arrangements by 31 December 2010 and decide to adopt either a new Leader and Cabinet or a Mayor and Cabinet style executive. The Council has decided to adopt a new Leader and Cabinet style executive which was also the preference expressed through a public consultation exercise. The new arrangements have been implemented from May 2011.

## **3. Governance and Audit**

The Governance and Audit Committee was established by full Council at its Annual Meeting on 16 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
- Review internal controls
- Review the internal audit programme
- Review Treasury Management practices
- Scrutinise the Treasury Management Strategy and performance
- To consider the appointment of the external auditor and their independence

## **4. Council Priorities**

### ***Corporate Plan***

The Council has a corporate plan which covers a 5 year period, currently up to 2016, and is refreshed annually. The plan sets out the Council's Priorities which are:

- Affordable homes
- Care of our villages and towns
- A secure and diverse economy

- Improving health through cultural and sporting opportunities
- Improving access to services
- Democratic community leadership
- Maintaining our capacity to deliver

We have reviewed the challenges facing the area, the people of South Holland and the Council and have talked to residents about what is important to them and about improvement. The corporate plan is all about achieving the vision for South Holland as a thriving, living, working rural community, a place that people are proud of, and about our vision of being an efficient and well managed local authority that listens and acts upon local concerns.

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

There are also three cross-cutting themes that influence all we do in delivering our seven priorities and many other areas of work in the Council. These are:

- Improving health
- Climate change
- Community cohesion

### ***Service Business Plans***

The Council's business planning process includes individual plans at service level. The targets within these are set annually but cover a three year period to demonstrate continuous improvement. Targets may be set for Performance Indicators some of which are of national interest and others that are specific to this Council.

### ***Monitoring and Reporting***

We monitor and report on the delivery of our priorities in several ways:

- Monthly performance reports by service and by priority are produced through our performance management system and discussed by Portfolio Holders and Service Managers
- Quarterly Governance and Performance Monitoring Report – a detailed report covering performance against our priorities and our financial position is taken to Cabinet and the Performance Monitoring Panel
- Annual Report – which reports on our performance for the year, produced annually in June.

## **5. Review of 2010/11**

### ***Introduction***

The Council incurs both revenue and capital expenditure during the year. Revenue expenditure is generally on items that are consumed within one year, and is financed from government grants, council tax, council house rents and fees and charges. Capital expenditure, however, is on 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. Monthly monitoring reports are considered by the Senior Management Team, whilst quarterly reports are presented to the Cabinet.

### ***Transition to International Financial Reporting Standards (IFRS)***

There have been changes to the statutory Statements included within this set of accounts following implementation of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010/11. The transition from UK GAAP (Generally Accepted Accounting Practice) to an IFRS basis has led to a number of changes in accounting policy, changes to the presentation of the financial statements, restatement of the 1 April 2009 opening Balance Sheet and 2009/10 comparative information. Information on the material differences between the previous financial statements under UK GAAP and the re-stated amounts under IFRS is provided at Note 52.

### ***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 2010/11. The changes in 2010/11 to accounting policies relate to changes due to the transition to International Financial Reporting Standards (IFRS) outlined above. Further information is provided within the Accounting Policies Section of the Financial Statements.

### **Shared Services**

The Council participates in two Shared Services arrangements.

***Legal Services*** - the Council has not employed its own legal staff since May 2008 when its Legal Team transferred to Lincolnshire County Council through a shared service arrangement. This has given the Council access to a much larger legal team with wider areas of expertise, therefore providing a greater resilience to cope with peaks and troughs in workloads. April 2010 saw the introduction of a charging regime for the services provided, being charged on actual work undertaken. The agreed charge-out rates are considerably less than what we can achieve in the private sector. However, the Council continues to look for alternative ways of procuring legal advice to ensure that value for money is achieved.

***Procurement Lincolnshire*** – is run by Lincolnshire County Council and provides procurement support to all district councils within Lincolnshire, as well as developing contracts which may be used by the councils within the county and across a larger group of public sector organisations. The service aims to provide a centralised resource on behalf of each council offering a procurement service, with advice and support to members and officers alike.

As part of the annual closedown process a review of the Council's group relationships is undertaken and any partnerships are reviewed to assess their relationship with the Council and therefore how they should be treated within our Statement of Accounts.

The relationship between Lincolnshire County Council and the district councils for the provision of procurement services through Procurement Lincolnshire and also the provision of Lincolnshire Legal Services is deemed to be a contractual relationship only – no group relationship exists in either shared service. Contributions made by South Holland for the provision of services are reflected in the Comprehensive Income and Expenditure Statement.

## ***Merged service organisation - Compass Point Business Services (East Coast) Ltd***

Compass Point Business Services (East Coast) Ltd is a merged service organisation of South Holland District Council and East Lindsey District Council, and commenced trading on the 1st August 2010.

The reason for setting up the company was to achieve service improvements and efficiencies in back office functions, with Information Technology, Customer Services, Finance, Benefits and Revenue Services, and Human Resources transferred to the company. Savings of over £30m across the two Councils are planned over the next ten years.

The shareholding in Compass Point Business Services Limited is split South Holland District Council 37% and East Lindsey District Council 63%, although the company is controlled 50:50 by each Council having 50% voting rights.

In accordance with accounting reporting requirements, the relevant proportion of Compass Point Business Services (East Coast) Ltd's financial position has been consolidated into the Council's Group Accounts.

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

The introduction of International Financial Reporting Standards has had an effect on both the value and the categorisation of the Council's 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 and investment properties (assets held primarily to generate rental income and/or for capital appreciation) which are held at market value.

The new accounting arrangements require that certain assets that had been traditionally categorised as being held under operating leases have now been brought onto the Council's Balance Sheet as being held under the terms of a finance lease. As at 31 March 2011 these are valued at £635,414.

Additionally, strict criteria now apply to assets categorised as 'held for sale' and 'investment properties'. This has resulted in the re-categorisation of a number of assets held in the Balance Sheet.

A full revaluation of Housing Revenue Account assets was undertaken by an external valuer on 1 April 2011. This has resulted in a substantial reduction in the value of Council dwellings. The revaluation has been based on new guidance issued in January 2011 for valuing housing stock. The guidance changed the adjustment factor that previously applied to Council dwellings to reflect Existing Use Value for Social Housing from 50% to 34%. The Balance Sheet value of Council Dwellings at 31 March 2011 is £112m, a reduction of £54m from the reported value at 31 March 2010.

General Fund asset valuations have been reviewed at 31 March 2011; this being carried out mainly on a "desktop" basis with some assets being physically inspected. These valuations are in accordance with the Royal Institution of Chartered Surveyors Valuation Standards 6<sup>th</sup> Edition that were revised to reflect the requirements of the introduction of International Financial Reporting Standards.

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 i.e. the Council's Revenue Account**

The budget set by South Holland for 2010/11 required an increase in Council Tax of 2.55%. This gave a District Band D Council Tax of £157.03.

The budget requirement for the year was set at £14.164m, representing the net cost of providing the council's services. This requirement was financed as follows:

|  | <b>Original Budget<br/>£000</b> |
|--|---------------------------------|
| Government Formula Grant (Revenue Support Grant and re-distributed business rates) | 8,982                           |
| Council Tax Income – excluding in year deficit adjustments                         | 5,182                           |
| <b>Total</b>   | <b>14,164</b>                   |

The following table identifies the variances in service expenditure, other operating costs, and income from grants, local taxpayers and other sources, compared in overall terms to the budget as approved by Council when setting the Council tax for 2010/11.

|   | <b>Original Budget<br/>£000</b> | <b>Outturn<br/>£000</b> | <b>Variance<br/>£000</b> |
|---|---------------------------------|-------------------------|--------------------------|
| <b>Expenditure</b>  |                                 |                         |                          |
| Employees   | 10,097                          | 7,868                   | (2,229)                  |
| Regulatory requirements for Pension Scheme accounting                               | (644)                           | (5,680)                 | (5,036)                  |
| Other Running Costs   | 8,772                           | 8,326                   | (446)                    |
| Third Party Contracts   | 655                             | 2,793                   | 2,138                    |
| Transfer Payments – Housing and Council Tax Benefits and Concessionary Fares        | 22,370                          | 22,552                  | 182                      |
| Parish Precepts and Internal Drainage Board Levies                                  | 2,692                           | 2,692                   | -                        |
| Capital Charges   | 1,027                           | 6,216                   | 5,189                    |
| Capital Grants and Contributions made to private tenants and external organisations | 304                             | 1,589                   | 1,285                    |
| <b>Income</b>   |                                 |                         |                          |
| Government and Other Grants and Contributions                                       | (24,126)                        | (25,465)                | (1,339)                  |
| Rents, Fees and Charges   | (3,397)                         | (4,189)                 | (792)                    |
| Recharges   | (2,111)                         | (1,829)                 | 282                      |
| Investment Income   | (130)                           | (119)                   | 11                       |
| <b>Net Service Expenditure</b>  | <b>15,509</b>                   | <b>14,754</b>           | <b>(755)</b>             |
| Movement to/(from) Earmarked Reserves   | (1,538)                         | (534)                   | 1,004                    |
| Statutory Adjustments   | 193                             | (87)                    | (280)                    |
| <b>Outturn for 2010/11</b>  | <b>14,164</b>                   | <b>14,133</b>           | <b>(31)</b>              |

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

### *Employees*

Reductions in employee costs reflect the transfer of staff to Compass Point Business Services (East Coast) Ltd on 1 August 2010. Other reductions in salary and related on-costs reflect the careful management of vacant posts arising during the course of the year.

In addition, one-off investment costs in the form of redundancy and pension enhancements were incurred in 2010/11, in respect of the joint Management Structure with Breckland District Council which came into effect on 1 April 2011.

### *Regulatory requirements for Pension Schemes*

International Accounting Standard (IAS) 19 – Employee benefits, sets out the accounting requirements relating to defined pension schemes. The main change shown within the accounts reflects adjustments to pension increases introduced in the Chancellor's budget Statement in June 2010, where future pension increases will be linked to the Consumer Price Index rather than the Retail Price Index. This has reduced the fund's liabilities as calculated by the actuaries to the fund. Also the removal of the proportion of the fund for employees transferred to Compass Point Business Services (East Coast) Ltd has impacted on the charge for the year and closing balances.

The impact of IAS 19 on the General Fund is nil, as the required accounting entries are reversed out as part of Statutory Adjustments.

### *Third Party Contracts*

Includes payments made to Compass Point Business Services for the delivery of Back Office Services from 1 August 2010.

### *Capital Charges*

Following the revaluation of the Council's assets, statutory accounting requirements mean that part of the reduction reported by the valuer is required to be included in the revenue account where the reduction cannot be charged against previous years' revaluation gains. The impact on the General Fund is nil, as the required accounting entries are reversed out as part of Statutory Adjustments.

### *Capital Grants and Contributions made to private tenants and external organisations*

Includes payment of grants to private tenants for Disabled Facilities Grants, grants for Conservation projects and set up costs for the back office merged service that were not included within the original revenue budget. The impact on the General Fund is nil, as the costs are funded from capital resources (reversed out as part of Statutory Adjustments).

### *Government and Other Grants and Contributions*

During the year the Council received additional sums from the government and other sources above the amount originally included in the budget, some of which related to grants towards private sector home improvements.

### *Movement to/ (from) Earmarked Reserves*

The net transfer from earmarked reserves during the year was £534,000, whereas the 2010/11 estimates had assumed a net transfer from reserves of £1,538,000. Additional grant income, the management of vacant posts, together with operational savings achieved during the year, resulted in a higher level of resources than forecast. These will be used to help deliver Council priorities in future years.

## ***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 2010/11 original budget forecast a decrease in the HRA working balance for the year of £244,000. The outturn position shows an increase to HRA balances of £234,000, representing an underspend of £478,000.

The key reasons for the difference are:

- Salary savings totalling £158,000 arising from the management of vacant posts.
- Delay in the implementation of Choice Based Lettings policies and procedures, resulting in an in year saving of £50,000.
- Savings in material purchases, void repairs and decoration expenditure in the Construction Services Unit of £120,000.
- Net savings on the Sheltered Housing service of £25,000.
- Deferral of Capital investment to be met from revenue resources in 2011/12.

The net cost of services for 2010/11, as shown in the HRA Income and Expenditure Statement, shows a significantly different position i.e. £52.840m against £3.114m reported for 2009/10. This is the result of an additional £53.144m accounting entry, which reflects a change in the adjustment factor used to reflect the valuation of social housing properties from 50% to 34% at 1 April 2010 as specified by the Government for the East Midlands, and a 'downwards' revaluation in the Council's Housing stock that occurred as a result of the downturn in house prices since the previous valuation. These accounting adjustments have no impact on the HRA balance as a compensating adjustment is made and is shown in the Statement of Movement on the HRA balance, in accordance with accounting requirements.

## ***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:

- Buy or sell land or property
- Build new property
- Carry out major repairs to its properties
- Improve our properties
- Provide grants for the above type of activity

The original budget plan for the year was to spend £11.487m on capital investment. The final approved programme, based on projections as at 31 December 2010, was set at £11.311m. Outturn for the year amounted to £10.566m which was £0.745m less than the final approved budget. The capital programme is reviewed by the Cabinet on a quarterly basis.

Capital Expenditure, excluding finance leases, was financed from the following sources:

|                                  | Final Budget<br>£000 | Outturn<br>£000 |
|----------------------------------|----------------------|-----------------|
| Sale of Assets                   | 1,099                | 917             |
| Direct Revenue Financing         | 1,145                | 695             |
| Capital Grants and Contributions | 6,352                | 6,214           |
| Major Repairs Allowance          | 2,209                | 2,209           |
| Borrowing                        | 506                  | 531             |
| <b>Total</b>                     | <b>11,311</b>        | <b>10,566</b>   |

An analysis of Capital Expenditure incurred in the year against the final approved budget is shown below:

| Scheme                                | Final Budget<br>£000 | Outturn<br>£000 | Variance<br>£000 |
|---------------------------------------|----------------------|-----------------|------------------|
| Improvement to Council Houses         | 3,230                | 2,980           | (250)            |
| Food Heritage Centre                  | 4,831                | 4,924           | 93               |
| Industrial Units                      | 334                  | 267             | (67)             |
| Gypsy and Travellers Sites            | 61                   | 28              | (33)             |
| Investment in ICT                     | 948                  | 813             | (135)            |
| Grants paid to private sector tenants | 871                  | 796             | (75)             |
| Grants - Other                        | 391                  | 337             | (54)             |
| Culture, Heritage and Sports          | 385                  | 250             | (135)            |
| Other Capital Projects                | 260                  | 171             | (89)             |
| <b>Total</b>                          | <b>11,311</b>        | <b>10,566</b>   | <b>(745)</b>     |

***Explaining the major differences:***

- Improvements to Council Housing:*  
Capital funding of £550,000 was transferred from the external wall insulation programme to finance the survey and removal of asbestos. Of the £550,000, £302,000 was spent resulting in an underspend of £248,000.
- Food Heritage Centre*  
The Red Lion development has been completed and was officially opened in April 2011. Final spend on the scheme is slightly over budget (£93,000) mainly as a result of higher than budgeted fitting out costs.
- Investment in ICT*  
Work on the ICT Strategy Projects for 2010/11 was in part deferred to accommodate the South Holland District Council and Breckland District Council shared management changes from April 2011.
- Culture, Heritage and Sports*  
The refurbishment of the Ayscoughfee and Monkshouse play area has commenced and will be completed early in 2011/12.

The Fulney Field Multi-wheeled Park was completed and opened in July 2010. Further minor works covering the path and seating area have now been completed. Landscaping and finishing of the shelter will be completed in early 2011/12.

Works on the Castle Sports Complex for 2010/11 were put on hold pending a decision on the development of a new Leisure Centre. Now that the decision has been delayed, these projects will be delivered in 2011/12.

The 2011/12 capital programme has been amended to reflect the outturn position for 2010/11. The Council estimates that it will spend £7.767m on capital investment in 2011/12.

### ***Red Lion Quarter***

The Council's flagship development, creating retail, office and educational space at Red Lion Street, Spalding was completed and opened in April 2011. Boston College have had considerable success in attracting students to the new courses; the Sage restaurant is operating successfully and the first office unit has been let. Red Lion Street itself was completely refurbished in partnership with Lincolnshire County Council highways to coincide with the opening. The building is recognised by most people as an iconic land mark for Spalding Town Centre and has created considerable interest.

### ***Economic development***

The Council bought, designed and built five new industrial units on a three acre site at Crease Drove, Crowland. The units were completed in June 2010 and were all taken, either let or sold, by early 2011. Two half acre sites have been sold to private companies who will be developing their own facilities, one being already completed. Of the businesses moving to the site, three are from outside South Holland and have created new jobs for the district.

### ***Council Tax Collection***

The net collectable amount for 2010/11 Council Tax was £34.628m, of which £33.940m was received at the end of March 2011. This represents a collection rate of 98.0% against a target of 98.3%. (2009/10 in year collection rate 98.0%)

### ***Efficiency***

The Council has been given financial targets to increase its efficiency for the last few years; with Central Government reducing the grant funding it gives councils by expected efficiency savings. For 2010/11 the Council planned to deliver £975,000 of efficiency savings, which was amended during the year to £694,000 in light of events occurring during 2010/11. Actual efficiency savings delivered in year were £703,000.

### ***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 £16.196m (£36.293m at 31 March 2010), 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 2011.

The IAS19 Balance Sheet position for the Council has improved significantly in 2010/11, due to the change to future pension inflationary increases announced by the Government and the actual performance of the Fund being above the original assumptions. In addition, the formation of Compass Point Business Services (East Coast) Ltd, effective from 1 August 2010, meant that a number of staff was transferred from the Council's employment to the Company, and as such the assets and liabilities relating to them have been removed. The

ongoing impact, relating to the transfer of staff, on the Council will be a higher employer's contribution rate payable from April 2011. This will ensure that the fund remains able to pay future pension liabilities.

Full details on pensions are set out in the Accounting Policies on pages 29-30 and in note 47 to the Core Financial Statements.

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

Investment returns continue to be limited, due to the low rates available. Interest received during the year from investments of £136,000 was below the original budget of £143,000. The interest received in the year is split between the General Fund and the Housing Revenue Account, in proportion to their reserve holdings.

The value of short-term investments held at 31 March 2011 was £4.0m, with a further £3.7m held in a business reserve account (£6.0m and £5.5m respectively at 31 March 2010).

### ***Reserves and Balances***

The General Fund working balance at the end of the financial year is £1.943m, which will be carried over into 2011/12. 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.

The Council holds a number of earmarked General Fund reserves to finance future capital and revenue expenditure. The net transfer from earmarked reserves for the year was £534,000. Additions occurred, primarily, due to transfers from the General Fund relating to in-year underspends and the receipt of external grant funding. Reductions supported spending on the delivery of the Council's priorities. The balance of General Fund earmarked reserves at 31 March 2011 was £3.184m (£3.718m at 31 March 2010). A full analysis of earmarked reserves is contained in note 8 to the accounts.

The Housing Revenue Account working balance at the end of the financial year is £1.629m. The current minimum working balance for the Housing Revenue Account is set at £663,000, based on £170 per property. Earmarked HRA reserves of £200,000 have been set aside for risk management and insurance purposes.

### ***Risk Management***

During 2010/11 the Council has continued to improve and embed its risk management policy, and its risk registers have been transferred onto its performance management system. The Governance and Audit Panel review the risk reports bi-monthly to ensure that the Council's strategic, corporate, and operational risks are being effectively managed. Financial risk is reviewed monthly and ensures that the Council maintains an appropriate level of cash balances and reserves.

### ***Audit***

The first draft of the accounts was authorised by the Assistant Director Finance on 29 June 2011. The accounts were subject to audit by the Audit Commission which commenced in July 2011. Publication of the accounts will follow the completion of the audit and formal approval by the Council which will take place prior to the statutory deadline of 30 September 2011.

## 6. A look at 2011/12, and beyond

The 2010 Comprehensive Spending Review (CSR) prepared councils for unprecedented cuts in government funding, and also introduced a grant to assist councils to freeze their council tax for 2011/12. The CSR gave a two year settlement with no indication of funding levels in years 3 and 4, although further reductions in grant are anticipated.

The 2011/12 Formula Grant settlement for the Council is £7.398m, which is £1.584m below the 2010/11 level, with a further reduction of £0.858m expected for 2012/13. The actual settlement figures for the known future years are shown in the table below.

|                            | 2010/11<br>£000 | 2011/12<br>£000 | 2012/13<br>£000 |
|----------------------------|-----------------|-----------------|-----------------|
| Formula Grant              | 8,982           | 7,398           | 6,540           |
| Reduction on previous year | -               | 1,584           | 858             |

The Council succeeded in producing a balanced budget for 2011/12 with no impact on front-line services despite the reduced level of grant. This has been achieved by introducing a number of initiatives to reduce revenue expenditure (some that commenced in 2010/11), the most significant being:

- the setting up of a merged service organisation for back office services with East Lindsey District Council (Compass Point Business Services (East Coast) Ltd), effective from 1 August 2010
- sharing the Chief Executive with Breckland District Council
- introducing a shared management team with Breckland District Council from 1 April 2011.

The Council has recognised that the further reductions to government funding in 2012/13 and future years represents a key challenge, and will require fundamental reviews of services and the way they are organised. All options for transformation of existing services, collaborative working with others, more effective working and procurement will be considered by the Council, and work is already underway in these areas.

The current level of reserves held by the Council is considered adequate to withstand current pressures, but it would not be sustainable financially to rely on these reserves to continue to fund the reduction in government grant.

