

Audit and Standards CommitteeDate and Time - **Wednesday 31 July 2019 - 6.30 pm**Venue - **Council Chamber, Town Hall, Bexhill-on-Sea**

Councillors appointed to the Committee:

K.D. Dixon (Chairman), J. Barnes, Mrs M.L. Barnes, A.K. Jeeawon,
Mrs E.M. Kirby-Green, L.M. Langlands, Rev H.J. Norton and H.L. Timpe.

AGENDA**1. MINUTES**

To authorise the Chairman to sign the minutes of the meeting of the Audit and Standards Committee held on the 24 June 2019 as a correct record of the proceedings.

2. APOLOGIES FOR ABSENCE**3. ADDITIONAL AGENDA ITEMS**

To consider such other items as the Chairman decides are urgent and due notice of which has been given to the Head of Paid Service by 12 Noon on the day of the meeting.

4. DISCLOSURE OF INTERESTS

To receive any disclosure by Members of personal and disclosable pecuniary interests in matters on the agenda, the nature of any interest and whether the Member regards the personal interest as prejudicial under the terms of the Code of Conduct. Members are reminded of the need to repeat their declaration immediately prior to the commencement of the item in question.

PART A – STANDARDS REPORTS – NONE**PART B – AUDIT REPORTS****5. REPORT OF THE EXTERNAL AUDITORS - GRANT THORNTON.
ANNUAL GOVERNANCE REPORT 2018/19 (DRAFT) (Pages 1 - 20)**

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6. **STATEMENT OF ACCOUNTS 2018/19** (Pages 21 - 120)
7. **TREASURY MANAGEMENT REPORT - QUARTER 1** (Pages 121 - 132)
8. **WORK PROGRAMME** (Pages 133 - 134)

Malcolm Johnston
Executive Director

Agenda Despatch Date: 16 July 2019

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**Rother District Council aspiring to deliver...
an Efficient, Flexible and Effective Council, Sustainable Economic Prosperity,
Stronger, Safer Communities and a Quality Physical Environment**

The Audit Findings For Rother District Council

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Year ended 31 March 2019
July 2019



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Appendices

- A. Audit adjustments
- B. Fees
- C. Audit Opinion

Your key Grant Thornton team members are:

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Rother District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 3</p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Our audit is substantially complete although we are finalising our procedures in the following areas;</p> <ul style="list-style-type: none">• completing our work on income testing and payroll analytical review• final review and quality control procedures;• obtaining and reviewing the management letter of representation;• reviewing a final version of the financial statements and Narrative Report; and• updating our post balance sheet events review to the date of signing our opinion. <p>In December 2018 the Court of Appeal ruled that provisions in some public sector pension schemes were discriminatory on the basis of age, the so-