### Housing Revenue Account (HRA) Reforms

HRA reforms are being introduced by central government to end the current system of housing subsidies. The self financing proposals will mean that local authorities who retain housing stock, like South Holland, will take on a share of the government housing debt in return for greater autonomy in managing their HRA. This means that the council will be required to borrow around £67m in return for retaining housing rents. The authority has formed a project steering group to ensure that its 30 year housing business plan is robust, and that it can meet the government timetable for implementing the reforms by March 2012.

## 7. The Statement of Accounts

The financial statements consist of:

### ***Statement of Responsibilities (page 18)***

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

### ***Movement in Reserves Statement (pages 19-20)***

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. These are 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/(from) earmarked reserves undertaken by the Council.

### ***Comprehensive Income and Expenditure Statement (page 21)***

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 22)***

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 is 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 are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

### ***Cash Flow Statement (page 23)***

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 24 -92)**

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.

### **Supplementary Financial Statements:**

#### **Housing Revenue Account Income and Expenditure Statement (page 93)**

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 94)**

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 95 - 100)**

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 101 - 103)**

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to Non-domestic rates and Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

#### **Group Accounts and Notes (pages 104 - 111)**

These accounts consolidate the Council's accounts with that of its wholly owned subsidiaries, South Holland Homes and Red Lion Quarter Community Interest Companies, 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.

## **Further Information**

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

Interested members of the public have a statutory right to inspect the accounts before the audit is completed. For the 2010/11 accounts the inspection period was 11 July 2011 to the 5 August 2011.

The Statement of Accounts is available on the Council's web-site, [www.sholland.gov.uk](http://www.sholland.gov.uk).

# STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

## The Council's Responsibilities:

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and 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 Statement of Accounts

## The Chief Financial Officer's Responsibilities

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

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

I hereby certify that the Statement of Accounts gives a 'true and fair' view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2011

Mark Finch  
Assistant Director Finance

Dated: 27 September 2011

### **Approval of Accounts**

I confirm that these accounts were approved by the Audit and Governance Committee at its meeting held on the 27 September 2011.

Signed on behalf of South Holland District Council:

Cllr George Aley  
Chair of meeting approving the accounts

Dated:

## MOVEMENT IN RESERVES STATEMENT

|   | General Fund<br>Balance | Earmarked<br>General Fund<br>Reserves | Housing<br>Revenue<br>Account | Earmarked<br>HRA<br>Reserves | Capital<br>Receipts<br>Reserve | Major Repairs<br>Reserve | Capital<br>Grants<br>Unapplied | Total Usable<br>Reserves | Unusable<br>Reserves | Total<br>Authority<br>Reserves |
|---|-------------------------|---------------------------------------|-------------------------------|------------------------------|--------------------------------|--------------------------|--------------------------------|--------------------------|----------------------|--------------------------------|
|   | £000                    | £000                                  | £000                          | £000                         | £000                           | £000                     | £000                           | £000                     | £000                 | £000                           |
| <b>Balance at 31 March 2009 carried forward</b>                                 | 1,734                   | 3,111                                 | 1,848                         | -                            | 3,345                          | 476                      | 3,558                          | 14,072                   | 174,750              | 188,822                        |
| <b>Movement in Reserves during 2009/10</b>                                      |                         |                                       |                               |                              |                                |                          |                                |                          |                      |                                |
| Surplus or (deficit) on provision of services                                   | 1,635                   | -                                     | (3,621)                       | -                            | -                              | -                        | -                              | (1,986)                  | -                    | (1,986)                        |
| Other Comprehensive Income and Expenditure                                      | -                       | -                                     | -                             | -                            | -                              | -                        | -                              | -                        | (16,711)             | (16,711)                       |
| <b>Total Comprehensive Income and Expenditure</b>                               | 1,635                   | -                                     | (3,621)                       | -                            | -                              | -                        | -                              | (1,986)                  | (16,711)             | (18,697)                       |
| Adjustments between accounting basis & funding basis under regulations (Note 7) | (895)                   | -                                     | 3,213                         | -                            | (691)                          | 22                       | 406                            | 2,055                    | (2,055)              | -                              |
| <b>Net Increase/Decrease before transfers to Earmarked Reserves</b>             | 740                     | -                                     | (408)                         | -                            | (691)                          | 22                       | 406                            | 69                       | (18,766)             | (18,697)                       |
| Transfers (to)/from Earmarked Reserves (Note 8)                                 | (562)                   | 607                                   | (45)                          | -                            | -                              | -                        | -                              | -                        | -                    | -                              |
| <b>Increase/Decrease in Year</b>  | 178                     | 607                                   | (453)                         | -                            | (691)                          | 22                       | 406                            | 69                       | (18,766)             | (18,697)                       |
| <b>Balance at 31 March 2010 carried forward</b>                                 | 1,912                   | 3,718                                 | 1,395                         | -                            | 2,654                          | 498                      | 3,964                          | 14,141                   | 155,984              | 170,125                        |

|   | General Fund Balance | Earmarked General Fund Reserves | Housing Revenue Account | Earmarked HRA Reserves | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|---|----------------------|---------------------------------|-------------------------|------------------------|--------------------------|-----------------------|--------------------------|-----------------------|-------------------|--------------------------|
|   | £000                 | £000                            | £000                    | £000                   | £000                     | £000                  | £000                     | £000                  | £000              | £000                     |
| <b>Balance at 31 March 2010 carried forward</b>                                 | <b>1,912</b>         | <b>3,718</b>                    | <b>1,395</b>            | -                      | <b>2,654</b>             | <b>498</b>            | <b>3,964</b>             | <b>14,141</b>         | <b>155,984</b>    | <b>170,125</b>           |
| Movement in Reserves during 2010/11   |                      |                                 |                         |                        |                          |                       |                          |                       |                   |                          |
| Surplus or (deficit) on provision of services                                   | 2,284                | -                               | (52,513)                | -                      | -                        | -                     | -                        | (50,229)              | -                 | (50,229)                 |
| Other Comprehensive Income and Expenditure                                      | -                    | -                               | -                       | -                      | -                        | -                     | -                        | -                     | 12,887            | 12,887                   |
| <b>Total Comprehensive Income and Expenditure</b>                               | <b>2,284</b>         | <b>-</b>                        | <b>(52,513)</b>         | <b>-</b>               | <b>-</b>                 | <b>-</b>              | <b>-</b>                 | <b>(50,229)</b>       | <b>12,887</b>     | <b>(37,342)</b>          |
| Adjustments between accounting basis & funding basis under regulations (Note 7) | (2,787)              | -                               | 52,947                  | -                      | (492)                    | (498)                 | (1,142)                  | 48,028                | (48,028)          | -                        |
| <b>Net Increase/Decrease before transfers to Earmarked Reserves</b>             | <b>(503)</b>         | <b>-</b>                        | <b>434</b>              | <b>-</b>               | <b>(492)</b>             | <b>(498)</b>          | <b>(1,142)</b>           | <b>(2,201)</b>        | <b>(35,141)</b>   | <b>(37,342)</b>          |
| Transfers (to)/from Earmarked Reserves (Note 8)                                 | 534                  | (534)                           | (200)                   | 200                    | -                        | -                     | -                        | -                     | -                 | -                        |
| <b>Increase/Decrease in Year</b>  | <b>31</b>            | <b>(534)</b>                    | <b>234</b>              | <b>200</b>             | <b>(492)</b>             | <b>(498)</b>          | <b>(1,142)</b>           | <b>(2,201)</b>        | <b>(35,141)</b>   | <b>(37,342)</b>          |
| <b>Balance at 31 March 2011 carried forward</b>                                 | <b>1,943</b>         | <b>3,184</b>                    | <b>1,629</b>            | <b>200</b>             | <b>2,162</b>             | <b>-</b>              | <b>2,822</b>             | <b>11,940</b>         | <b>120,843</b>    | <b>132,783</b>           |

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

| Gross Expenditure<br>£000 | 2009/10<br>Gross Income<br>£000 | Net Expenditure<br>£000 |   | Gross Expenditure<br>£000 | 2010/11<br>Gross Income<br>£000 | Net Expenditure<br>£000 |
|---------------------------|---------------------------------|-------------------------|---|---------------------------|---------------------------------|-------------------------|
| 7,243                     | (6,422)                         | 821                     | Central services to the public  | 7,446                     | (6,761)                         | 685                     |
| 11,358                    | (3,304)                         | 8,054                   | Cultural, environmental, regulatory and planning services                   | 16,519                    | (3,398)                         | 13,121                  |
| 843                       | (579)                           | 264                     | Highways and transport services   | 1,085                     | (473)                           | 612                     |
| 16,384                    | (13,270)                        | 3,114                   | Local authority housing (HRA)   | 13,089                    | (13,393)                        | (304)                   |
| -                         | -                               | -                       | Exceptional item – Impairment of dwelling stock                             | 53,144                    | -                               | 53,144                  |
| 17,909                    | (16,831)                        | 1,078                   | Other housing services  | 18,593                    | (17,863)                        | 730                     |
| 2,068                     | (79)                            | 1,989                   | Corporate and democratic core   | 2,715                     | (726)                           | 1,989                   |
| -                         | -                               | -                       | Exceptional item – CPBS transformation costs                                | 1,470                     | (4)                             | 1,466                   |
| 3                         | -                               | 3                       | Non distributed costs   | -                         | -                               | -                       |
| -                         | -                               | -                       | Exceptional item – IAS19 pensions   | (7,299)                   | -                               | (7,299)                 |
| <b>55,808</b>             | <b>(40,485)</b>                 | <b>15,323</b>           | <b>Cost of Services</b>   | <b>106,762</b>            | <b>(42,618)</b>                 | <b>64,144</b>           |
| 2,976                     | (58)                            | 2,918                   | Other operating expenditure (Note 9)  | 4,121                     | (599)                           | 3,522                   |
| 3,461                     | (2,568)                         | 893                     | Financing and investment income and expenditure (Note 10)                   | 3,941                     | (2,893)                         | 1,048                   |
| -                         | (17,148)                        | (17,148)                | Taxation and non-specific grant income (Note 11)                            | -                         | (18,485)                        | (18,485)                |
|                           |                                 | <b>1,986</b>            | <b>Deficit on the Provision of Services</b>                                 |                           |                                 | <b>50,229</b>           |
|                           |                                 | (3,326)                 | (Surplus) or deficit on revaluation of Property, Plant and Equipment assets |                           |                                 | 671                     |
|                           |                                 | 20,037                  | Actuarial (gains)/losses on pension assets / liabilities                    |                           |                                 | (13,558)                |
|                           |                                 | <b>16,711</b>           | <b>Other Comprehensive Income and Expenditure</b>                           |                           |                                 | <b>(12,887)</b>         |
|                           |                                 | <b>18,697</b>           | <b>Total Comprehensive Income and Expenditure</b>                           |                           |                                 | <b>37,342</b>           |

## BALANCE SHEET

| 1 April<br>2009<br>£000 | 31 March<br>2010<br>£000 |                                    | Notes | 31 March<br>2011<br>£000 |
|-------------------------|--------------------------|------------------------------------|-------|--------------------------|
| 192,448                 | 194,258                  | Property, Plant & Equipment        | 12    | 140,019                  |
| 983                     | 1,015                    | Investment Property                | 13    | 978                      |
| 198                     | 147                      | Intangible Assets                  | 14    | 168                      |
| 266                     | 245                      | Long Term Debtors                  |       | 281                      |
| <b>193,895</b>          | <b>195,665</b>           | <b>Long Term Assets</b>            |       | <b>141,446</b>           |
| 11,000                  | 6,011                    | Short Term Investments             |       | 4,009                    |
| 103                     | 640                      | Assets Held for Sale               | 20    | 61                       |
| 31                      | 43                       | Inventories                        | 16    | 41                       |
| 3,484                   | 3,797                    | Short Term Debtors                 | 18    | 6,195                    |
| 3,492                   | 5,844                    | Cash and Cash Equivalents          | 19    | 3,821                    |
| <b>18,110</b>           | <b>16,335</b>            | <b>Current Assets</b>              |       | <b>14,127</b>            |
| -                       | -                        | Short Term Borrowing               |       | (6)                      |
| (4,754)                 | (3,840)                  | Short Term Creditors               | 21    | (4,947)                  |
| <b>(4,754)</b>          | <b>(3,840)</b>           | <b>Current Liabilities</b>         |       | <b>(4,953)</b>           |
| (759)                   | (835)                    | Long Term Creditors                |       | (746)                    |
| -                       | -                        | Long Term Borrowing                |       | (16)                     |
| (15,845)                | (36,293)                 | Other Long Term Liabilities        | 47    | (16,196)                 |
| (1,825)                 | (907)                    | Capital Grants Receipts in Advance |       | (879)                    |
| <b>(18,429)</b>         | <b>(38,035)</b>          | <b>Long Term Liabilities</b>       |       | <b>(17,837)</b>          |
| <b>188,822</b>          | <b>170,125</b>           | <b>Net Assets</b>                  |       | <b>132,783</b>           |
| 14,072                  | 14,141                   | Usable Reserves                    | 23    | 11,940                   |
| 174,750                 | 155,984                  | Unusable Reserves                  | 24    | 120,843                  |
| <b>188,822</b>          | <b>170,125</b>           | <b>Total Reserves</b>              |       | <b>132,783</b>           |

## CASH FLOW STATEMENT

| 2009/10<br>£000 |   | 2010/11<br>£000 |
|-----------------|---|-----------------|
| 1,986           | Net deficit on the provision of services  | 50,229          |
| (10,382)        | Adjustments to net surplus or deficit on the provision of services for non-cash movements   | (57,938)        |
| 1,519           | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 628             |
| <b>(6,877)</b>  | Net cash flows from Operating Activities (note 25)  | <b>(7,081)</b>  |
| 1,356           | Investing Activities (note 26)  | 8,864           |
| 3,169           | Financing Activities (note 27)  | 240             |
| (2,352)         | Net increase or (decrease) in cash and cash equivalents   | 2,023           |
| 3,492           | Cash and cash equivalents at the beginning of the reporting period  | 5,844           |
| <b>5,844</b>    | <b>Cash and cash equivalents at the end of the reporting period (note 19)</b>   | <b>3,821</b>    |

## **NOTES TO THE ACCOUNTS**

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## **NOTE 1 – ACCOUNTING POLICIES**

### **1. General Principles**

The Statement of Accounts summarises the Council's transactions for the 2010/11 financial year and its position at the year-end of 31 March 2011. It has been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010/11: Based on International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is 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 accounts.

#### **First Time adoption of the Code of Practice 2010/11, based on International Financial Reporting Standards (IFRS)**

The financial statements are the first South Holland District Council financial statements prepared in accordance with the CIPFA Code of Practice 2010/11, based on International Financial Reporting Standards. The Council has applied IFRS 1 in preparing these financial statements, except where interpretations or adaptations to fit the public sector are detailed in the Code.

The Council's financial statements until 31 March 2010 were prepared in accordance with previous Code of Practice 2009: A Statement of Recommended Practice (SORP), which was based largely on UK GAAP. When preparing the 2010/11 financial statements, certain accounting and valuation methods applied in the SORP 2009 financial statements were amended to comply with IFRS. The comparative figures for 2009/10 have been restated to reflect these adjustments.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements (See note 52 for reconciliations and descriptions of the effect of transferring from UK GAAP to IFRS on the Council's opening Balance Sheet at 1 April 2009, closing Balance Sheet at 31 March 2010 and Comprehensive Income and Expenditure Statement for the year ended 31 March 2010).

### **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 is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount, 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 instruments 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 Business Reserve 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, ie 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 fixed 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 fixed assets attributable to the service

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

The Council has assessed the Minimum Revenue Provision (MRP) in accordance with the guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. The charge in 2010/11 is based on 4% of the adjusted Capital Financing Requirement in accordance with option 1 of the guidance or for new borrowing under the prudential system the charge is based on option 3; the assets life method.

Depreciation, revaluation and impairment losses and amortisations 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 within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### ***Termination Benefits***

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

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the 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.

### ***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 the 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 5.5% (the same as used in 2009/10), based on the indicative rate of return on high quality corporate Bonds.

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 seven components:

- **current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- **past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- **interest cost** – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- **expected return on assets** – the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **gains or losses on settlements and curtailments** – the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve.
- **contributions paid to the 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 appropriations to and from the Pension 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 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 Balance Sheet Date**

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

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

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

## **9. Financial Instruments**

### **Financial Liabilities**

The Council has very limited financial liabilities in relation to borrowing.

### **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**

The Council's investments have been treated as loans and receivables and are carried at the amortised cost, rather than fair value as the adjustment is deemed insignificant.

The Council has made a number of loans mainly in the form of car loans to staff and support to its subsidiary housing company. 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 2010/11 the Council did not hold any Available-for-sale 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 acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants 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 or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund balance 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.

### ***Area Based Grant***

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

## **11. 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.

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

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund balance 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 and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## **12. 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, Red Lion Quarter and Compass Point Business Services (East Coast) Ltd.

## **13. Inventories and Long Term Contracts**

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

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

## **14. Investment Property**

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at 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 or Housing Revenue Account balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements 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 and Housing Revenue Account Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## **15. Leases**

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

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***

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

Lease rentals receivable are apportioned between:

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

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

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

### ***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.

## **16. 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 *Best Value Accounting Code of Practice 2010/11 (BVACOP)*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the 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 BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

## **17. 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 possible 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 (ie freehold land and certain Community Assets) and assets that are not yet available for use (ie 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 (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

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 (the capital financing requirement)]. 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 fixed 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.

## **18. Provisions**

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

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.

No provisions are held at the Balance Sheet date.

## **19. 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.

## **20. 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.

## **21. 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, financial instruments, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

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

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset 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 HRA balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

## **23. VAT**

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

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

For 2010/11, the only accounting policy change that needs to be reported relates to FRS 30 *Heritage Assets*. For the Council there will need to be some asset reclassification in 2011/12 as a result of the new standard, as well as the recognition of some assets not currently on the Balance Sheet. The value of the newly recognised assets is estimated to be below £50,000.

## **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 Statement of Accounts 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.
- The Council is custodian trustee for the Ayscoughfee Hall and Gardens and Sir Halley Stewart Playing Field charities. These assets are not recorded on the Council's Balance Sheet as at 31 March 2011. This is in accordance with guidance contained in the Code of Practice on Local Authority Accounting in the United Kingdom.
- Assets held for sale – The Code gives strict criteria which have to be met before assets can be classified as 'held for sale'. At 31 March 2011 two council dwellings met these criteria and are therefore shown under the Assets held for sale category on the Balance Sheet.
- Categorisation of assets – The Code gives strict criteria for assets held as Investment Properties. For the Council, those assets which are held for rental income and/or capital appreciation (with a formal plan/policy detailing this) are classified as investment properties. Surplus land held by the Council which may be subject to capital appreciation, but is not part of a formal plan/policy, is held as Surplus property plant & equipment.

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

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

The items in the Council's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item                                 | Uncertainties   | Effect if actual results differ from assumptions  |
|--------------------------------------|---|---|
| <b>Property, Plant and Equipment</b> | Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.                      | <p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £66,000 for every year that useful lives had to be reduced.</p>  |
| <b>Pensions Liability</b>            | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. | <p>The effects on the net pension's liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £4.669m.</p> <p>However, the assumptions interact in complex ways. During 2010/11, the Council's actuaries advised that whilst the pensions asset value had decreased by £2.986m, liabilities had decreased by £23.083m. This is partly due to reductions following the transfer of staff to Compass Point Business Services, with the remainder due to changes in assumptions.</p> |
| <b>Arrears</b>                       | At 31 March 2011, the Council had a balance of sundry debtor and housing benefit overpayments of £1,020,000. A review of debts suggested that an overall impairment allowance of £450,000 (44%) was appropriate.  | If collection rates were to deteriorate, increasing the impairment for doubtful sundry debts to 60% of the total debt would require an additional £162,000 to be set aside as an allowance.   |

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

There are no material events of income and expense to report that have not already been disclosed in the Comprehensive Income and Expenditure Statement and the core financial statements.

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

There were no material events after the Balance Sheet date to report.

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

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

| 2010/11  |                      |                         | 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>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>  |                      |                         |                          |                       |                          |                               |
| Charges for depreciation and impairment of non-current assets  | 810                  | 129                     | -                        | 1,595                 | -                        | (2,534)                       |
| Revaluation losses on Property Plant and Equipment   | 5,210                | 54,062                  | -                        | -                     | -                        | (59,272)                      |
| Movements in the market value of Investment Properties   | 38                   | -                       | -                        | -                     | -                        | (38)                          |
| Amortisation of intangible assets  | 70                   | -                       | -                        | 1                     | -                        | (71)                          |
| Capital grants and contributions applied   | (4,286)              | -                       | -                        | -                     | -                        | 4,286                         |
| Revenue expenditure funded from capital under statute  | 1,589                | 75                      | -                        | -                     | -                        | (1,664)                       |
| 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 | 453                  | 800                     | -                        | -                     | -                        | (1,253)                       |
| <b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>   |                      |                         |                          |                       |                          |                               |
| Statutory provision for the financing of capital investment  | (84)                 | (121)                   |                          |                       |                          | 205                           |
| Capital expenditure charged against the General Fund and HRA balances and HRA balances   | (502)                | (193)                   | -                        | -                     | -                        | 695                           |
| <b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>   |                      |                         |                          |                       |                          |                               |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement  | (786)                | -                       | -                        | -                     | 786                      | -                             |
| Application of grants to capital financing transferred to the Capital Adjustment Account   | -                    | -                       | -                        | -                     | (1,928)                  | 1,928                         |
| <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                       | (320)                | (286)                   | 606                      | -                     | -                        | -                             |
| Use of the Capital Receipts Reserve to finance new capital expenditure   | -                    | -                       | (917)                    | -                     | -                        | 917                           |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals   | -                    | 3                       | (3)                      | -                     | -                        | -                             |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool   | 177                  | -                       | (177)                    | -                     | -                        | -                             |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash   | -                    | -                       | (1)                      | -                     | -                        | 1                             |

| 2010/11   | 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   | -                    | (115)                   | -                        | 115                   | -                        | -                             |
| Use of the Major Repairs Reserve to finance new capital expenditure   | -                    | -                       | -                        | (2,209)               | -                        | 2,209                         |
| <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 47)   | (3,891)              | (1,097)                 | -                        | -                     | -                        | 4,988                         |
| Employer's pensions contributions and direct payments to pensioners payable in the year   | (1,254)              | (297)                   | -                        | -                     | -                        | 1,551                         |
| <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                | 28                   | -                       | -                        | -                     | -                        | (28)                          |
| <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 | (39)                 | (13)                    | -                        | -                     | -                        | 52                            |
| <b>Total Adjustments</b>  | <b>(2,787)</b>       | <b>52,947</b>           | <b>(492)</b>             | <b>(498)</b>          | <b>(1,142)</b>           | <b>(48,028)</b>               |

| 2009/10  | 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>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:</b>  |                      |                         |                          |                       |                          |                               |
| Charges for depreciation and impairment of non-current assets  | 919                  | 119                     | -                        | 2,157                 | -                        | (3,195)                       |
| Revaluation losses on Property Plant and Equipment   | 484                  | 4,485                   | -                        | -                     | -                        | (4,969)                       |
| Movements in the market value of Investment Properties   | (32)                 | -                       | -                        | -                     | -                        | 32                            |
| Amortisation of intangible assets  | 101                  | -                       | -                        | -                     | -                        | (101)                         |
| Capital grants and contributions applied   | (2,222)              | -                       | -                        | -                     | -                        | 2,222                         |
| Revenue expenditure funded from capital under statute  | 1,370                | -                       | -                        | -                     | -                        | (1,370)                       |
| 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 | 46                   | 493                     | -                        | -                     | -                        | (539)                         |
| <b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:</b>   |                      |                         |                          |                       |                          |                               |
| Statutory provision for the financing of capital investment  | (87)                 | (86)                    | -                        | -                     | -                        | 173                           |
| Capital expenditure charged against the General Fund and HRA balances and HRA balances   | (339)                | (1,000)                 | -                        | -                     | -                        | 1,339                         |
| <b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>   |                      |                         |                          |                       |                          |                               |
| Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement  | (1,765)              | -                       | -                        | -                     | 1,765                    | -                             |
| Application of grants to capital financing transferred to the Capital Adjustment Account   | -                    | -                       | -                        | -                     | (1,359)                  | 1,359                         |
| <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                       | (78)                 | (525)                   | 603                      | -                     | -                        | -                             |
| Use of the Capital Receipts Reserve to finance new capital expenditure   | -                    | -                       | (976)                    | -                     | -                        | 976                           |
| Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals   | -                    | 6                       | (6)                      | -                     | -                        | -                             |
| Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool   | 317                  | -                       | (317)                    | -                     | -                        | -                             |
| Transfer from Deferred Capital Receipts Reserve upon receipt of cash   | -                    | -                       | 5                        | -                     | -                        | (5)                           |

| 2009/10   | 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   | -                    | (354)                   | -                        | 354                   | -                        |                               |
| Use of the Major Repairs Reserve to finance new capital expenditure   | -                    | -                       | -                        | (2,489)               | -                        | 2,489                         |
| <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 47)   | 1,689                | 362                     | -                        | -                     | -                        | (2,051)                       |
| Employer's pensions contributions and direct payments to pensioners payable in the year   | (1,337)              | (303)                   | -                        | -                     | -                        | 1,640                         |
| <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                | 16                   | -                       | -                        | -                     | -                        | (16)                          |
| <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 | 23                   | 16                      | -                        | -                     | -                        | (39)                          |
| <b>Total Adjustments</b>  | <b>(895)</b>         | <b>3,213</b>            | <b>(691)</b>             | <b>22</b>             | <b>406</b>               | <b>(2,055)</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 2010/11.

|                                    | Balance at<br>1 April<br>2009<br>£000 | Transfers<br>Out<br>2009/10<br>£000 | Transfers<br>In<br>2009/10<br>£000 | Balance at<br>31 March<br>2010<br>£000 | Transfers<br>Out<br>2010/11<br>£000 | Transfers<br>In<br>2010/11<br>£000 | Balance at<br>31 March<br>2011<br>£000 |
|------------------------------------|---------------------------------------|-------------------------------------|------------------------------------|--|-------------------------------------|------------------------------------|--|
| <b>General Fund</b>                |                                       |                                     |                                    |  |                                     |                                    |  |
| Affordable Housing Reserve         | 24                                    | -                                   | 49                                 | 73                                     | -                                   | 45                                 | 118                                    |
| Benefits Development Reserve       | 159                                   | (130)                               | -                                  | 29                                     | (29)                                | -                                  | -                                      |
| Breckland Transformation Reserve   | -                                     | -                                   | -                                  | -                                      | (259)                               | 320                                | 61                                     |
| Capital Reserve                    | 317                                   | (73)                                | -                                  | 244                                    | (83)                                | -                                  | 161                                    |
| Climate Change Reserve             | 22                                    | -                                   | 23                                 | 45                                     | -                                   | 23                                 | 68                                     |
| Community Cohesion Reserve         | 88                                    | (130)                               | 175                                | 133                                    | (211)                               | 206                                | 128                                    |
| Community Development Reserve      | 81                                    | (74)                                | -                                  | 7                                      | (5)                                 | -                                  | 2                                      |
| Commuted Sums                      | 42                                    | (252)                               | 210                                | -                                      | -                                   | -                                  | -                                      |
| Council Tax Reserve                | 224                                   | (172)                               | 244                                | 296                                    | -                                   | 500                                | 796                                    |
| Economic Development Reserve       | 32                                    | (7)                                 | -                                  | 25                                     | (25)                                | -                                  | -                                      |
| Insurance Reserve                  | 200                                   | -                                   | 30                                 | 230                                    | -                                   | 50                                 | 280                                    |
| Organisational Development Reserve | 1,045                                 | (128)                               | 538                                | 1,455                                  | (942)                               | 100                                | 613                                    |
| Planning Reserve                   | 220                                   | (86)                                | 453                                | 587                                    | (185)                               | -                                  | 402                                    |
| Repairs and Renewals Reserve       | 612                                   | (226)                               | 157                                | 543                                    | (170)                               | 125                                | 498                                    |
| Section 106 Reserve                | 24                                    | (7)                                 | -                                  | 17                                     | -                                   | 5                                  | 22                                     |
| Spalding Special Expenses          | 21                                    | -                                   | 13                                 | 34                                     | -                                   | 1                                  | 35                                     |
| <b>Total General Fund</b>          | <b>3,111</b>                          | <b>(1,285)</b>                      | <b>1,892</b>                       | <b>3,718</b>                           | <b>(1,909)</b>                      | <b>1,375</b>                       | <b>3,184</b>                           |
| <b>Housing Revenue Account</b>     |                                       |                                     |                                    |  |                                     |                                    |  |
| Insurance Reserve                  | -                                     | -                                   | -                                  | -                                      | -                                   | 200                                | 200                                    |
| <b>Total Earmarked Reserves</b>    | <b>3,111</b>                          | <b>(1,285)</b>                      | <b>1,892</b>                       | <b>3,718</b>                           | <b>(1,909)</b>                      | <b>1,575</b>                       | <b>3,384</b>                           |

**NOTE 9 – OTHER OPERATING EXPENDITURE**

| 2009/10<br>£000 |  | 2010/11<br>£000 |
|-----------------|--|-----------------|
| 547             | Parish council precepts                                  | 563             |
| 2,112           | Levies   | 2,129           |
| 317             | Payments to the Government Housing Capital Receipts Pool | 178             |
| (58)            | Gains/Losses on the disposal of non-current assets       | 652             |
| <b>2,918</b>    | <b>Total</b>   | <b>3,522</b>    |

**NOTE 10 – FINANCING AND INVESTMENT INCOME AND EXPENDITURE**

| 2009/10<br>£000 |   | 2010/11<br>£000 |
|-----------------|---|-----------------|
| 127             | Interest payable and similar charges  | 128             |
| 1,225           | Pensions interest cost and expected return on pension assets                                | 1,057           |
| (421)           | Interest receivable and similar income  | (136)           |
| (38)            | Income and Expenditure in relation to investment properties and changes in their fair value | (1)             |
| <b>893</b>      | <b>Total</b>  | <b>1,048</b>    |

**NOTE 11 – TAXATION AND NON SPECIFIC GRANT INCOMES**

| 2009/10<br>£000 |                                  | 2010/11<br>£000 |
|-----------------|----------------------------------|-----------------|
| (5,021)         | Council tax income               | (5,154)         |
| (7,084)         | Non domestic rates               | (7,843)         |
| (2,303)         | Non-ringfenced government grants | (1,413)         |
| (2,740)         | Capital grants and contributions | (4,075)         |
| <b>(17,148)</b> | <b>Total</b>                     | <b>(18,485)</b> |

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

|   | Council Dwellings<br>£000 | Other Land and Buildings<br>£000 | vehicles, Plant, Furniture & Equipment<br>£000 | Infrastructure Assets<br>£000 | Community Assets<br>£000 | Surplus Assets<br>£000 | Assets Under Construction<br>£000 | Total Property, Plant and Equipment<br>£000 |
|---|---------------------------|----------------------------------|--|-------------------------------|--------------------------|------------------------|-----------------------------------|---|
| <b>Movements on balances</b>  |                           |                                  |  |                               |                          |                        |                                   |   |
| <b>Cost or valuation</b>  |                           |                                  |  |                               |                          |                        |                                   |   |
| <b>At 1 April 2010</b>  | <b>166,077</b>            | <b>21,041</b>                    | <b>3,604</b>                                   | <b>1,773</b>                  | <b>690</b>               | <b>69</b>              | <b>3,514</b>                      | <b>196,768</b>                              |
| <b>Social Housing Discount factor adjustment</b>  |                           |                                  |  |                               |                          |                        |                                   |   |
| - charged to CIES   | (51,435)                  | -                                | -  | -                             | -                        | -                      | -                                 | (51,435)                                    |
| - charged to RR   | (1,709)                   | -                                | -  | -                             | -                        | -                      | -                                 | (1,709)                                     |
| <b>At 1 April 2010</b>  | <b>112,933</b>            | <b>21,041</b>                    | <b>3,604</b>                                   | <b>1,773</b>                  | <b>690</b>               | <b>69</b>              | <b>3,514</b>                      | <b>(143,624)</b>                            |
| Additions   | 2,816                     | 163                              | 333  | 184                           | -                        | -                      | 5,413                             | 8,909                                       |
| Donations   | -                         | -                                | -  | -                             | -                        | -                      | -                                 | -   |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve                          | 468                       | (350)                            | -  | -                             | -                        | -                      | -                                 | 118   |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | (3,464)                   | (5,294)                          | -  | -                             | -                        | -                      | -                                 | (8,758)                                     |
| Derecognition – disposals   | (253)                     | (448)                            | (795)  | -                             | -                        | -                      | -                                 | (1,496)                                     |
| Assets reclassified (to)/from Held for Sale   | (156)                     | -                                | -  | -                             | -                        | -                      | -                                 | (156)                                       |
| Assets reclassified (to)/from Other FAR categories  | (62)                      | 8,688                            | -  | -                             | -                        | -                      | (8,626)                           | -   |
| Other movements in cost or valuation  | (1)                       | (16)                             | -  | -                             | -                        | -                      | -                                 | (17)  |
| <b>At 31 March 2011</b>   | <b>112,281</b>            | <b>23,784</b>                    | <b>3,142</b>                                   | <b>1,957</b>                  | <b>690</b>               | <b>69</b>              | <b>301</b>                        | <b>142,224</b>                              |
| <b>Accumulated Depreciation and Impairment</b>  |                           |                                  |  |                               |                          |                        |                                   |   |
| At 1 April 2010   | -                         | (95)                             | (2,090)  | (301)                         | (24)                     | -                      | -                                 | (2,510)                                     |
| Depreciation charge   | (1,347)                   | (597)                            | (403)  | (154)                         | (17)                     | -                      | -                                 | (2,518)                                     |
| Depreciation written out to the Revaluation Reserve   | 650                       | 657                              | -  | -                             | -                        | -                      | -                                 | 1,307                                       |
| Depreciation written out to the Surplus/Deficit on the Provision of Services                      | 506                       | 31                               | -  | -                             | -                        | -                      | -                                 | 537   |
| Derecognition – disposals   | 190                       | -                                | 789  | -                             | -                        | -                      | -                                 | 979   |
| Other movements in depreciation and impairment  | 1                         | (1)                              | -  | -                             | -                        | -                      | -                                 | -   |
| <b>At 31 March 2011</b>   | <b>-</b>                  | <b>(5)</b>                       | <b>(1,704)</b>                                 | <b>(455)</b>                  | <b>(41)</b>              | <b>-</b>               | <b>-</b>                          | <b>(2,205)</b>                              |
| <b>Net Book value</b>   |                           |                                  |  |                               |                          |                        |                                   |   |
| <b>at 31 March 2010</b>   | <b>166,077</b>            | <b>20,946</b>                    | <b>1,514</b>                                   | <b>1,472</b>                  | <b>666</b>               | <b>69</b>              | <b>3,514</b>                      | <b>194,258</b>                              |
| <b>at 31 March 2011</b>   | <b>112,281</b>            | <b>23,779</b>                    | <b>1,438</b>                                   | <b>1,502</b>                  | <b>649</b>               | <b>69</b>              | <b>301</b>                        | <b>140,019</b>                              |

|   | Council Dwellings<br>£000 | Other Land and Buildings<br>£000 | Vehicles, Plant, Furniture & Equipment<br>£000 | Infrastructure Assets<br>£000 | Community Assets<br>£000 | Surplus Assets<br>£000 | Assets Under Construction<br>£000 | Total Property, Plant and Equipment<br>£000 |
|---|---------------------------|----------------------------------|--|-------------------------------|--------------------------|------------------------|-----------------------------------|---|
| <b>Comparative Movements</b>  |                           |                                  |  |                               |                          |                        |                                   |   |
| <b>Cost or valuation</b>  |                           |                                  |  |                               |                          |                        |                                   |   |
| At 1 April 2009   | 167,125                   | 20,585                           | 3,813  | 1,667                         | 690                      | 69                     | 1,224                             | 195,173                                     |
| Additions   | 3,948                     | 547                              | 379  | 106                           | -                        | -                      | 2,436                             | 7,416                                       |
| Donations   | -                         | -                                | -  | -                             | -                        | -                      | -                                 | -   |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve                          | 1,966                     | 177                              | -  | -                             | -                        | -                      | (110)                             | 2,033                                       |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | (6,367)                   | (285)                            | -  | -                             | -                        | -                      | -                                 | (6,652)                                     |
| Derecognition – disposals   | -                         | -                                | (588)  | -                             | -                        | -                      | (36)                              | (624)                                       |
| Derecognition – other   | -                         | -                                | -  | -                             | -                        | -                      | -                                 | -   |
| Assets reclassified (to)/from Held for Sale   | (595)                     | -                                | -  | -                             | -                        | -                      | -                                 | (595)                                       |
| Other movements in cost or valuation  | -                         | 17                               | -  | -                             | -                        | -                      | -                                 | 17  |
| <b>At 31 March 2010</b>   | <b>166,077</b>            | <b>21,041</b>                    | <b>3,604</b>                                   | <b>1,773</b>                  | <b>690</b>               | <b>69</b>              | <b>3,514</b>                      | <b>196,768</b>                              |
| <b>Accumulated Depreciation and Impairment</b>  |                           |                                  |  |                               |                          |                        |                                   |   |
| At 1 April 2009   | -                         | (17)                             | (2,549)  | (159)                         | -                        | -                      | -                                 | (2,725)                                     |
| Depreciation charge   | (1,953)                   | (691)                            | (162)  | (142)                         | (24)                     | -                      | -                                 | (2,972)                                     |
| Depreciation written out to the Revaluation Reserve   | 101                       | 549                              | 33   | -                             | -                        | -                      | -                                 | 683   |
| Depreciation written out to the Surplus/Deficit on the Provision of Services                      | 1,848                     | 64                               | -  | -                             | -                        | -                      | -                                 | 1,912                                       |
| Impairment losses/ (reversals) recognised in the Revaluation Reserve                              | -                         | -                                | -  | -                             | -                        | -                      | -                                 | -   |
| Impairment losses/(reversals) recognised in the Surplus/ Deficit on the Provision of Services     | -                         | -                                | -  | -                             | -                        | -                      | -                                 | -   |
| Derecognition – disposals   | -                         | -                                | 588  | -                             | -                        | -                      | -                                 | 588   |
| Derecognition – other   | -                         | -                                | -  | -                             | -                        | -                      | -                                 | -   |
| Other movements in depreciation and impairment  | 4                         | -                                | -  | -                             | -                        | -                      | -                                 | 4   |
| <b>at 31 March 2010</b>   | <b>-</b>                  | <b>(95)</b>                      | <b>(2,090)</b>                                 | <b>(301)</b>                  | <b>(24)</b>              | <b>-</b>               | <b>-</b>                          | <b>(2,510)</b>                              |
| <b>Net Book value</b>   |                           |                                  |  |                               |                          |                        |                                   |   |
| <b>at 31 March 2009</b>   | <b>167,125</b>            | <b>20,568</b>                    | <b>1,264</b>                                   | <b>1,508</b>                  | <b>690</b>               | <b>69</b>              | <b>1,224</b>                      | <b>192,448</b>                              |
| <b>at 31 March 2010</b>   | <b>166,077</b>            | <b>20,946</b>                    | <b>1,514</b>                                   | <b>1,472</b>                  | <b>666</b>               | <b>69</b>              | <b>3,514</b>                      | <b>194,258</b>                              |

|   | Council Dwellings<br>£000 | Other Land and Buildings<br>£000 | Vehicles, Plant, Furniture & Equipment<br>£000 | Infrastructure Assets<br>£000 | Community Assets<br>£000 | Surplus Assets<br>£000 | Assets Under Construction<br>£000 | Total Property, Plant and Equipment<br>£000 |
|---|---------------------------|----------------------------------|--|-------------------------------|--------------------------|------------------------|-----------------------------------|---|
| <b><u>Comparative Movements</u></b>   |                           |                                  |  |                               |                          |                        |                                   |   |
| <b>Cost or valuation</b>  |                           |                                  |  |                               |                          |                        |                                   |   |
| At 1 April 2008   | 194,937                   | 17,151                           | 2,528  | 1,670                         | 671                      | 1,270                  | -                                 | 218,227                                     |
| Additions   | 2,999                     | 117                              | 205  | 102                           | 19                       | -                      | 387                               | 3,829                                       |
| Donations   | -                         | -                                | -  | -                             | -                        | -                      | -                                 | -   |
| Revaluation increases/ (decreases) recognised in the Revaluation Reserve                          | -                         | 3,655                            | -  | -                             | -                        | -                      | -                                 | 3,655                                       |
| Revaluation increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services | (30,702)                  | -                                | (41)   | (105)                         | -                        | 307                    | -                                 | (30,541)                                    |
| Derecognition – disposals   | (109)                     | -                                | -  | -                             | -                        | (157)                  | -                                 | (266)                                       |
| Derecognition – other   | -                         | -                                | -  | -                             | -                        | -                      | -                                 | -   |
| Assets reclassified (to)/from Held for Sale   | -                         | 35                               | -  | -                             | -                        | (661)                  | 626                               | -   |
| IFRS adjustments  | -                         | (373)                            | 1,121  | -                             | -                        | (690)                  | 211                               | 269   |
| <b>At 31 March 2009</b>   | <b>167,125</b>            | <b>20,585</b>                    | <b>3,813</b>                                   | <b>1,667</b>                  | <b>690</b>               | <b>69</b>              | <b>1,224</b>                      | <b>195,173</b>                              |
| <b>Accumulated Depreciation and Impairment</b>  |                           |                                  |  |                               |                          |                        |                                   |   |
| At 1 April 2008   | -                         | (118)                            | (1,958)  | (127)                         | -                        | -                      | -                                 | (2,203)                                     |
| Depreciation charge   | (2,066)                   | (790)                            | (206)  | (148)                         | -                        | -                      | -                                 | (3,210)                                     |
| Depreciation written out to the Revaluation Reserve   | -                         | 875                              | -  | -                             | -                        | -                      | -                                 | 875   |
| Depreciation written out to the Surplus/Deficit on the Provision of Services                      | 2,066                     | -                                | -  | 116                           | -                        | -                      | -                                 | 2,182                                       |
| Impairment losses/ (reversals) recognised in the Revaluation Reserve                              | -                         | -                                | -  | -                             | -                        | -                      | -                                 | -   |
| Impairment losses/(reversals) recognised in the Surplus/ Deficit on the Provision of Services     | -                         | -                                | -  | -                             | -                        | -                      | -                                 | -   |
| Derecognition – disposals   | -                         | -                                | -  | -                             | -                        | -                      | -                                 | -   |
| Other movements in depreciation and impairment  | -                         | 33                               | 24   | -                             | -                        | -                      | -                                 | 57  |
| IFRS adjustments  | -                         | (17)                             | (409)  | -                             | -                        | -                      | -                                 | (426)                                       |
| <b>at 31 March 2009</b>   | <b>-</b>                  | <b>(17)</b>                      | <b>(2,549)</b>                                 | <b>(159)</b>                  | <b>-</b>                 | <b>-</b>               | <b>-</b>                          | <b>(2,725)</b>                              |
| <b>Net Book value</b>   |                           |                                  |  |                               |                          |                        |                                   |   |
| <b>at 31 March 2008</b>   | <b>194,937</b>            | <b>17,032</b>                    | <b>570</b>                                     | <b>1,543</b>                  | <b>671</b>               | <b>1,270</b>           | <b>-</b>                          | <b>216,023</b>                              |
| <b>at 31 March 2009</b>   | <b>167,125</b>            | <b>20,568</b>                    | <b>1,264</b>                                   | <b>1,508</b>                  | <b>690</b>               | <b>69</b>              | <b>1,224</b>                      | <b>192,448</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 – 3-60 years
- Vehicles, Plant, Furniture & Equipment – 5% -25% of carrying value
- Infrastructure – 2-19 years

At 31 March 2011, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2011/12 and future years budgeted to cost £2.165m. Similar commitments at 31 March 2010 were £6.561m, mainly relating to the Red Lion Quarter Food Heritage Centre. The major commitments are:

- External Door Replacement – £590,000
- Kitchens and Bathrooms – £1,210,000
- Reroofing – £200,000
- Solar Panels. Priory Road - £89,000

## Effects of Changes in estimates

In 2010/11, the Council made the following material changes to its accounting estimates for Property, Plant and Equipment:

- The prescribed social housing adjustment factor for the East Midlands region was reduced from 50% to 34%, resulting in a £53m reduction in the valuation of Council Dwellings in 2010/11 compared with 2009/10.

## Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. For 2010/11, under IFRS requirements, a complete revaluation of all council housing stock and other land and buildings was undertaken. All valuations were carried out externally. Valuations of land and buildings were 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. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

|   | Council Dwellings | Other Land and Buildings | Vehicles, Plant, Furniture & Equipment | Surplus Assets | Total          |
|---|-------------------|--------------------------|--|----------------|----------------|
|   | £000              | £000                     | £000                                   | £000           | £000           |
| Carried at historical cost                      | -                 | -                        | 1,438                                  | 69             | <b>1,507</b>   |
| Valued at fair value as at:                     |                   |                          |  |                |                |
| 31 March 2011                                   | 112,281           | 23,779                   | -                                      | -              | <b>136,060</b> |
| 31 March 2010                                   | 166,077           | 20,945                   | -                                      | -              | <b>187,022</b> |
| 31 March 2009                                   | 167,125           | 20,568                   | -                                      | 69             | <b>187,762</b> |
| 31 March 2008                                   | 194,937           | 17,032                   | -                                      | 1,270          | <b>213,239</b> |
| 31 March 2007                                   | 191,972           | 14,685                   | -                                      | 1,112          | <b>207,769</b> |
| <b>Total Cost or Valuation at 31 March 2011</b> | <b>112,281</b>    | <b>23,779</b>            | <b>1,438</b>                           | <b>69</b>      | <b>137,567</b> |

### NOTE 13 – INVESTMENT PROPERTIES

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

|  | 2010/11<br>£000 | 2009/10<br>£000 |
|--|-----------------|-----------------|
| Rental Income from investment property                     | (85)            | (74)            |
| Direct operating expenses arising from investment property | 47              | 68              |
| <b>Net gain/(loss)</b>                                     | <b>(38)</b>     | <b>(6)</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.

|  | 2010/11<br>£000 | 2009/10<br>£000 | 2008/09<br>£000 |
|--|-----------------|-----------------|-----------------|
| Balance at start of the year                   | 1,015           | 983             | 218             |
| Net gains/(losses) from fair value adjustments | (37)            | 32              | 765             |
| <b>Balance at end of the year</b>              | <b>978</b>      | <b>1,015</b>    | <b>983</b>      |

### NOTE 14 – INTANGIBLE ASSETS

The Council accounts for its software as intangible assets. The intangible assets include both purchased licenses and internally generally software.

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 £71,000 charged to revenue in 2010/11 was charged to the IT Service cost

centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

|   | 2010/11<br>£000 | 2009/10<br>£000 | 2008/09<br>£000 |
|---|-----------------|-----------------|-----------------|
| <b>Balance at start of year:</b>          |                 |                 |                 |
| - Gross carrying amounts                  | 592             | 535             | 399             |
| - Accumulated amortisation                | (445)           | (338)           | (142)           |
| Net carrying amount at start of year      | <b>147</b>      | <b>197</b>      | <b>257</b>      |
| Additions:                                |                 |                 |                 |
| - Purchases                               | 91              | 57              | 136             |
| Amortisation for the period               | (71)            | (114)           | (196)           |
| Other changes                             | -               | 7               |                 |
| <b>Net carrying amount at end of year</b> | <b>168</b>      | <b>147</b>      | <b>197</b>      |
| <b>Comprising:</b>                        |                 |                 |                 |
| - Gross carrying amounts                  | 684             | 592             | 535             |
| - Accumulated amortisation                | (516)           | (445)           | (338)           |
|   | <b>168</b>      | <b>147</b>      | <b>197</b>      |

## NOTE 15 – FINANCIAL INSTRUMENTS

### Categories of Financial Instruments

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

|  | Long Term                |                          |                          | Current                  |                          |                          |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|  | 31 March<br>2011<br>£000 | 31 March<br>2010<br>£000 | 31 March<br>2009<br>£000 | 31 March<br>2011<br>£000 | 31 March<br>2010<br>£000 | 31 March<br>2009<br>£000 |
| <b>Investments</b>                                     |                          |                          |                          |                          |                          |                          |
| Loans and receivables                                  | -                        | -                        | -                        | 4,009                    | 6,011                    | 11,000                   |
| <b>Total investments</b>                               | -                        | -                        | -                        | <b>4,009</b>             | <b>6,011</b>             | <b>11,000</b>            |
| <b>Debtors</b>   |                          |                          |                          |                          |                          |                          |
| Loans and receivables                                  | 281                      | 245                      | 266                      |                          |                          |                          |
| Financial assets carried<br>at contract amounts        | -                        | -                        | -                        | 1,723                    | 1,511                    | 2,689                    |
| <b>Total Debtors</b>                                   | <b>281</b>               | <b>245</b>               | <b>266</b>               | <b>1,723</b>             | <b>1,511</b>             | <b>2,689</b>             |
| <b>Borrowings</b>                                      |                          |                          |                          |                          |                          |                          |
| Financial liabilities at<br>amortised cost             | 16                       | -                        | -                        | 6                        | -                        | -                        |
| <b>Total borrowings</b>                                | <b>16</b>                | <b>-</b>                 | <b>-</b>                 | <b>6</b>                 | <b>-</b>                 | <b>-</b>                 |
| <b>Other Long Term<br/>Liabilities</b>                 |                          |                          |                          |                          |                          |                          |
| Finance lease liabilities                              | 746                      | 835                      | 759                      |                          |                          |                          |
| <b>Total other long term<br/>liabilities</b>           | <b>746</b>               | <b>835</b>               | <b>759</b>               |                          |                          |                          |
| <b>Creditors</b>                                       |                          |                          |                          |                          |                          |                          |
| Financial liabilities<br>carried at contract<br>amount |                          |                          |                          | (2,588)                  | (2,360)                  | (2,466)                  |
| <b>Total creditors</b>                                 |                          |                          |                          | <b>(2,588)</b>           | <b>(2,360)</b>           | <b>(2,466)</b>           |

At 31 March 2011 the Council's borrowings consisted of an Interest Free Energy Efficiency Loan granted during the year of £25,451. 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.

The fair value paragraphs below set out the Council's policy on the assessment of the carrying values of certain assets and liabilities. The Council has made advances to staff for car loans and to the Housing Company that attract lower than market interest rates, and has received an interest free loan to assist energy efficiency works. The amounts of these advances mean that adjustments to fair value would be very small, and have been deemed immaterial. Therefore, no fair value adjustments have been made for these "soft loans" in the financial statements.

|   | 2010/11  |   |                                      |  |              |
|---|--|---|--------------------------------------|--|--------------|
|   | Financial Liabilities measured at amortised cost | Financial Assets: Loans and receivables | Financial Assets: Available for Sale | Assets and Liabilities at fair Value through Profit and Loss | Total        |
|   | £000   | £000                                    | £000                                 | £000   | £000         |
| <b>Total expense in Surplus or Deficit on the Provision of Services</b>   | -  | -                                       | -                                    | -  | -            |
| Interest income   | -  | (136)                                   | -                                    | -  | (136)        |
| <b>Total income in Surplus or Deficit on the Provision of Services</b>  | -  | <b>(136)</b>                            | -                                    | -  | <b>(136)</b> |
| <b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b> | -  | -                                       | -                                    | -  | -            |
| <b>Net gain/(loss) for the year</b>   | -  | <b>(136)</b>                            | -                                    | -  | <b>(136)</b> |

|   | 2009/10  |  |   |  |       |
|---|--|--|---|--|-------|
|   | Financial Liabilities<br>measured at amortised<br>cost | Financial Assets:<br>Loans and receivables | Financial Assets:<br>Available for Sale | Assets and Liabilities<br>at fair Value through<br>Profit and Loss | Total |
|   | £000   | £000                                       | £000                                    | £000   | £000  |
| <b>Total expense in Surplus or Deficit on the Provision of Services</b>   | -  | -  | -                                       | -  | -     |
| Interest income   | -  | (421)                                      | -                                       | -  | (421) |
| <b>Total income in Surplus or Deficit on the Provision of Services</b>  | -  | (421)                                      | -                                       | -  | (421) |
| <b>Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure</b> | -  | -  | -                                       | -  | -     |
| <b>Net gain/(loss) for the year</b>   | -  | (421)                                      | -                                       | -  | (421) |

### Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). 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:

|   | 31 March 2011           |                    | 31 March 2010           |                    | 31 March 2009           |                    |
|---|-------------------------|--------------------|-------------------------|--------------------|-------------------------|--------------------|
|   | Carrying amount<br>£000 | Fair Value<br>£000 | Carrying amount<br>£000 | Fair Value<br>£000 | Carrying amount<br>£000 | Fair Value<br>£000 |
| Financial liabilities (trade creditors) | 2,534                   | 2,534              | 2,512                   | 2,512              | 1,615                   | 1,615              |
| Long-term creditors                     | -                       | -                  | -                       | -                  | -                       | -                  |

|                    | 31 March 2011           |                    | 31 March 2010           |                    | 31 March 2009           |                    |
|--------------------|-------------------------|--------------------|-------------------------|--------------------|-------------------------|--------------------|
|                    | Carrying amount<br>£000 | Fair Value<br>£000 | Carrying amount<br>£000 | Fair Value<br>£000 | Carrying amount<br>£000 | Fair Value<br>£000 |
| Money Market Loans | 4,009                   | 4,015              | 6,011                   | 6,025              | 11,000                  | 11,017             |
| Long-Term Debtors  | 281                     | 281                | 245                     | 245                | 266                     | 266                |

Financial liabilities represent trade creditors. Fair value is taken to be the invoiced value.

The fair value of the assets is higher than the principal amount because the Council's portfolio of investments 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 2011) attributable to the commitment to receive interest above current market rates.

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

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

#### NOTE 16 – INVENTORIES

|   | Consumable Stores |                 | Maintenance Materials |                 | Total           |                 |
|---|-------------------|-----------------|-----------------------|-----------------|-----------------|-----------------|
|   | 2010/11<br>£000   | 2009/10<br>£000 | 2010/11<br>£000       | 2009/10<br>£000 | 2010/11<br>£000 | 2009/10<br>£000 |
| <b>Balance outstanding at start of year</b> | 10                | 7               | 33                    | 25              | <b>43</b>       | <b>32</b>       |
| Purchases                                   | 5                 | 3               | 1,552                 | 2,426           | <b>1,557</b>    | <b>2,429</b>    |
| Recognised as an expense in the year        | (2)               | -               | (1,557)               | (2,418)         | <b>(1,559)</b>  | <b>(2,418)</b>  |
| <b>Balance outstanding at year-end</b>      | <b>13</b>         | <b>10</b>       | <b>28</b>             | <b>33</b>       | <b>41</b>       | <b>43</b>       |

#### NOTE 17 – CONSTRUCTION CONTRACTS

South Holland had no construction contracts in progress at 31 March 2011.

## NOTE 18 – DEBTORS

|                                       | 31 March<br>2011<br>£000 | 31 March<br>2011<br>£000<br>Impairment<br>Allowance | 31 March<br>2011<br>£000<br>Net | 31 March<br>2010<br>£000<br>Net | 31 March<br>2009<br>£000<br>Net |
|---------------------------------------|--------------------------|---|---------------------------------|---------------------------------|---------------------------------|
| Central Government Bodies             | 1,537                    | -   | 1,537                           | 2,241                           | 1,162                           |
| Other Local Authorities               | 1,010                    | -   | 1,010                           | 622                             | 783                             |
| Public corporations and trading funds | 2,000                    | -   | 2,000                           | -                               | -                               |
| Other entities and individuals        | 2,233                    | (585)   | 1,648                           | 934                             | 1,539                           |
| <b>Total</b>                          | <b>6,780</b>             | <b>(585)</b>  | <b>6,195</b>                    | <b>3,797</b>                    | <b>3,484</b>                    |

## NOTE 19 – CASH AND CASH EQUIVALENTS

| 31 March<br>2009<br>£000 | 31 March<br>2010<br>£000 |  | 31 March<br>2011<br>£000 |
|--------------------------|--------------------------|--|--------------------------|
| 1                        | 1                        | Cash held by the Authority             | 1                        |
| 924                      | 291                      | Bank current accounts                  | 120                      |
| 2,567                    | 5,552                    | Short-term deposits with banks         | 3,700                    |
| <b>3,492</b>             | <b>5,844</b>             | <b>Total Cash and Cash Equivalents</b> | <b>3,821</b>             |

## NOTE 20 – ASSETS HELD FOR SALE

|   | 2010/11<br>£000 | 2009/10<br>£000 | 2008/09<br>£000 |
|---|-----------------|-----------------|-----------------|
| <b>Balance outstanding at start of year</b> | <b>640</b>      | <b>103</b>      | <b>-</b>        |
| Assets newly classified as held for sale:   |                 |                 |                 |
| - Property, Plant and Equipment             | 155             | 606             | 103             |
| Revaluation gains                           | -               | 440             |                 |
| Assets sold                                 | (734)           | (509)           |                 |
| <b>Balance outstanding at year-end</b>      | <b>61</b>       | <b>640</b>      | <b>103</b>      |

## NOTE 21 – CREDITORS

|                                | 31 March<br>2011<br>£000 | 31 March<br>2010<br>£000 | 31 March<br>2009<br>£000 |
|--------------------------------|--------------------------|--------------------------|--------------------------|
| Central Government Bodies      | 1,356                    | 1,060                    | 1,374                    |
| Other Local Authorities        | 731                      | 526                      | 1,307                    |
| NHS bodies                     | -                        | 11                       |                          |
| Other entities and individuals | 2,860                    | 2,243                    | 2,073                    |
| <b>Total</b>                   | <b>4,947</b>             | <b>3,840</b>             | <b>4,754</b>             |

## NOTE 22 – PROVISIONS

The Council held no provisions at the Balance Sheet date.

## NOTE 23 – USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement. Note 8 details Earmarked Reserves movements.

## NOTE 24 – UNUSABLE RESERVES

| 31 March<br>2009<br>£000 | 31 March<br>2010<br>£000 |                                    | 31 March<br>2011<br>£000 |
|--------------------------|--------------------------|------------------------------------|--------------------------|
| 8,149                    | 11,023                   | Revaluation Reserve                | 9,723                    |
| 182,437                  | 181,301                  | Capital Adjustment Account         | 127,341                  |
| (15,845)                 | (36,293)                 | Pensions Reserve                   | (16,196)                 |
| 69                       | 68                       | Deferred Capital Receipts          | 66                       |
| (14)                     | (30)                     | Collection Fund Adjustment Account | (58)                     |
| (46)                     | (85)                     | Accumulated Absences Account       | (33)                     |
| <b>174,750</b>           | <b>155,984</b>           | <b>Total Unusable Reserves</b>     | <b>120,843</b>           |

### Revaluation Reserve

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

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

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

| 2008/09<br>£000 | 2009/10<br>£000 |   | 2010/11<br>£000 | £000           |
|-----------------|-----------------|---|-----------------|----------------|
| <b>6,587</b>    | <b>8,149</b>    | <b>Balance at 1 April</b>   |                 | <b>11,023</b>  |
| -               | -               | <b>Adjustment for Social Housing Discount</b>   |                 | <b>(1,709)</b> |
| -               | -               | <b>Revised balance at 1 April</b>   |                 | <b>9,314</b>   |
| 6,338           | 3,527           | Upward revaluation of assets  | 2,833           |                |
| (4,612)         | (201)           | Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services      | (1,795)         |                |
| 1,726           | 3,326           | Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services |                 | 1,038          |
|                 | (239)           | Difference between fair value depreciation and historical cost depreciation   | (266)           |                |
|                 | (213)           | Accumulated Gains on assets sold or scrapped  | (363)           |                |
| (164)           | (452)           | Amount written off to the Capital Adjustment Account  |                 | (629)          |
| <b>8,149</b>    | <b>11,023</b>   | <b>Balance at 31 March</b>  |                 | <b>9,723</b>   |

### **Available for Sale Financial Instruments Reserve**

The Available for Sale Financial Instruments Reserve would contain the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance would then be reduced when investments with accumulated gains were:

- revalued downwards or impaired and the gains are lost
- disposed of and the gains are realised.

During the year the Council held no such investments.

### **Capital Adjustment Account**

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

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

| 2008/09<br>£000 | 2009/10<br>£000 |  | 2010/11<br>£000 | 2010/11<br>£000 |
|-----------------|-----------------|--|-----------------|-----------------|
| 208,250         | 182,437         | <b>Balance at 1 April</b>  |                 | 181,301         |
|                 |                 | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:                             |                 |                 |
|                 | (3,195)         | Charges for depreciation and impairment of non-current assets  | (2,534)         |                 |
| (29,016)        | (4,969)         | Revaluation losses on Property, Plant and Equipment  | (59,272)        |                 |
| (65)            | (100)           | Amortisation of intangible assets  | (71)            |                 |
| (165)           | (1,370)         | Revenue expenditure funded from capital under statute  | (1,664)         |                 |
| (1,464)         | (539)           | 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 | (1,250)         |                 |
| <b>(30,710)</b> | <b>(10,173)</b> |  |                 | <b>(64,791)</b> |
| 125             | 213             | Adjusting amounts written out of the Revaluation Reserve   |                 | 363             |
| 1,268           | 234             | Net written out amount of the cost of non-current assets consumed in the year  |                 | 266             |
|                 |                 | <b>Capital financing applied in the year:</b>  |                 |                 |
| 106             | 976             | Use of the Capital Receipts Reserve to finance new capital expenditure   | 916             |                 |
| 2,386           | 2,489           | Use of the Major Repairs Reserve to finance new capital expenditure  | 2,209           |                 |
| 486             | 1,394           | Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing              | 4,258           |                 |
|                 | 2,187           | Application of grants to capital financing from the Capital Grants Unapplied Account   | 1,956           |                 |
| 19              | 173             | Statutory provision for the financing of capital investment charged against the General Fund and HRA balances  | 206             |                 |
| 784             | 1,339           | Capital expenditure charged against the General Fund and HRA balances  | 695             |                 |
| 3,781           | 8,558           |  |                 | 10,240          |
| (277)           | 32              | Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement                         |                 | (38)            |
| <b>182,437</b>  | <b>181,301</b>  | <b>Balance at 31 March</b>   |                 | <b>127,341</b>  |

## Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account would absorb the timing differences arising from the different arrangements for accounting for income and expenditure relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provision. No such account was required by the Council in 2010/11.

## 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 pay 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.

| 2008/09<br>£000 | 2009/10<br>£000 |  | 2010/11<br>£000 |
|-----------------|-----------------|--|-----------------|
| (9,649)         | (15,845)        | <b>Balance at 1 April</b>  | <b>(36,293)</b> |
| (5,886)         | (20,037)        | Actuarial gains and losses on pensions assets and liabilities  | 13,558          |
| (1,989)         | (2,051)         | 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 | 4,988           |
| 1,679           | 1,640           | Employers pensions contributions and direct payments to pensioners payable in the year   | 1,551           |
| <b>(15,845)</b> | <b>(36,293)</b> | <b>Balance at 31 March</b>   | <b>(16,196)</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.

| 2008/09<br>£000 | 2009/10<br>£000 |  | 2010/11<br>£000 |
|-----------------|-----------------|--|-----------------|
| 71              | 69              | <b>Balance at 1 April</b>  | <b>68</b>       |
|                 | -               | Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | -               |
| (2)             | (1)             | Transfer to the Capital Receipts Reserve upon receipt of cash  | (2)             |
| <b>69</b>       | <b>68</b>       | <b>Balance at 31 March</b>   | <b>66</b>       |

## Collection Fund Adjustment Account

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

| 2008/09<br>£000 | 2009/10<br>£000 |  | 2010/11<br>£000 |
|-----------------|-----------------|--|-----------------|
| -               | (14)            | <b>Balance at 1 April</b>  | <b>(30)</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 |                 |
| (14)            | (16)            |  | (28)            |
| <b>(14)</b>     | <b>(30)</b>     | <b>Balance at 31 March</b>   | <b>(58)</b>     |

## Unequal Pay Back Pay Account

An Unequal Pay Back Pay Account would compensate for the differences between the rate at which the Council provided for the potential costs of back pay settlements in relation to Equal Pay cases and the ability under statutory provisions to defer the impact on the General Fund Balance until such time as cash might be paid out to claimants. No such account was required by the Council in 2010/11.

## 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.

| 2008/09<br>£000 | 2009/10<br>£000 |   |      | 2010/11<br>£000 |
|-----------------|-----------------|---|------|-----------------|
| -               | (46)            | <b>Balance at 1 April</b>   |      | <b>(85)</b>     |
|                 | 46              | Settlement or cancellation of accrual made at end of the preceding year   | 85   |                 |
| (46)            | (85)            | Amounts accrued at the end of the current year  | (33) | 52              |
|                 |                 | 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 |      |                 |
| (46)            | (39)            |   |      | 52              |
| <b>(46)</b>     | <b>(85)</b>     | <b>Balance at 31 March</b>  |      | <b>(33)</b>     |

## NOTE 25 – CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items

| 2009/10<br>£000 |                    | 2010/11<br>£000 |
|-----------------|--------------------|-----------------|
| (421)           | Interest received  | (159)           |
| 127             | Interest paid      | 129             |
| -               | Dividends received | -               |

## NOTE 26 – CASH FLOW STATEMENT – INVESTING ACTIVITIES

| 2009/10<br>£000 |  | 2010/11<br>£000 |
|-----------------|--|-----------------|
| 6,812           | Purchase of property, plant and equipment, investment property, plant and intangible assets        | 10,011          |
| -               | Purchase of short-term and long-term investments   | 145             |
| 60              | Other payments for investing activities  | -               |
| (602)           | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (602)           |
| (4,989)         | Proceeds from short-term and long-term investments   | -               |
| 75              | Other receipts from investing activities   | (690)           |
| <b>1,356</b>    | <b>Net cash flows from investing activities</b>  | <b>8,864</b>    |

## NOTE 27 – CASH FLOW STATEMENT – FINANCING ACTIVITIES

| 2009/10<br>£000 |  | 2010/11<br>£000 |
|-----------------|--|-----------------|
| -               | Cash receipts of short- and long-term borrowing  | (25)            |
| 3,026           | Other receipts from financing activities   | -               |
| 157             | Cash Payments for the reduction of outstanding liabilities relating to finance leases and on-Balance Sheet PFI contracts | 188             |
| -               | Repayments of short- and long-term borrowing   | 3               |
| (14)            | Other Payments for financing activities  | 74              |
| <b>3,169</b>    | <b>Net cash flows from financing activities</b>  | <b>240</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 Best Value Accounting Code of Practice. In practice, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across the Council's service areas. Given the changes to managerial structures in the last two years and the shared management arrangements introduced in April 2011, the Council has decided to use its Corporate Priorities as the basis for reporting to members going forward.

Reports to members 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's principal corporate priorities recorded in the budget reports for the year is as follows:

| Corporate Priority Income and Expenditure 2010/11 | Affordable Housing | Secure and diverse employment | Access to Services | Improved Leisure facilities | Care of villages and towns | Democratic Community Leadership | Maintaining Capacity to deliver | Statutory and other services | Total           |
|---|--------------------|-------------------------------|--------------------|-----------------------------|----------------------------|---------------------------------|---------------------------------|------------------------------|-----------------|
|   | £000               | £000                          | £000               | £000                        | £000                       | £000                            | £000                            | £000                         | £000            |
| Fees, charges & other service income              | (14,072)           | (880)                         | (71)               | (580)                       | (342)                      | (70)                            | (216)                           | (895)                        | (17,126)        |
| Government grants                                 | (23,281)           | (175)                         | (221)              | (616)                       | (503)                      | -                               | -                               | (331)                        | (25,127)        |
| <b>Total Income</b>                               | <b>(37,353)</b>    | <b>(1,055)</b>                | <b>(292)</b>       | <b>(1,196)</b>              | <b>(845)</b>               | <b>(70)</b>                     | <b>(216)</b>                    | <b>(1,226)</b>               | <b>(42,253)</b> |
| Employee expenses                                 | 3,006              | 720                           | 165                | 876                         | 2,009                      | 834                             | 241                             | 820                          | 8,671           |
| Other service expenses                            | 30,021             | 714                           | 780                | 1,911                       | 2,607                      | 726                             | 1,070                           | 3,591                        | 41,420          |
| Support service recharges                         | 1,736              | 176                           | 60                 | 228                         | 316                        | 272                             | -                               | 264                          | 3,052           |
| Capital Charges                                   | 2,186              | 80                            | 17                 | 277                         | 202                        | 6                               | -                               | -                            | 2,768           |
| <b>Total Expenditure</b>                          | <b>36,949</b>      | <b>1,690</b>                  | <b>1,022</b>       | <b>3,292</b>                | <b>5,134</b>               | <b>1,838</b>                    | <b>1,311</b>                    | <b>4,675</b>                 | <b>55,911</b>   |
| <b>Net Expenditure</b>                            | <b>(404)</b>       | <b>635</b>                    | <b>730</b>         | <b>2,096</b>                | <b>4,289</b>               | <b>1,768</b>                    | <b>1,095</b>                    | <b>3,449</b>                 | <b>13,658</b>   |

| Corporate Priority Income and Expenditure 2009/10 | Affordable Housing<br>£000 | Secure and diverse employment<br>£000 | Access to Services<br>£000 | Improved Leisure facilities<br>£000 | Care of villages and towns<br>£000 | Democratic Community Leadership<br>£000 | Maintaining Capacity to deliver<br>£000 | Statutory and other services<br>£000 | Total<br>£000   |
|---|----------------------------|---------------------------------------|----------------------------|-------------------------------------|------------------------------------|---|---|--------------------------------------|-----------------|
| Fees, charges & other service income              | (14,651)                   | (1,045)                               | (36)                       | (588)                               | (404)                              | (13)                                    | -                                       | (617)                                | (17,354)        |
| Government grants                                 | (20,388)                   | (180)                                 | (222)                      | (340)                               | (389)                              | -                                       | -                                       | (1,220)                              | (22,739)        |
| <b>Total Income</b>                               | <b>(35,039)</b>            | <b>(1,225)</b>                        | <b>(258)</b>               | <b>(928)</b>                        | <b>(793)</b>                       | <b>(13)</b>                             | <b>-</b>                                | <b>(1,837)</b>                       | <b>(40,093)</b> |
| Employee expenses                                 | 3,356                      | 698                                   | 204                        | 787                                 | 2,042                              | 757                                     | -                                       | 1,080                                | 8,924           |
| Other service expenses                            | 25,545                     | 551                                   | 657                        | 1,497                               | 2,522                              | 536                                     | -                                       | 4,231                                | 35,539          |
| Support service recharges                         | 2,422                      | 298                                   | 132                        | 414                                 | 617                                | 454                                     | -                                       | 626                                  | 4,963           |
| Capital Charges                                   | 2,234                      | 103                                   | 16                         | 249                                 | 90                                 | -                                       | -                                       | -                                    | 2,692           |
| <b>Total Expenditure</b>                          | <b>33,557</b>              | <b>1,650</b>                          | <b>1,009</b>               | <b>2,947</b>                        | <b>5,271</b>                       | <b>1,747</b>                            | <b>-</b>                                | <b>5,937</b>                         | <b>52,118</b>   |
| <b>Net Expenditure</b>                            | <b>(1,482)</b>             | <b>425</b>                            | <b>751</b>                 | <b>2,019</b>                        | <b>4,478</b>                       | <b>1,734</b>                            | <b>-</b>                                | <b>4,100</b>                         | <b>12,025</b>   |

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

This reconciliation shows how the figures in the analysis of the Council's corporate priorities income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

|  | 2009/10<br>£000 | 2010/11<br>£000 |
|--|-----------------|-----------------|
| Net expenditure in the Corporate Priority Analysis   | 12,025          | 13,658          |
| Net expenditure of services and support services not included in the Analysis                            | -               | -               |
| Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis | 5,536           | 53,003          |
| Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement      | (2,238)         | (2,517)         |
| <b>Cost of Services in Comprehensive Income and Expenditure Statement</b>                                | <b>15,323</b>   | <b>64,144</b>   |

## Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of the Council's Corporate Priorities 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.

| 2010/11  | Corporate Priority Analysis | Services and Support Services not in Analysis | Amounts not reported to management for decision making | Amounts not included in I&E | Cost of Services | Corporate       | Group Accounts adjustments | Total           |
|--|-----------------------------|---|--|-----------------------------|------------------|-----------------|----------------------------|-----------------|
|  | £000                        | £000  | £000   | £000                        | £000             | £000            | £000                       | £000            |
| Fees, charges & other service income                   | (17,537)                    | -   | -  | -                           | (17,537)         | -               | (88)                       | (17,625)        |
| Interest and investment income                         | (136)                       | -   | -  | -                           | (136)            | -               | -                          | (136)           |
| Taxation and non specific grant income                 | -                           | -   | -  | -                           | -                | (18,485)        | (97)                       | (18,582)        |
| Government grants and contributions                    | (25,157)                    | -   | -  | -                           | (25,157)         | -               | -                          | (25,157)        |
| Gain or Loss on Disposal of Fixed Assets               | -                           | -   | -  | -                           | -                | (599)           | -                          | (599)           |
| <b>Total Income</b>                                    | <b>(42,830)</b>             | -   | -  | -                           | <b>(42,830)</b>  | <b>(19,084)</b> | <b>(185)</b>               | <b>(62,099)</b> |
| Employee expenses                                      | 10,180                      | -   | -  | -                           | 10,180           | -               | 4                          | 10,184          |
| Other service expenses                                 | 37,019                      | -   | 1,664  | -                           | 38,683           | -               | 59                         | 38,742          |
| Pensions accounting adjustments                        | -                           | -   | (7,299)  | -                           | (7,299)          | -               | -                          | (7,299)         |
| Support Service recharges                              | 3,568                       | -   | -  | -                           | 3,568            | -               | -                          | 3,568           |
| Depreciation, amortisation and impairment              | 3,029                       | -   | 58,658   | -                           | 61,687           | -               | -                          | 61,687          |
| Interest Payments                                      | -                           | -   | -  | -                           | -                | 129             | -                          | 129             |
| Precepts & Levies                                      | 2,692                       | -   | -  | -                           | 2,692            | -               | -                          | 2,692           |
| Change in Investment Property value                    | -                           | -   | -  | -                           | -                | 38              | -                          | 38              |
| Payments to Housing Capital Receipts Pool              | -                           | -   | -  | -                           | -                | 177             | -                          | 177             |
| Pensions interest cost & Expected return on assets     | -                           | -   | -  | -                           | -                | 1,057           | -                          | 1,057           |
| Gain or Loss on Disposal of Fixed Assets               | -                           | -   | -  | -                           | -                | 1,231           | -                          | 1,231           |
| <b>Total expenditure</b>                               | <b>56,488</b>               | -   | <b>53,023</b>  | -                           | <b>109,511</b>   | <b>2,632</b>    | <b>63</b>                  | <b>112,206</b>  |
| <b>Surplus or deficit on the provision of services</b> | <b>13,658</b>               | -   | <b>53,023</b>  | -                           | <b>66,681</b>    | <b>(16,452)</b> | <b>(122)</b>               | <b>50,107</b>   |

| 2009/10 comparative figures                            | Corporate Priority Analysis          | Services and Support Services not in Analysis | Amounts not reported to management for decision making | Amounts not included in I&E | Cost of Services | Corporate       | Group Accounts adjustments | Total           |
|--|--------------------------------------|---|--|-----------------------------|------------------|-----------------|----------------------------|-----------------|
|  | £000                                 | £000  | £000   | £000                        | £000             | £000            | £000                       | £000            |
|  | Fees, charges & other service income | (16,934)                                      | -  | -                           | -                | (16,934)        | -                          | (252)           |
| Interest and investment income                         | (421)                                | -   | -  | -                           | (421)            | -               | -                          | (421)           |
| Taxation and non specific grant income                 | -                                    | -   | -  | -                           | -                | (17,148)        | -                          | (17,148)        |
| Government grants and contributions                    | (22,739)                             | -   | (821)  | -                           | (23,560)         | -               | -                          | (23,560)        |
| <b>Total Income</b>                                    | <b>(40,094)</b>                      | <b>-</b>                                      | <b>(821)</b>   | <b>-</b>                    | <b>(40,915)</b>  | <b>(17,148)</b> | <b>(252)</b>               | <b>(58,315)</b> |
| Employee expenses                                      | 11,656                               | -   | -  | -                           | 11,656           | -               | -                          | 11,656          |
| Other service expenses                                 | 28,649                               | -   | 1,388  | -                           | 30,037           | -               | 13                         | 30,050          |
| Support Service recharges                              | 6,060                                | -   | -  | -                           | 6,060            | -               | -                          | 6,060           |
| Depreciation, amortisation and impairment              | 3,095                                | -   | 4,969  | -                           | 8,064            | -               | -                          | 8,064           |
| Interest Payments                                      | -                                    | -   | -  | -                           | -                | 127             | -                          | 127             |
| Precepts and levies                                    | 2,659                                | -   | -  | -                           | 2,659            | -               | -                          | 2,659           |
| Change in Investment Property value                    | -                                    | -   | -  | -                           | -                | (38)            | -                          | (38)            |
| Payments to Housing Capital Receipts Pool              | -                                    | -   | -  | -                           | -                | 317             | -                          | 317             |
| Pensions interest cost & Expected return on assets     | -                                    | -   | -  | -                           | -                | 1,225           | -                          | 1,225           |
| Gain or Loss on Disposal of Fixed Assets               | -                                    | -   | -  | -                           | -                | (57)            | -                          | (57)            |
| <b>Total expenditure</b>                               | <b>52,119</b>                        | <b>-</b>                                      | <b>6,357</b>   | <b>-</b>                    | <b>58,476</b>    | <b>1,574</b>    | <b>13</b>                  | <b>60,063</b>   |
| <b>Surplus or deficit on the provision of services</b> | <b>12,025</b>                        | <b>-</b>                                      | <b>5,536</b>   | <b>-</b>                    | <b>17,561</b>    | <b>(15,574)</b> | <b>(239)</b>               | <b>1,748</b>    |

## NOTE 29 – ACQUIRED AND DISCONTINUED OPERATIONS

There were no acquired or discontinued operations during the year.

## NOTE 30 – 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 2010/11 are as follows:

|   |                   | 2010/11 |            | 2009/10 |              |
|---|-------------------|---------|------------|---------|--------------|
|   |                   | £000    | £000       | £000    | £000         |
| Markets are provided in Spalding, Holbeach, Long Sutton and Crowland      | Turnover          | (130)   |            | (136)   |              |
|   | Expenditure       | 192     |            | 217     |              |
|   | Deficit           |         | 62         |         | 81           |
| The Council provides off street car parking predominantly within Spalding | Turnover          | (284)   |            | (426)   |              |
|   | Expenditure       | 393     |            | 228     |              |
|   | (Surplus)/Deficit |         | 109        |         | (198)        |
| The Council lets 10 industrial units at Crowland                          | Turnover          | (33)    |            | (29)    |              |
|   | Expenditure       | 404     |            | 17      |              |
|   | (Surplus)/Deficit |         | 371        |         | (12)         |
| <b>Net (Surplus)/Deficit on trading operations</b>                        |                   |         | <b>542</b> |         | <b>(129)</b> |

The changes in the net trading position for car parking and industrial units, between 2009/10 and 2010/11, are largely due to charges in 2010/11 to reflect the downward valuation of the relevant assets in the Council's Balance Sheet. These amounted to £158,000 and £377,000 for car parking and industrial units respectively.

## NOTE 31 – AGENCY SERVICES

|   | 2010/11   | 2009/10   |
|---|-----------|-----------|
|   | £000      | £000      |
| Expenditure incurred in providing waste collection services for Lincs County Council      | 40        | 40        |
| Expenditure incurred in providing amenity grass cutting services for Lincs County Council | 30        | 26        |
| <b>Net surplus arising on the Agency arrangement</b>                                      | <b>70</b> | <b>66</b> |

## NOTE 32 – ROAD CHARGING SCHEMES UNDER THE TRANSPORT ACT 2000

The Council does not have any road charging schemes.

### NOTE 33 – POOLED BUDGETS

There are no pooled budget arrangements in 2010/11.

### NOTE 34 – MEMBERS' ALLOWANCES

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

|              | <b>2010/11</b> | <b>2009/10</b> |
|--------------|----------------|----------------|
|              | <b>£000</b>    | <b>£000</b>    |
| Salaries     | 211            | 189            |
| Allowances   | 107            | 102            |
| Expenses     | 19             | 15             |
| <b>Total</b> | <b>337</b>     | <b>306</b>     |

## NOTE 35 – OFFICERS’ REMUNERATION

The remuneration paid to, and in respect of, the Council’s senior employees is as follows:

|   |         | Salary,<br>Fees and<br>Allowances<br>£ | Expenses<br>Allowances<br>£ | Compensation<br>for Loss of<br>Office<br>£ | Pension<br>Contribution<br>£ | Total<br>£ |
|---|---------|--|-----------------------------|--|------------------------------|------------|
| <b>Chief Executive</b>  | 2009/10 | 115,827                                | 1,174                       | -  | 22,888                       | 139,889    |
|   | 2010/11 | 118,742                                | 871                         | -  | 25,574                       | 145,187    |
| <b>Corporate Director</b>   | 2009/10 | 82,808                                 | 369                         | -  | 15,882                       | 99,059     |
|   | 2010/11 | 80,873                                 | 414                         | 23,997                                     | 133,291                      | 238,575    |
| <b>Corporate Director (took on<br/>S151 role wef 1 August 2010)</b> | 2009/10 | 82,434                                 | 837                         | -  | 15,970                       | 99,241     |
|   | 2010/11 | 65,167                                 | 784                         | 79,000                                     | 12,544                       | 157,495    |
| <b>Monitoring Officer</b>   | 2009/10 | 59,370                                 | -                           | -  | 11,830                       | 71,200     |
|   | 2010/11 | 58,481                                 | 263                         | 30,000                                     | 67,611                       | 156,355    |
| <b>Section 151 Officer (to 31<br/>July 2010)</b>                    | 2009/10 | 61,694                                 | -                           | -  | 11,830                       | 73,524     |
|   | 2010/11 | 20,448                                 | 9                           | -  | 3,943                        | 24,400     |

Following negotiations and formal approval by both councils in August 2010, the Chief Executive provides services for both the Council and Breckland District Council. He is formally employed by the Council, and Breckland District Council is recharged 50% of his salary and other remuneration. As South Holland District Council is the employing Council, the full costs of his employment are shown in the note above.

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

| Remuneration Band   | 2010/11<br>Number of<br>Employees | 2009/10<br>Number of<br>Employees |
|---------------------|-----------------------------------|-----------------------------------|
| £50,000 – £54,999   | -                                 | -                                 |
| £55,000 – £59,999   | 1                                 | 3                                 |
| £60,000 – £64,999   | -                                 | 5                                 |
| £65,000 – £69,999   | -                                 | -                                 |
| £70,000 – £74,999   | -                                 | -                                 |
| £75,000 – £79,999   | -                                 | -                                 |
| £80,000 – £84,999   | 1                                 | 2                                 |
| £85,000 – £89,999   | 3                                 | -                                 |
| £90,000 – £94,999   | 1                                 | -                                 |
| £95,000 – £99,999   | -                                 | -                                 |
| £100,000 – £104,999 | -                                 | -                                 |
| £105,000 – £109,999 | 1                                 | -                                 |
| £110,000 – £114,999 | -                                 | -                                 |
| £115,000 – £119,999 | 1                                 | 1                                 |
| £140,000 - £144,999 | 1                                 | -                                 |

#### NOTE 36 – EXTERNAL AUDIT COSTS

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

|   | 2010/11<br>£000 | 2009/10<br>£000 |
|---|-----------------|-----------------|
| Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year | 112             | 105             |
| Fees payable to the Audit Commission in respect of statutory inspections  | -               | -               |
| Fees payable to the Audit Commission for the certification of grant claims and returns for the year                           | 16              | 18              |
| Fees payable in respect of other services provided by the Audit Commission during the year                                    | -               | -               |
| <b>TOTAL</b>  | <b>128</b>      | <b>123</b>      |

The fees for other services payable in 2010/11 related to elector queries following the production of the 2009/10 financial statements.

#### NOTE 37 – DEDICATED SCHOOLS GRANT

Not applicable to South Holland District Council.

## NOTE 38 – GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11.

|   | 2010/11<br>£000 | 2009/10<br>£000 |
|---|-----------------|-----------------|
| <b>Credited to Taxation and Non Specific Grant income</b> |                 |                 |
| Revenue Support Grant                                     | (1,139)         | (1,635)         |
| National Non-Domestic Rates                               | (7,843)         | (7,084)         |
| Area Based Grant  | (246)           | (198)           |
| Housing and Planning Delivery Grant                       | -               | (419)           |
| Grants in relation to capital expenditure                 | (4,075)         | (2,740)         |
| Other Grants  | -               | (51)            |
| <b>Total</b>  | <b>(13,303)</b> | <b>(12,127)</b> |
| <b>Credited to Services</b>                               |                 |                 |
| Council Tax and Housing Benefit Subsidy                   | (21,951)        | (20,265)        |
| Council Tax and Housing Benefit Administration            | (628)           | (628)           |
| Concessionary Fares                                       | (186)           | (181)           |
| Supporting People Grant                                   | (677)           | (648)           |
| Disabled Facilities Grant                                 | (210)           | (197)           |
| Homelessness Grant  | (78)            | (50)            |
| RHCPG – Private Sector Housing Grant                      | (623)           | (228)           |
| Connecting Communities                                    | (42)            | (36)            |
| LPSA2 Grant   | (66)            | -               |
| EMDA Red Lion Quarter                                     | (120)           | -               |
| English Heritage PSICA Conservation grant                 | (123)           | -               |
| Choosing Health   | (145)           | (112)           |
| Arts Council  | (87)            | (61)            |
| Other Grants  | (221)           | (333)           |
| <b>Total</b>  | <b>(25,157)</b> | <b>(22,739)</b> |

## NOTE 39 – RELATED PARTIES

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

### Central Government

Central government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, providing 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 2011 are shown in Note 38.

## **Members**

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2010/11 is shown in Note 34. During 2010/11, a number of members were also directors of the Council's wholly owned subsidiary companies, South Holland Local Housing Community Interest Company and Red Lion Quarter Community Interest Company; also directors of Compass Point Business Services (East Coast) Ltd (joint venture with East Lindsey District Council), and members of Internal Drainage Boards, Citizens' Advice Bureau and other local community associations.

Two members (King and Seabourn) did not return declarations in respect of related parties.

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.

## **Officers**

During 2010/11 the Chief Executive was a director of Compass Point Business Services (East Coast) Ltd, by virtue of his position as Chief Executive of the Council.

No other material transactions were identified.

## **Other Public Bodies**

Arrangements for the sharing of the Council's Chief Executive with Breckland District Council were approved and implemented during the year. From August 2010, the Council continues to be the employer, with 50% of the costs refunded by Breckland. The value of this arrangement was £68,000 in 2010/11, with £8,000 outstanding at the year end. In April 2011 additional officer sharing was introduced, with joint senior management arrangements between the two bodies put in place.

## **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 during the year, delivered through Compass Point Business Services (CPBS) (East Coast) Ltd with effect from 1 August 2010. Information regarding the company, and transactions between the Council and CPBS, is included in the Explanatory Foreword at page 7, and in the Group Accounts at pages 104 – 108.

The Council also has two wholly owned subsidiary companies, South Holland Local Housing Community Interest Company and Red Lion Quarter Community Interest Company. Details on the companies and transactions in the year are set out in the Group Accounts at pages 104 – 108.

The Council is also the custodian for the Ayscoughfee Hall and Gardens, Sir Halley Stewart Playing Field, Weston St Mary's Village Hall and IVO Day Care Centre Trusts. Details of the transactions with the larger Trusts are shown in Note 51.

## NOTE 40 – 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.

|   | 2010/11      | 2009/10      |
|---|--------------|--------------|
|   | £000         | £000         |
| <b>Opening Capital Financing Requirement</b>  | <b>2,901</b> | <b>2,413</b> |
| Adjustment re Finance Leases under IFRS   | 835          | -            |
| <b>Restated Opening Capital Financing Requirement</b>                                     | <b>3,736</b> | <b>-</b>     |
| Capital Investment  |              |              |
| Property, Plant and Equipment   | 8,810        | 7,466        |
| Investment Properties   | -            | -            |
| Intangible Assets   | 92           | 56           |
| Revenue Expenditure Funded from Capital under Statute                                     | 1,664        | 1,370        |
| Provision for finance leases  | 99           | -            |
| <b>Sources of finance</b>   |              |              |
| Capital receipts  | (917)        | (976)        |
| Government grants and other contributions   | (6,214)      | (3,582)      |
| Major Repairs Allowance   | (2,209)      | (2,489)      |
| <b>Sums set aside from revenue:</b>   |              |              |
| Direct revenue contributions  | (695)        | (1,339)      |
| MRP   | (18)         | (18)         |
| Finance leases - repayments   | (187)        | -            |
| <b>Closing Capital Financing Requirement</b>  | <b>4,161</b> | <b>2,901</b> |
| <b>Explanation of movements in year</b>   |              |              |
| Increase in underlying need to borrowing (supported by government financial assistance)   | -            | -            |
| Increase in underlying need to borrowing (unsupported by government financial assistance) | 326          | 488          |
| Adjustment for assets acquired under finance leases in prior years                        | 835          | -            |
| Assets acquired under finance leases  | 99           | -            |
| <b>Increase/(decrease) in Capital Financing Requirement</b>                               | <b>1,260</b> | <b>488</b>   |

## NOTE 41 – LEASES

### Council as Lessee

#### Finance Leases

The Council has acquired a number of items 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<br>2011<br>£000 | 31 March<br>2010<br>£000 | 31 March<br>2009<br>£000 |
|--|--------------------------|--------------------------|--------------------------|
| Vehicles, Plant, Furniture and Equipment | 635                      | 746                      | 759                      |
|  | <b>635</b>               | <b>746</b>               | <b>759</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<br>2011<br>£000 | 31 March<br>2010<br>£000 | 31 March<br>2009<br>£000 |
|--|--------------------------|--------------------------|--------------------------|
| Finance lease liabilities (net present value of minimum lease payments): |                          |                          |                          |
| Current  | 222                      | 172                      | 121                      |
| Non-Current  | 525                      | 661                      | 638                      |
| Finance costs payable in future years                                    | 189                      | 304                      | 243                      |
| <b>Minimum lease payments</b>  | <b>936</b>               | <b>1,137</b>             | <b>1,002</b>             |

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

|  | Minimum Lease Payments   |                          | Finance Lease Liabilities |                          |
|--|--------------------------|--------------------------|---------------------------|--------------------------|
|  | 31 March<br>2011<br>£000 | 31 March<br>2010<br>£000 | 31 March<br>2011<br>£000  | 31 March<br>2010<br>£000 |
| Not later than 1 year                        | 222                      | 173                      | 321                       | 299                      |
| Later than 1 year and not later than 5 years | 524                      | 662                      | 614                       | 839                      |
| Later than 5 years                           | -                        | -                        | -                         | -                        |
|  | <b>746</b>               | <b>835</b>               | <b>935</b>                | <b>1,138</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 2010/11 no contingent rents were payable by the Council (nil in 2009/10).

#### Operating Leases

The Council has acquired a number of items of equipment by entering into operating leases, with typical lives of 2-3 years.

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

|  | 31 March<br>2011<br>£000 | 31 March<br>2010<br>£000 |
|--|--------------------------|--------------------------|
| Not later than 1 year                        | 1                        | 10                       |
| Later than 1 year and not later than 5 years | -                        | -                        |
| Later than 5 years                           | -                        | -                        |
|  | <b>1</b>                 | <b>10</b>                |

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

|                                | 31 March<br>2011<br>£000 | 31 March<br>2010<br>£000 |
|--------------------------------|--------------------------|--------------------------|
| Minimum lease payments         | 1                        | 16                       |
| Contingent rents               | -                        | -                        |
| [Sublease payments receivable] | -                        | -                        |
|                                | <b>1</b>                 | <b>16</b>                |

### Council as Lessor

#### Finance Leases

The Council has not leased out any property on a finance lease basis.

#### Operating Leases

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

In addition, in 2010/11 the Council received £341,000 from Compass Point Business Services (East Coast) Ltd in respect of the usage of office space and equipment from 1 August 2010. No formal long term arrangement currently exists.

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

|  | 31 March<br>2011<br>£000 | 31 March<br>2010<br>£000 |
|--|--------------------------|--------------------------|
| Not later than 1 year                        | 9                        | 1                        |
| Later than 1 year and not later than 5 years | 18                       | 3                        |
| Later than 5 years                           | 4                        | 4                        |
|  | <b>31</b>                | <b>8</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 2010/11 no contingent rents were receivable by the Council (nil in 2009/10).

### NOTE 42- PRIVATE FINANCE INITIATIVES AND SIMILAR CONTRACTS

There were no PFI's and similar contracts during 2010/11.

## **NOTE 43 – 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 Notes 12 and 14 reconciling the movement over the year in the Property, Plant and Equipment and Intangible Asset balances.

During 2010/11, the Council has/has not recognised any impairment losses.

## **NOTE 44 – CAPITALISATION OF BORROWING COSTS**

Under IAS23 Borrowing Costs, the Council is required to disclose the amount of borrowing costs capitalised in the year and the capitalisation rate used, in relation to qualifying assets. As the Council has no interest-bearing long term debt, it did not incur any such costs in 2010/11.

## **NOTE 45 – TERMINATION BENEFITS**

As part of the shared senior management arrangements with Breckland District Council that were formally implemented in April 2011 (this excludes the Chief Executive sharing initiative that commenced in August 2010 ), the Council terminated the contracts of a number of employees, incurring liabilities of £399,778, the cost of which was equally shared between the two Councils. In addition, £105,000 was payable to other officers in 2010/11 as the Council continued to review its structures to maintain efficiency and value for money (the sum of £100,220 was paid in 2009/10).

## **NOTE 46 – PENSIONS SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES**

The Council has no pension schemes that are accounted for as defined contribution schemes.

## **NOTE 47 – 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 that needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in two post employment schemes:

- The Local Government Pension Scheme, administered locally by 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.
- Arrangements for the award of discretionary post retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions' liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

## 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 is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made 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 |                 |
|---|---------------------------------|-----------------|
|   | 2010/11<br>£000                 | 2009/10<br>£000 |
| <b>Comprehensive Income and Expenditure Statement</b>   |                                 |                 |
| <i>Cost of Services:</i>  |                                 |                 |
| cost current service  | 1,254                           | 823             |
| past service costs  | (6,032)                         | -               |
| settlements and curtailments  | (1,267)                         | 3               |
| <i>Financing and Investment Income and Expenditure</i>  |                                 |                 |
| interest cost   | 3,727                           | 3,266           |
| expected return on scheme assets  | (2,670)                         | (2,041)         |
| <b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b>   | <b>(4,988)</b>                  | <b>2,051</b>    |
| <i>Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</i>  |                                 |                 |
| actuarial gains and losses  | (13,558)                        | 20,037          |
| <b>Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement</b>  | <b>(18,546)</b>                 | <b>22,088</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 | <b>4,988</b>                    | <b>(2,051)</b>  |
| <b>Actual amount charged against the General Fund Balance for pensions in the year:</b>   |                                 |                 |
| employers' contributions payable to scheme  | 1,451                           | 1,539           |
| retirement benefits payable to pensioners   | 100                             | 101             |

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011 is a loss of £15.229m.

**Assets and Liabilities in Relation to Post-employment Benefits**

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

|                                      | Local Government Pension Scheme |                 |
|--------------------------------------|---------------------------------|-----------------|
|                                      | 2010/11<br>£000                 | 2009/10<br>£000 |
| <b>Opening balance at 1 April</b>    | 77,219                          | 47,713          |
| Current service cost                 | 1,254                           | 823             |
| Interest cost                        | 3,727                           | 3,266           |
| Contributions by scheme participants | 386                             | 479             |
| Actuarial gains and losses           | (14,425)                        | 27,011          |
| Benefits paid                        | (2,179)                         | (2,076)         |
| Past service costs                   | (6,032)                         | -               |
| Curtailments                         | 44                              | 3               |
| Settlements                          | (5,858)                         | -               |
| <b>Closing balance at 31 March</b>   | <b>54,136</b>                   | <b>77,219</b>   |

For the preceding two tables, the Code of Practice disclosure requirements include a split between the Local Government Pension Scheme and Discretionary Benefits. This split has not been made as the proportion relating to discretionary benefits is deemed immaterial.

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public sector pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has the effect of reducing the Council's liabilities in the Lincolnshire County Council pension fund by £6.032m and this amount has been recognised as a past service gain in accordance with guidance set down in UTIF (Urgent Issues Task Force) Abstract 48, since the change is considered to be a change in benefit entitlement. However, there is no impact on the General Fund or Housing Revenue Account balance.

Reconciliation of fair value of the scheme (plan) assets:

|                                      | Local Government Pension Scheme |                 |
|--------------------------------------|---------------------------------|-----------------|
|                                      | 2010/11<br>£000                 | 2009/10<br>£000 |
| Opening balance at 1 April           | 40,926                          | 31,868          |
| Expected rate of return              | 2,670                           | 2,041           |
| Actuarial gains and losses           | (867)                           | 6,974           |
| Assets distributed on settlements    | (4,547)                         | -               |
| Employer contributions               | 1,551                           | 1,640           |
| Contributions by scheme participants | 386                             | 479             |
| Benefits paid                        | (2,179)                         | (2,076)         |
| <b>Closing balance at 31 March</b>   | <b>37,940</b>                   | <b>40,926</b>   |

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

The actual return on scheme assets in the year was £2.611m (2009/10 £9.360m).

### Scheme History

|   | 2006/07<br>£000 | 2007/08<br>£000 | 2008/09<br>£000 | 2009/10<br>£000 | 2010/11<br>£000 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Present value of liabilities:</b>                        |                 |                 |                 |                 |                 |
| Local Government Pension Scheme                             | (52,311)        | (47,163)        | (46,368)        | (75,618)        | (52,726)        |
| Discretionary Benefits                                      | (1,498)         | (1,423)         | (1,345)         | (1,601)         | (1,410)         |
| Fair value of assets in the Local Government Pension Scheme | 42,192          | 38,937          | 31,868          | 40,926          | 37,940          |
| <b>Surplus/(deficit) in the scheme:</b>                     |                 |                 |                 |                 |                 |
| Local Government Pension Scheme                             | (10,119)        | (8,226)         | (14,500)        | (34,692)        | (14,786)        |
| Discretionary Benefits                                      | (1,498)         | (1,423)         | (1,345)         | (1,601)         | (1,410)         |
| <b>Total</b>  | <b>(11,617)</b> | <b>(9,649)</b>  | <b>(15,845)</b> | <b>(36,293)</b> | <b>(16,196)</b> |

The liabilities show the underlying commitments that the Council has in the long run to pay post employment (retirement) benefits. The total liability of £16.196m has a significant impact on the net worth of the Council as recorded in the Balance Sheet, resulting in an overall balance of £133.962m. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2012 is £1.27m. Expected contributions for the Discretionary Benefits scheme in the year to 31 March 2012 are £100,000.

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method using an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Hymans Robertson, an independent firm of actuaries. Estimates for the Lincolnshire County Council Fund being based on the latest full valuation of the scheme as at 1 April 2010.

The principal assumptions used by the actuary have been:

|  | Local Government Pension Scheme |         | Discretionary Benefits |         |
|--|---------------------------------|---------|------------------------|---------|
|  | 2010/11                         | 2009/10 | 2010/11                | 2009/10 |
| <i>Long-term expected rate of return on assets in the scheme:</i>                              |                                 |         |                        |         |
| Equity investments   | 7.5%                            | 7.8%    | -                      | -       |
| Bonds  | 4.9%                            | 5.0%    | -                      | -       |
| Property   | 5.5%                            | 5.8%    | -                      | -       |
| Cash   | 4.6%                            | 4.8%    | -                      | -       |
| <i>Mortality assumptions:</i>  |                                 |         |                        |         |
| Longevity at 65 for current pensioners:  |                                 |         |                        |         |
| - Men  | 21.2                            | 20.8    | 21.2                   | 20.8    |
| - Women  | 23.4                            | 24.1    | 23.4                   | 24.1    |
| Longevity at 65 for future pensioners:   |                                 |         |                        |         |
| - Men  | 23.7                            | 22.3    | -                      | -       |
| - Women  | 25.7                            | 25.7    | -                      | -       |
| Rate of inflation  | 3.6%                            | 3.8%    | 3.6%                   | 3.8%    |
| Rate of increase in salaries - 1% to 2011/12, then   | 5.1%                            | 5.3%    | -                      | -       |
| Rate of increase in pensions   | 2.8%                            | 3.8%    | 2.8%                   | 3.8%    |
| Rate for discounting scheme liabilities  | 5.5%                            | 5.5%    | 5.5%                   | 5.5%    |
| Take-up of option to convert annual pension into retirement lump sum - pre April 2008 service  | 25%                             | 25%     | -                      | -       |
| Take-up of option to convert annual pension into retirement lump sum - post April 2008 service | 63%                             | 63%     | -                      | -       |

The Discretionary Benefits arrangements have no assets to cover their liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

|                    | 2010/11    | 2009/10    |
|--------------------|------------|------------|
|                    | %          | %          |
| Equity Investments | 76         | 70         |
| Debt Instruments   | 12         | 18         |
| Other Assets       | 12         | 12         |
|                    | <b>100</b> | <b>100</b> |

## History of Experience Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2011:

|  | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
|--|---------|---------|---------|---------|---------|
|  | %       | %       | %       | %       | %       |
| Differences between the expected and actual return on assets | 0.3     | (16.9)  | (32.2)  | 17.0    | (3.2)   |
| Experience gains and losses on liabilities                   | 0.2     | 0.6     | 0.0     | 0.0     | (12.2)  |

### NOTE 48 – CONTINGENT LIABILITIES

A planning complaint has been referred to the Ombudsman. The Ombudsman found maladministration and recommended that the Council pays compensation. The authority is considering its position, and amount of compensation at this stage has not been determined or agreed with the parties involved, nor has the potential timing of any payment.

### NOTE 49 – CONTINGENT ASSETS

At 31 March 2011, the Council had identified no material contingent assets.

### NOTE 50 – 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
- **refinancing risk** – the possibility that the Council might be required 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 and 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.

The annual Treasury Management Strategy which incorporates the prudential indicators was approved by Council on 3 March 2010 and is available on the Council's website. The key issues within the strategy are:

- the Authorised Limit for 2010/11 was set at £5m. This is the maximum limit of external borrowings or other long term liabilities.
- the Operational Boundary was expected to be £3.5m. 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 £3.386m and £0.846m 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 3 March 2010, 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 Sector. This service uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors - forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

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

Credit risk is managed by avoiding a concentration of investments in too few counterparties or countries (although in the current financial climate there is a restriction to use only UK based institutions), and by using the creditworthiness approach outlined above. 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 2011 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<br>31 March<br>2011<br>£000 | Historical<br>experience<br>of default<br>% | Historical<br>experience<br>adjusted for<br>market<br>conditions<br>at 31 March<br>2011<br>% | Estimated<br>maximum<br>exposure to<br>default and<br>uncollectability<br>at 31 March<br>2011<br>£000 | Estimated<br>maximum<br>exposure at<br>31 March<br>2010<br>£000 |
|-----------|---------------------------------------|---|--|---|---|
|           | A                                     | B   | C  | (A X C)   |   |
| Customers | 1,648                                 | 11.6  | 11.6   | 191   | 498   |

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

|                        | 31 March<br>2011<br>£000 | 31 March<br>2010<br>£000 |
|------------------------|--------------------------|--------------------------|
| Less than three months | 4,307                    | 1,824                    |
| Three to six months    | 1,243                    | 1,349                    |
| Six months to one year | 250                      | 230                      |
| More than one year     | 980                      | 912                      |
|                        | <b>6,780</b>             | <b>4,315</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 needs, 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<br>2011<br>£000 | 31 March<br>2010<br>£000 |
|----------------------------|--------------------------|--------------------------|
| Less than one year         | 228                      | 172                      |
| Between one and two years  | 158                      | 139                      |
| Between two and five years | 199                      | 330                      |
| More than five years*      | 183                      | 194                      |
|                            | <b>768</b>               | <b>835</b>               |

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

### Refinancing and maturity risk

In managing its cash reserves the Council maintains an investment portfolio. Whilst its cash flow procedures are considered against the refinancing risk procedures, the longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to the maturity of 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 considers 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. Also, the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow requirements.

### Market Risk

**Interest Rate Risk** - The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, 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 will affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in the Other Comprehensive Income and Expenditure Statement.

The Council has a number of strategies for managing interest rate risk. The annual Treasury Management Strategy draws together 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.

The risk of interest rate loss is partially mitigated by Government grant payable on financing costs.

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

|  | £000       |
|--|------------|
| Increase in interest payable on variable rate borrowings     | -          |
| Increase in interest receivable on variable rate investments | 78         |
| Increase in government grant receivable for financing costs  | 90         |
| Impact on Surplus or Deficit on the Provision of Services    | <b>168</b> |
| Share of overall impact debited to the HRA                   | 37         |
|  |            |

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

**Price Risk** - The Council does not generally invest in equity 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 51 – 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***

The Council, as trustee, holds the deeds on behalf of the people of Spalding. It is a registered charity (515905)

### ***Sir Halley Stewart Playing Field***

This is a 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

| <b>Trust fund revenue account</b> | <b>Expend<br/>£000</b> | <b>2010/11<br/>Income<br/>£000</b> | <b>Net<br/>£000</b> | <b>Expend<br/>£000</b> | <b>2009/10<br/>Income<br/>£000</b> | <b>Net<br/>£000</b> |
|-----------------------------------|------------------------|------------------------------------|---------------------|------------------------|------------------------------------|---------------------|
| Ayscoughfee Hall and Gardens      | 365                    | (24)                               | 341                 | 405                    | (39)                               | 366                 |
| Sir Halley Stewart Playing Field  | 45                     | (2)                                | 43                  | 31                     | (6)                                | 25                  |

### **NOTE 52 – TRANSITION TO IFRS – RESTATEMENTS**

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10. The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

#### ***Short-term accumulating compensated balances***

Short-term accumulating compensated balances refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the Council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Accounts until the benefits are used.

Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements:

|   | <b>2009/10<br/>Statements<br/>£000</b> | <b>Adjustments<br/>Made<br/>£000</b> |
|---|--|--------------------------------------|
| <b>Opening 1 April 2009 Balance Sheet</b>                       |  |                                      |
| Accruals  | (3,784)                                | (46)                                 |
| Accumulated Absences Account                                    | -                                      | 46                                   |
| <b>31 March 2010 Balance Sheet</b>                              |  |                                      |
| Accruals  | (4,897)                                | (85)                                 |
| Accumulated Absences Account                                    | -                                      | 85                                   |
| <b>2009/10 Comprehensive Income and<br/>Expenditure Account</b> |  |                                      |
| <b>Cost of Services (Net)</b>                                   |  |                                      |
| Central Services to the Public                                  | 810                                    | -                                    |
| Cultural, Environmental, Regulatory and<br>Planning Services    | 8,055                                  | -                                    |
| Highways and Transport  | 264                                    | -                                    |
| Local Authority Housing (HRA)                                   | 3,098                                  | 16                                   |
| Other Housing Services  | 1,030                                  | -                                    |
| Corporate and Democratic Core                                   | 1,955                                  | 23                                   |
| Non Distributed Costs   | 3                                      | -                                    |

## Leases

Under the Code, leases of property are accounted for as separate leases of land and buildings. Previously, each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land or buildings element of the lease being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

The government has issued regulations and statutory guidance in relation to accounting for leases. Under these arrangements, the annual charge to the General Fund (where the Council is the lessee) will be unchanged. Where the Council is the lessor, the regulations allow the Council to continue to treat the income from existing leases in the same way as it accounted for the income prior to the introduction of the Code.

This has resulted in the following changes being made to the financial statements:

|   | 2009/10<br>Statements<br>£000 | Adjustments<br>Made<br>£000 |
|---|-------------------------------|-----------------------------|
| <b>Opening 1 April 2009 Balance Sheet</b>                   |                               |                             |
| Property, Plant and Equipment (leased assets)               | -                             | 714                         |
| Finance Lease Liability                                     | -                             | (759)                       |
| Capital Adjustment Account                                  | (181,446)                     | 45                          |
| <b>31 March 2010 Balance Sheet</b>                          |                               |                             |
| Property, Plant and Equipment (leased assets)               | -                             | 745                         |
| Finance Lease Liability                                     | -                             | (835)                       |
| Capital Adjustment Account                                  | (178,116)                     | 90                          |
| <b>2009/10 Comprehensive Income and Expenditure Account</b> |                               |                             |
| Cultural, Environmental, Regulatory and Planning Services   | 810                           | (50)                        |
| Local Authority Housing (HRA)                               | 3,098                         | (32)                        |
| Financing and Investment income and expenditure             | 804                           | 127                         |

The net decrease in the Surplus or Deficit on the Provision of Services is adjusted by the transfer of the depreciation charge from the Capital Adjustment Account. These transfers are shown in the Movement in Reserves Statement.

## Government grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a grants deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet.
- Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.
- A grant was received in 2009/10 but not used. Previously, no income was recognised in respect of this grant, which was shown in the Grants Unapplied Account within the Liabilities section of the Balance Sheet. Following the change in accounting policy, the grant has been recognised in full, and transferred to the Capital Grants Unapplied Account within the Reserves section of the Balance Sheet.

This has resulted in the following changes being made to the 2009/10 financial statements:

|   | 2009/10<br>Statements<br>£000 | Adjustments<br>Made<br>£000 |
|---|-------------------------------|-----------------------------|
| <b>Opening 1 April 2009 Balance Sheet</b>                   |                               |                             |
| Government Grants Deferred Account                          | (1,071)                       | 1,071                       |
| Capital Adjustment Account                                  | 181,446                       | 2,239                       |
| Creditors   | (3,784)                       | (86)                        |
| Capital Grants Unapplied Account (reserves)                 | -                             | (3,558)                     |
| Capital Grants Receipts in Advance                          | -                             | (1,735)                     |
| <b>31 March 2010 Balance Sheet</b>                          |                               |                             |
| Government Grants Deferred Account                          | (3,311)                       | 3,311                       |
| Grants Unapplied Account (liabilities)                      | (3,745)                       | 3,745                       |
| Creditors   | (4,897)                       | 1,143                       |
| Earmarked Reserves  | 3,701                         | (17)                        |
| Capital Adjustment Account                                  | 178,116                       | (3,311)                     |
| Capital Grants Unapplied Account (reserves)                 | -                             | (3,964)                     |
| Capital Grants Receipts in Advance                          | -                             | (907)                       |
| <b>2009/10 Comprehensive Income and Expenditure Account</b> |                               |                             |
| Central services to the public                              | 810                           | 11                          |
| Cultural, Environmental, Regulatory and Planning Services   | 8,055                         | 22                          |
| Other Housing Services                                      | 1,030                         | 48                          |
| Corporate and Democratic Core                               | 1,955                         | 13                          |
| Taxation and non specific grant income                      | (14,408)                      | (2,740)                     |

There is no change to the General Fund balance, as capital grant income is transferred out of the General Fund under both the previous and current accounting policies.

**SUPPLEMENTARY FINANCIAL STATEMENTS**

**HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE ACCOUNT**

|   | 2010/11<br>£000 | 2009/10<br>£000 |
|---|-----------------|-----------------|
| <b>Expenditure</b>  |                 |                 |
| Repairs and Maintenance   | 2,721           | 3,082           |
| Supervision and Management  | 3,433           | 3,211           |
| Rents, Rates, Taxes and Other Charges   | 18              | 27              |
| Negative HRA Subsidy Payable (Note 7)   | 4,393           | 3,363           |
| Depreciation (Note 3)   | 1,597           | 2,156           |
| Revaluation of Non-current Assets (Note 4)  | 54,062          | 4,485           |
| Movement in the allowance for bad debts   | 9               | 60              |
| <b>Total Expenditure</b>  | <b>66,233</b>   | <b>16,384</b>   |
| <b>Income</b>   |                 |                 |
| Dwelling Rents  | (11,807)        | (11,511)        |
| Non Dwelling Rents  | (118)           | (120)           |
| Charges for Services & Facilities   | (1,468)         | (1,639)         |
| <b>Total Income</b>   | <b>(13,393)</b> | <b>(13,270)</b> |
| <b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b> | <b>52,840</b>   | <b>3,114</b>    |
| HRA services share of Corporate and Democratic Core   | 483             | 325             |
| HRA share of other amounts included in the whole authority  |                 |                 |
| Cost of Services but not allocated to specific services   | (1,606)         | -               |
| <b>Net Cost of HRA Services</b>   | <b>51,717</b>   | <b>3,439</b>    |
| (Gain) or loss on sale of HRA non-current assets  | 517             | (26)            |
| Interest Payable and similar charges  | 64              | 14              |
| Interest and investment income  | (18)            | (27)            |
| Pensions interest cost and expected return on pensions assets (Note 9)                            | 233             | 221             |
| <b>Deficit for the year on HRA services</b>   | <b>52,513</b>   | <b>3,621</b>    |

## MOVEMENT ON THE HRA STATEMENT

|   | 2010/11<br>£000 | 2009/10<br>£000 |
|---|-----------------|-----------------|
| Balance on the HRA at the end of the previous year                            | 1,395           | 1,848           |
| Surplus or (Deficit) for the year on the HRA Income and Expenditure Statement | <b>(52,513)</b> | (3,621)         |
| Adjustments between accounting basis and funding basis under statute          | 52,947          | 3,213           |
| Net (increase) or decrease before transfers to or from reserves               | <b>434</b>      | (408)           |
| Transfer (to) or from reserves  | (200)           | (45)            |
| (Increase) or decrease in year on the HRA                                     | 234             | (453)           |
| <b>Balance on the HRA at the end of the current year</b>                      | <b>1,629</b>    | <b>1,395</b>    |

## NOTES TO THE HOUSING REVENUE ACCOUNT

### NOTE 1 – HOUSING REVENUE ACCOUNT FIXED ASSETS

The prescribed basis of valuation for operational property is Existing Use Value for Social Housing (EUV-SH). This reflects the valuation for a property, if it were sold with sitting tenants paying rents at less than open market rents and enjoying tenants' rights including the Right to Buy. The EUV-SH is calculated by applying an adjustment factor to the Existing Use Value for Vacant Possession (EUV-VP). This adjustment measures the difference between market and local authority rents at a regional level, and is calculated based on the ratio of the local authority rents to private sector rents applicable for Housing Benefit at the Regional level. The adjustment percentage for the East Midlands is 34% (50% 2009/10).

| Analysis of Housing Non-current Assets Net Book Value | At 31 March 2011 |                | At 31 March 2010 |                |
|---|------------------|----------------|------------------|----------------|
|   | EUV-SH<br>£000   | EUV-VP<br>£000 | EUV-SH<br>£000   | EUV-VP<br>£000 |
| <b>Property Plant and Equipment</b>                   |                  |                |                  |                |
| Dwelling stock  | 112,281          | 330,238        | 166,387          | 327,577        |
| Other Land and Buildings                              | 1,376            | n/a            | 1,296            | n/a            |
| Infrastructure – Housing Sewerage                     | 1,139            | n/a            | 1,199            | n/a            |
| Vehicles, Plant and Equipment                         | 432              | n/a            | 267              | n/a            |
| Surplus Asset not for Sale                            | 69               | n/a            |                  |                |
| <b>Non Operational Assets</b>                         |                  |                |                  |                |
| Land held for development                             |                  |                | 114              | n/a            |
| <b>Intangible Fixed Assets</b>                        | 21               | n/a            | 4                | n/a            |
| <b>Investment Properties</b>                          | 25               |                |                  |                |
| <b>Total</b>  | <b>115,343</b>   | <b>330,238</b> | <b>169,267</b>   | <b>327,577</b> |

### NOTE 2 – HOUSING STOCK

The Council was responsible for managing 3,884 dwellings at 31 March 2011 (3,900 at 31 March 2010). The stock is analysed below by number of bedrooms. This figure excludes shared ownership properties (10 dwellings) with the Council's equity share being equivalent to 4.5 dwellings.

| Analysis of Housing Stock at 31 March 2011 |            |              |              |           |              |
|--|------------|--------------|--------------|-----------|--------------|
|  | 1 Bed      | 2 Bed        | 3 Bed        | 3+ Bed    | Total        |
| HRA Housing Stock                          | 779        | 1,498        | 1,590        | 17        | 3,884        |
| Shared Ownership                           | 1          | 6            | 3            | -         | 10           |
| <b>Total</b>                               | <b>780</b> | <b>1,504</b> | <b>1,593</b> | <b>17</b> | <b>3,894</b> |

### NOTE 3 - DEPRECIATION

|                                   | 2010/11<br>£000 | 2009/10<br>£000 |
|-----------------------------------|-----------------|-----------------|
| Depreciation                      |                 |                 |
| Dwelling Stock                    | 1,347           | 1,954           |
| Other Land and Buildings          | 66              | 59              |
| Infrastructure - Housing Sewerage | 119             | 110             |
| Vehicles, Plant & Equipment       | 63              | 26              |
|                                   | <b>1,595</b>    | <b>2,149</b>    |
| Amortisation                      |                 |                 |
| Intangible Assets                 | 1               | 7               |
| <b>Total</b>                      | <b>1,596</b>    | <b>2,156</b>    |

### NOTE 4 – REVALUATION OF HOUSING NON CURRENT ASSETS

The total value of revaluation losses of £54.062m (£4.485m in 2009/10) for the year has been charged to the HRA Income and Expenditure Account. These losses relate to the reduction in value as at 1 April 2010 on Council dwellings. The reduction in value reflects the current economic recession and market conditions. There were no impairments other than those relating to a general fall in prices and the change to the prescribed discount factor for social housing.

### NOTE 5 – HOUSING REVENUE ACCOUNT CAPITAL EXPENDITURE AND FINANCING

|  | 2010/11<br>£000 | 2009/10<br>£000 |
|--|-----------------|-----------------|
| <b>Housing Capital Accrued Expenditure and Financing</b> |                 |                 |
| <b>Expenditure</b>                                       |                 |                 |
| Improvements and Enhancements to Council Dwellings       | 2,816           | 3,948           |
| Improvements to Wastewater Treatments                    | 59              | 60              |
| Improvements to Sheltered Accommodation                  | 104             | 98              |
| Information Systems                                      | 133             | 20              |
| Digital Aerials  | -               | 191             |
| <b>Total</b>   | <b>3,112</b>    | <b>4,317</b>    |
| <b>Financing</b>   |                 |                 |
| Borrowing  | 506             | 506             |
| Capital Receipts   | 205             | 262             |
| Major Repairs Reserve                                    | 2,209           | 2,489           |
| Direct Revenue Financing                                 | 192             | 1,000           |
| External Contributions                                   | -               | 60              |
| <b>Total</b>   | <b>3,112</b>    | <b>4,317</b>    |

## NOTE 6 – HOUSING REVENUE ACCOUNT CAPITAL RECEIPTS

|   | 2010/11<br>£000 | 2009/10<br>£000 |
|---|-----------------|-----------------|
| <b>Housing Revenue Account Capital Receipts</b> |                 |                 |
| <b>Usable Capital Receipts at 1 April</b>       | <b>1,351</b>    | <b>1,388</b>    |
| Right to buy sales in relation to dwellings     | 235             | 426             |
| Mortgage repayments                             | 6               | 5               |
| Land Sales                                      | 44              | 117             |
| Administration costs                            | (3)             | (6)             |
| Receipts used to finance capital expenditure    | (205)           | (262)           |
| Receipts Pooling to CLG                         | (177)           | (317)           |
| <b>Usable Capital Receipts at 31 March</b>      | <b>1,251</b>    | <b>1,351</b>    |

## NOTE 7 – HOUSING SUBSIDY

The Housing Revenue Account makes a subsidy payment to the Government. This payment is made up of a negative Housing Amount and results from the fact that income exceeds overall expenditure on the notional HRA, and is said to have a negative entitlement to subsidy. The total amount payable is made up of the following elements:

|   | 2010/11<br>£000 | 2009/10<br>£000 |
|---|-----------------|-----------------|
| HRA Subsidy   |                 |                 |
| <b>Housing Element</b>  |                 |                 |
| Prior year adjustments  | 5               | 6               |
| Management and Maintenance Allowance                            | 5,235           | 5,104           |
| Major Repairs Allowance   | 2,121           | 2,100           |
| Additional Major Repairs Allowance brought forward from 2010/11 | (410)           | 410             |
| Charges for Capital   | 85              | 89              |
| Assumed Rental Income   | (11,429)        | (11,071)        |
| Assumed Interest on Receipts                                    | -               | (1)             |
| <b>Amount Payable</b>   | <b>4,393</b>    | <b>3,363</b>    |

## NOTE 8 – RENT ARREARS

The net rent arrears at 31 March 2011 amounted to £215,000 (£226,000 in 2009/10) and are analysed as follows:

|   | 31 March<br>2011<br>£000 | 31 March<br>2010<br>£000 |
|---|--------------------------|--------------------------|
| <b>Rent Arrears Due From</b>  |                          |                          |
| Current Tenants   | 120                      | 108                      |
| Former Tenants  | 93                       | 117                      |
| Garages   | 2                        | 1                        |
| <b>Total</b>  | <b>215</b>               | <b>226</b>               |
| These arrears include all charges due from tenants: rents, rates and other charges. |                          |                          |
| Allowance for doubtful debts  | 103                      | 137                      |

## NOTE 9 – RETIREMENT BENEFITS

Note 47 to the Core Financial Statements provides a detailed explanation of the accounting requirements for pension costs. The following transactions have been made in the HRA to reflect its share of the pension fund transactions in the year.

|  | 2010/11<br>£000 | 2009/10<br>£000 |
|--|-----------------|-----------------|
| <b>HRA Income and Expenditure Statement</b>                                    |                 |                 |
| Net Cost of HRA Services included in CIE                                       |                 |                 |
| Current Service Cost   | 276             | 141             |
| HRA Share of Other amounts included in CIE                                     |                 |                 |
| Interest Cost  | 820             | 588             |
| Expected Return on assets in the scheme  | (587)           | (367)           |
| Past Service and Curtailment   | (1,606)         | -               |
| <b>Deficit for the year on HRA services</b>                                    | <b>(1,097)</b>  | <b>362</b>      |
| <b>Statement of movement on the HRA balance</b>                                |                 |                 |
| Net charges made for retirement benefits in accordance with IAS 19             | <b>1,097</b>    | <b>(362)</b>    |
| <b>Actual amount charged against the HRA Balance for pensions in the year:</b> |                 |                 |
| Employer's contributions payable to scheme                                     | 297             | 303             |

## NOTE 10 – STATEMENT OF MOVEMENT ON THE HRA BALANCE

|   | 2010/11<br>£000 | 2009/10<br>£000 |
|---|-----------------|-----------------|
| <b>Adjustments between accounting basis and funding basis under statute</b>   |                 |                 |
| Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements | (54,137)        | (4,485)         |
| Capital Expenditure funded by the HRA   | 193             | 1,000           |
| Leasing Adjustment  | (7)             | (33)            |
| Employee Benefit Accrual  | 13              | (16)            |
| Gain or loss on sale of HRA fixed assets  | (517)           | 26              |
| Net charges made for retirement benefits in accordance with IAS 19  | 1,097           | (362)           |
| Employer's contributions payable to the Lincolnshire County Council Pension Fund and retirement benefits payable direct to pensioners                           | 297             | 303             |
| Transfer to/(from) Major Repairs Reserve  | 114             | 354             |
| <b>Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year</b>  | <b>(52,947)</b> | <b>(3,213)</b>  |

## NOTE 11 – MAJOR REPAIRS RESERVE

As part of the HRA Subsidy the Council receives resources to maintain the value of its housing stock. This is known as the Major Repairs Allowance (MRA) and is available to fund capital expenditure on HRA assets.

Capital expenditure in year is charged to the Major Repairs Reserve and is then offset by a credit equal to the charge for depreciation in year. The MRA is calculated by the Government and is expected to be roughly equivalent to the depreciation charge in year. In the event that the depreciation charge is more or less than the MRA an adjustment is made in the Major Repairs Reserve to offset this.

In both 2010/11 and 2009/10 the amount of MRA exceeded the depreciation charge to the HRA.

Unspent MRA funds may be carried over from one year to the next.

|  | 2010/11<br>£000 | 2009/10<br>£000 |
|--|-----------------|-----------------|
| <b>Major Repairs Reserve</b>                 |                 |                 |
| <b>Balance at 1 April</b>                    | 498             | 476             |
| Depreciation on Fixed Assets                 |                 |                 |
| Dwellings                                    | 1,347           | 1,954           |
| Other Assets                                 | 249             | 202             |
| Transfer (to)/from Housing Revenue Account   |                 |                 |
| Depreciation on other fixed assets           | (249)           | (202)           |
| Excess of MRA over depreciation on dwellings | 364             | 557             |
| Capital expenditure funded from MRA          | (2,209)         | (2,489)         |
| <b>Balance at 31 March</b>                   | -               | <b>498</b>      |

## COLLECTION FUND STATEMENT

|   | 2010/11<br>£000 | 2009/10<br>£000 |
|---|-----------------|-----------------|
| <b>Amounts required by statute to be credited to the Collection Fund</b>                |                 |                 |
| <b>Council Tax</b>  |                 |                 |
| Income from Council Tax   | (34,508)        | (33,555)        |
| Council Tax Benefit   | (5,726)         | (5,433)         |
| <b>Income collectable from business ratepayers</b>                                      |                 |                 |
| Income from NNDR  | (19,154)        | (21,797)        |
| <b>Contribution towards previous year's estimated Collection Fund surplus/(deficit)</b> |                 |                 |
| Distribution of surplus/(Collection of deficit) -                                       |                 |                 |
| Lincolnshire County Council   | (157)           | 46              |
| Lincolnshire Police Authority   | (26)            | 7               |
| South Holland District Council  | (23)            | 7               |
| <b>Total</b>  | <b>(59,594)</b> | <b>(60,725)</b> |
| <b>Amounts required by statute to be debited to the Collection Fund</b>                 |                 |                 |
| <b>Precepts and demands from major preceptors Council</b>                               |                 |                 |
| Lincolnshire County Council   | 30,087          | 29,120          |
| Lincolnshire Police Authority   | 5,061           | 4,875           |
| South Holland District Council  | 5,205           | 5,031           |
| <b>Business Rates</b>   |                 |                 |
| Contribution to the NNDR pool   | 19,041          | 21,683          |
| NNDR allowance costs and adjustments  | 113             | 114             |
| <b>Impairment of debts/appeals</b>  |                 |                 |
| Amounts written-off (net)   | 211             | 72              |
| Increase in provision for uncollectable amounts   | 90              | (48)            |
| <b>Total</b>  | <b>59,808</b>   | <b>60,847</b>   |
| <b>Deficit for the year</b>   | <b>214</b>      | <b>122</b>      |
| <b>Collection Fund balance</b>  |                 |                 |
| Deficit at beginning of year  | 234             | 112             |
| Deficit for the year  | 214             | 122             |
| <b>Deficit at end of year</b>   | <b>448</b>      | <b>234</b>      |

## NOTES TO THE COLLECTION FUND

### NOTE 1 – COUNCIL TAX

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, 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. The basic amount of Council Tax for a band D property including an average parish charge, £1,429.35 (2009/10 £1,393.37), is then multiplied by the ratio specified for the particular band to give an individual amount due.

The Council Tax base was calculated as follows:

| Band                                | No. of Chargeable homes | No. of chargeable homes after effect of discounts | Ratio | Band D equivalent dwellings |
|-------------------------------------|-------------------------|---|-------|-----------------------------|
| AA                                  | 29                      | 27.0  | 5/9   | 15.0                        |
| A                                   | 14,095                  | 12,673.4  | 6/9   | 8,448.9                     |
| B                                   | 7,966                   | 7,523.7   | 7/9   | 5,851.7                     |
| C                                   | 9,287                   | 8,759.8   | 8/9   | 7,786.5                     |
| D                                   | 3,827                   | 3,670.7   | 9/9   | 3,670.7                     |
| E                                   | 1,655                   | 1,594.5   | 11/9  | 1,948.8                     |
| F                                   | 339                     | 324.1   | 13/9  | 468.1                       |
| G                                   | 93                      | 86.8  | 15/9  | 144.6                       |
| H                                   | 6                       | 5.5   | 18/9  | 11.0                        |
| Band D Equivalents                  |                         |   |       | 28,345.3                    |
| Allowance for non-collection (0.4%) |                         |   |       | (113.3)                     |
| <b>District Tax Base</b>            |                         |   |       | <b>28,232</b>               |

### NOTE 2 – BUSINESS RATES

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 2010/11 there are two multipliers, the non-domestic rating multiplier of 41.4p and the small business non-domestic rating multiplier of 40.7p. The total non-domestic rates due, less certain reliefs and deductions, is paid into a National Non-Domestic Rate Pool administered by the Government. The Government then redistributes the sums paid back to local authorities' General Funds on the basis of a fixed amount per head of population.

The Council's total Non-Domestic Rates Rateable Value at 31 March 2011 was £63.676m (31 March 2010 £50.858m). The increase reflects the impact of the complete revaluation of business properties across the country from 1 April 2010.

### **NOTE 3 – COLLECTION FUND SURPLUS**

As at 31 March 2011, the Collection Fund shows a deficit of £448,000 (31 March 2010, a deficit of £234,000).

The balance on the Collection Fund is allocated as follows

|                                | <b>2010/11</b> | <b>2009/10</b> |
|--------------------------------|----------------|----------------|
|                                | <b>£000</b>    | <b>£000</b>    |
| Lincolnshire County Council    | 334            | 175            |
| Lincolnshire Police Authority  | 56             | 29             |
| South Holland District Council | 58             | 30             |
| <b>Total</b>                   | <b>448</b>     | <b>234</b>     |

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

|  | General Fund<br>Balance<br>£000 | Earmarked General<br>Fund Reserves<br>£000 | Housing Revenue<br>Account<br>£000 | Earmarked HRA<br>Reserves<br>£000 | Capital Receipts<br>Reserve<br>£000 | Major Repairs<br>Reserve<br>£000 | Capital Grants<br>Unapplied<br>£000 | Total Usable<br>Reserves<br>£000 | Unusable Reserves<br>£000 | Total Authority<br>Reserves<br>£000 | Authority's Share<br>or Reserves of<br>Subsidiaries,<br>Associates and<br>Joint Ventures<br>£000 | Total Reserves<br>£000 |
|--|---------------------------------|--|------------------------------------|-----------------------------------|-------------------------------------|----------------------------------|-------------------------------------|----------------------------------|---------------------------|-------------------------------------|--|------------------------|
| <b>Balance at 31 March 2009</b>  | <b>1,734</b>                    | <b>3,111</b>                               | <b>1,848</b>                       | -                                 | <b>3,345</b>                        | <b>476</b>                       | <b>3,558</b>                        | <b>14,072</b>                    | <b>174,750</b>            | <b>188,822</b>                      | -  | <b>188,822</b>         |
| <b>Movement in Reserves during 2009/10</b>                             |                                 |  |                                    |                                   |                                     |                                  |                                     |                                  |                           |                                     |  |                        |
| Surplus or (deficit) on the provision of services                      | 1,635                           | -  | (3,621)                            | -                                 | -                                   | -                                | -                                   | (1,986)                          | -                         | (1,986)                             | 238  | (1,748)                |
| Other Comprehensive Income and Expenditure                             | -                               | -  | -                                  | -                                 | -                                   | -                                | -                                   | -                                | (16,711)                  | (16,711)                            | -  | (16,711)               |
| <b>Total Comprehensive Income and Expenditure</b>                      | <b>1,635</b>                    | <b>-</b>                                   | <b>(3,621)</b>                     | <b>-</b>                          | <b>-</b>                            | <b>-</b>                         | <b>-</b>                            | <b>(1,986)</b>                   | <b>(16,711)</b>           | <b>(18,697)</b>                     | <b>238</b>   | <b>(18,459)</b>        |
| Adjustments between Group Accounts and authority accounts              | -                               | -  | -                                  | -                                 | -                                   | -                                | -                                   | -                                | -                         | -                                   | 183  | 183                    |
| <b>Net Increase/Decrease before transfers</b>                          | <b>1,635</b>                    | <b>-</b>                                   | <b>(3,621)</b>                     | <b>-</b>                          | <b>-</b>                            | <b>-</b>                         | <b>-</b>                            | <b>(1,986)</b>                   | <b>(16,711)</b>           | <b>(18,697)</b>                     | <b>421</b>   | <b>(18,276)</b>        |
| Adjustments between accounting basis & funding basis under regulations | (895)                           | -  | 3,213                              | -                                 | (691)                               | 22                               | 406                                 | 2,055                            | (2,055)                   | -                                   | -  | -                      |
| <b>Net Increase/Decrease before transfers to Earmarked Reserves</b>    | <b>740</b>                      | <b>-</b>                                   | <b>(408)</b>                       | <b>-</b>                          | <b>(691)</b>                        | <b>22</b>                        | <b>406</b>                          | <b>69</b>                        | <b>(18,766)</b>           | <b>(18,697)</b>                     | <b>421</b>   | <b>(18,276)</b>        |
| Transfers to/from Earmarked Reserves                                   | (562)                           | 607  | (45)                               | -                                 | -                                   | -                                | -                                   | -                                | -                         | -                                   | -  | -                      |
| <b>Balance at 31 March 2010</b>  | <b>1,912</b>                    | <b>3,718</b>                               | <b>1,395</b>                       | <b>-</b>                          | <b>2,654</b>                        | <b>498</b>                       | <b>3,964</b>                        | <b>14,141</b>                    | <b>155,984</b>            | <b>170,125</b>                      | <b>421</b>   | <b>170,546</b>         |

|  | General Fund Balance | Earmarked General Fund Reserves | Housing Revenue Account | Earmarked HRA Reserves | Capital Receipts Reserve | Major Repairs Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Authority Reserves | Authority's Share of Reserves of Subsidiaries, Associates and Joint Ventures | Total Reserves  |
|--|----------------------|---------------------------------|-------------------------|------------------------|--------------------------|-----------------------|--------------------------|-----------------------|-------------------|--------------------------|--|-----------------|
|  | £000                 | £000                            | £000                    | £000                   | £000                     | £000                  | £000                     | £000                  | £000              | £000                     | £000   | £000            |
| <b>Balance at 31 March 2010</b>  | <b>1,912</b>         | <b>3,718</b>                    | <b>1,395</b>            | <b>-</b>               | <b>2,654</b>             | <b>498</b>            | <b>3,964</b>             | <b>14,141</b>         | <b>155,984</b>    | <b>170,125</b>           | <b>421</b>   | <b>170,546</b>  |
| <b>Movement in Reserves during 2010/11</b>                             |                      |                                 |                         |                        |                          |                       |                          |                       |                   |                          |  |                 |
| Surplus or (deficit) on provision of services                          | 2,284                | -                               | (52,513)                | -                      | -                        | -                     | -                        | (50,229)              | -                 | (50,229)                 | 498  | (49,731)        |
| Other Comprehensive Income and Expenditure                             | -                    | -                               | -                       | -                      | -                        | -                     | -                        | -                     | 12,887            | 12,887                   | -  | 12,887          |
| <b>Total Comprehensive Income and Expenditure</b>                      | <b>2,284</b>         | <b>-</b>                        | <b>(52,513)</b>         | <b>-</b>               | <b>-</b>                 | <b>-</b>              | <b>-</b>                 | <b>(50,229)</b>       | <b>12,887</b>     | <b>(37,342)</b>          | <b>498</b>   | <b>(36,844)</b> |
| Adjustments between Group Accounts and authority accounts              | -                    | -                               | -                       | -                      | -                        | -                     | -                        | -                     | -                 | -                        | (753)  | (753)           |
| <b>Net Increase/Decrease before transfers</b>                          | <b>2,284</b>         | <b>-</b>                        | <b>(52,513)</b>         | <b>-</b>               | <b>-</b>                 | <b>-</b>              | <b>-</b>                 | <b>(50,229)</b>       | <b>12,887</b>     | <b>(37,342)</b>          | <b>(255)</b>   | <b>(37,597)</b> |
| Adjustments between accounting basis & funding basis under regulations | (2,787)              | -                               | 52,947                  | -                      | (492)                    | (498)                 | (1,142)                  | 48,028                | (48,028)          | -                        | -  | -               |
| <b>Net Increase/Decrease before transfers to Earmarked Reserves</b>    | <b>(503)</b>         | <b>-</b>                        | <b>434</b>              | <b>-</b>               | <b>(492)</b>             | <b>(498)</b>          | <b>(1,142)</b>           | <b>(2,201)</b>        | <b>(35,141)</b>   | <b>(37,342)</b>          | <b>(255)</b>   | <b>(37,597)</b> |
| Transfers to/from Earmarked Reserves                                   | 534                  | (534)                           | (200)                   | 200                    | -                        | -                     | -                        | -                     | -                 | -                        | -  | -               |
| <b>Increase/Decrease in 2010/11</b>                                    | <b>31</b>            | <b>(534)</b>                    | <b>234</b>              | <b>200</b>             | <b>(492)</b>             | <b>(498)</b>          | <b>(1,142)</b>           | <b>(2,201)</b>        | <b>(35,141)</b>   | <b>(37,342)</b>          | <b>(255)</b>   | <b>(37,597)</b> |
| <b>Balance at 31 March 2011</b>  | <b>1,943</b>         | <b>3,184</b>                    | <b>1,629</b>            | <b>200</b>             | <b>2,162</b>             | <b>-</b>              | <b>2,822</b>             | <b>11,940</b>         | <b>120,843</b>    | <b>132,783</b>           | <b>166</b>   | <b>132,949</b>  |

## Group Comprehensive Income and Expenditure Statement

| Gross Expenditure<br>£000 | 2009/10              |                         |   | 2010/11                   |                      |                         |
|---------------------------|----------------------|-------------------------|---|---------------------------|----------------------|-------------------------|
|                           | Gross Income<br>£000 | Net Expenditure<br>£000 |   | Gross Expenditure<br>£000 | Gross Income<br>£000 | Net Expenditure<br>£000 |
| 7,243                     | (6,422)              | 821                     | Central services to the public  | 7,446                     | (6,761)              | 685                     |
| 11,358                    | (3,304)              | 8,054                   | Cultural, environmental, regulatory and planning services             | 16,507                    | (3,502)              | 13,005                  |
| 843                       | (579)                | 264                     | Highways and transport services                                       | 1,085                     | (473)                | 612                     |
| 16,384                    | (13,270)             | 3,114                   | Local authority housing (HRA)   | 66,233                    | (13,393)             | 52,840                  |
| 17,769                    | (16,840)             | 929                     | Other housing services  | 18,583                    | (17,863)             | 720                     |
| 2,068                     | (79)                 | 1,989                   | Corporate and democratic core   | 4,185                     | (730)                | 3,455                   |
| 3                         | -                    | 3                       | Non distributed costs   | (7,299)                   | -                    | (7,299)                 |
| 4                         | -                    | 4                       | SHH profit/loss   | -                         | -                    | -                       |
| <b>55,672</b>             | <b>(40,494)</b>      | <b>15,178</b>           | <b>Cost of Services</b>   | <b>106,740</b>            | <b>(42,722)</b>      | <b>64,018</b>           |
| 2,976                     | (151)                | 2,825                   | Other operating expenditure   | 4,120                     | (599)                | 3,521                   |
| 3,461                     | (2,568)              | 893                     | Financing and investment income and expenditure                       | 3,941                     | (2,893)              | 1,048                   |
| -                         | (17,148)             | (17,148)                | Taxation and non-specific grant income                                | -                         | (18,485)             | (18,485)                |
|                           |                      | <b>1,748</b>            | <b>(Surplus) or Deficit on Provision of Services</b>                  |                           |                      | <b>50,102</b>           |
|                           |                      | -                       | Tax expenses of subsidiaries  |                           |                      | 5                       |
|                           |                      | <b>1,748</b>            | <b>Group (Surplus)/Deficit</b>  |                           |                      | <b>50,107</b>           |
|                           |                      | (3,326)                 | Surplus or deficit on revaluation of non-current assets               |                           |                      | 672                     |
|                           |                      | 20,037                  | Actuarial gains/losses on pension assets/liabilities                  |                           |                      | (13,558)                |
|                           |                      | -                       | Share of other comprehensive income and expenditure of joint ventures |                           |                      | (377)                   |
|                           |                      | <b>16,711</b>           | <b>Other Comprehensive Income and Expenditure</b>                     |                           |                      | <b>(13,263)</b>         |
|                           |                      | <b>18,459</b>           | <b>Total Comprehensive Income and Expenditure</b>                     |                           |                      | <b>36,844</b>           |

## Group Balance Sheet

| 1 April<br>2009<br>£000 | 31 March<br>2010<br>£000 | Notes                              | 31 March<br>2011<br>£000 |
|-------------------------|--------------------------|------------------------------------|--------------------------|
| 192,448                 | 194,430                  | Property, Plant & Equipment        | 140,764                  |
| 983                     | 1,015                    | Investment Property                | 978                      |
| 198                     | 147                      | Intangible Assets                  | 168                      |
| 266                     | 225                      | Long Term Debtors                  | 213                      |
| <b>193,895</b>          | <b>195,817</b>           | <b>Long Term Assets</b>            | <b>142,123</b>           |
| 11,000                  | 6,011                    | Short Term Investments             | 4,009                    |
| 103                     | 640                      | Assets Held for Sale               | 61                       |
| 31                      | 43                       | Inventories                        | 85                       |
| 3,484                   | 3,797                    | Short Term Debtors                 | 6,216                    |
| 3,492                   | 6,189                    | Cash and Cash Equivalents          | 3,924                    |
| <b>18,110</b>           | <b>16,680</b>            | <b>Current Assets</b>              | <b>14,295</b>            |
| -                       | -                        | Short Term Borrowing               | (6)                      |
| (4,754)                 | (3,916)                  | Short Term Creditors               | (5,050)                  |
| -                       | -                        | Current Tax Liability              | (5)                      |
| -                       | -                        | Liabilities in Joint Ventures      | (304)                    |
| <b>(4,754)</b>          | <b>(3,916)</b>           | <b>Current Liabilities</b>         | <b>(5,365)</b>           |
| (759)                   | (835)                    | Long Term Creditors                | (1,013)                  |
| -                       | -                        | Long Term Borrowing                | (16)                     |
| (15,845)                | (36,293)                 | Other Long Term Liabilities        | (16,196)                 |
| (1,825)                 | (907)                    | Capital Grants Receipts in Advance | (879)                    |
| <b>(18,429)</b>         | <b>(38,035)</b>          | <b>Long Term Liabilities</b>       | <b>(18,104)</b>          |
| <b>188,822</b>          | <b>170,546</b>           | <b>Net Assets</b>                  | <b>132,949</b>           |
| 14,072                  | 14,128                   | Usable Reserves                    | 11,903                   |
| 174,750                 | 156,418                  | Unusable Reserves                  | 121,046                  |
| <b>188,822</b>          | <b>170,546</b>           | <b>Total Reserves</b>              | <b>132,949</b>           |

## Group Cash Flow

| 2009/10<br>£000 |   | 2010/11<br>£000 |
|-----------------|---|-----------------|
| 1,973           | Net (surplus) or deficit on the provision of services   | 50,168          |
| (10,714)        | Adjustments to net surplus or deficit on the provision of services for non-cash movements   | (57,634)        |
| 1,519           | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 628             |
| <b>(7,222)</b>  | <b>Net cash flows from Operating Activities</b>   | <b>(6,838)</b>  |
| 1,356           | Investing Activities  | 8,863           |
| 3,169           | Financing Activities  | 240             |
| <b>(2,697)</b>  | <b>Net (increase) or decrease in cash and cash equivalents</b>  | <b>2,265</b>    |
| 3,492           | Cash and cash equivalents at the beginning of the reporting period  | 6,189           |
| <b>6,189</b>    | <b>Cash and cash equivalents at the end of the reporting period</b>   | <b>3,924</b>    |

The Council has prepared group account statements that include the financial transactions of South Holland Local Housing Community Interest Company and Red Lion Quarter (formerly known as the Food Heritage) Community Interest Company as they are wholly owned subsidiary companies, and 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 and Red Lion Quarter Community Interest Companies have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2007), 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 2010/11 relating to the interests in the companies and joint venture or in the entities themselves.

The Council is also the custodian for a number of trusts; Transactions relating to these trusts are included in the Council's single entity Comprehensive Income and Expenditure Statement (see note 51 in the core financial statements). Under IFRS, as under UK GAAP the fixed assets for the Ayscoughfee Hall and Gardens and Sir Halley Stewart Playing Field are not included in the Council's Balance Sheet. The trusts are not included as group accounts as transactions are included in the core financial statements, and disclosure of the scale of their operations is given in the notes to 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 the construction of 6 new properties commenced, which were completed and let in the summer of 2010, and 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. The remainder are being marketed for sale. 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 2010/11 the company made a profit of £47,634 (2009/10 a loss of £12,710). 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 2011, South Holland Homes held fixed assets valued at £720,000, and current assets totalling £115,296. Liabilities consisted of short term creditors of £11,950, and long term creditors of £584,484 including loans of £68,522 to be repaid to the Council in future years.

#### Commitments under capital contracts

At 31 March 2011 the company had no commitments for capital works (at 31 March 2010 £413,954 was committed for building work on two plots of land).

#### Government and Local Authority Grants

Grants totalling £175,912 were received by the company in 2010/11, including £109,162 from the Council (in 2009/10, £340,250 was received, which included £140,000 from the Council).

#### Inter-organisation Balances

Group accounting regulations require that inter-organisation balances be removed. The following balances were removed in 2010/11:-

- Debtors – for rent due on new build properties £6,449 (2009/10 nil)
- Loan – to assist property refurbishment £48,322 (2009/10 nil)
- Loan – working capital £20,000 (2009/10 £20,000)

#### Inter-organisation transactions

Group accounting regulations require that inter-organisation transactions be removed. The following transactions were removed in 2010/11:-

- Rent £11,043 (2009/10 nil)
- Management fees £9,600 (2009/10 £9,400)
- Loan repayment and interest £6,903 and £740 respectively (2009/10 nil)

#### 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, Lincs, PE11 2XE.

#### **Red Lion Quarter Community Interest Company (RLQCIC) – Red Lion Quarter**

In 2009/10 the Council set up a wholly owned subsidiary company, Red Lion Quarter (originally named the Food Heritage Local Community Interest Company), for the purpose of providing support for local businesses connected with the food and associated industry, including the provision of a training restaurant in conjunction with an education provider.

Capital works on the building that the company operates on were completed late in 2010/11, with the food hall opening during March 2011. The training restaurant also opened at this time. Negotiations are ongoing in relation to formal lease arrangements.

#### Voting Rights

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

#### Retained Surplus/Deficit

In 2010/11, the first year in which it traded, the company made a gain of £13,981. 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 2011, Red Lion Quarter held fixed assets of £25,318, and current assets of £101,249, with current liabilities totalling £84,422. In addition, a tax liability of £5,064 was recognised, along with deferred income of £23,000.

#### Commitments under capital contracts

At 31 March 2011 the company had no commitments under capital contracts.

#### Government and Local Authority Grants

Grants of £120,000 were received by the company from the Council.

### Inter-organisation Balances

Group accounting regulations require that inter-organisation balances be removed. There were no such balances held at the year end (2009/10 nil)

### Inter-organisation transactions

Group accounting regulations require that inter-organisation transactions be removed. The following transactions were removed in 2010/11:-

### Red Lion Quarter Community Interest Company Accounts

Further information about the accounts of Red Lion Quarter is available from the Company Secretary, M Stinson, Council Offices, Priory Road, Spalding, Lincs, 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 to CPBS. The Explanatory Foreword at page 7 has more detail on the arrangement.

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 2010/11 the company's comprehensive income statement shows a net return of £1.018m. Of this the Council's proportion of £377,000 is included in the Group Comprehensive Income and Expenditure Statement. At 31 March 2011, the net worth of CPBS was (£821,000), taking into account the pension deficit of £1.840m calculated as at 31 March 2011. The Council's proportion of the net worth that has been incorporated into the Group Accounts Balance Sheet is (£304,000).

### Voting Rights

At 31 March 2011, 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

### Compass Point Business Services (East Coast) Limited Company Accounts

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

### Events after the Balance Sheet date

There were no material events after the Balance Sheet date, that would have affected the Group Accounts, to report.

# **Independent auditor's report to Members of South Holland District Council**

## **Opinion on the Authority and Group accounting statements**

I have audited the Authority and Group accounting statements of South Holland District Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The Authority and Group accounting statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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

## **Respective responsibilities of the Assistant Director Finance and auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Assistant Director Finance is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

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

## **Opinion on accounting statements**

In my opinion the accounting statements:

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

## **Opinion on other matters**

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

## **Matters on which I report by exception**

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

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

### **Authority's responsibilities**

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

### **Auditor's responsibilities**

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

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

### **Basis of conclusion**

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

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

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

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

## **Conclusion**

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

## **Delay in certification of completion of the audit**

The audit cannot be formally concluded and an audit certificate issued until I have completed my consideration of matters brought to my attention by local authority electors. I am satisfied that these matters do not have a material effect on the financial statements or a significant impact on my value for money conclusion.

Tony Crawley  
Officer of the Audit Commission  
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7 Lewis Court  
Grove Park  
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Leicestershire  
LE19 1SU

30 September 2011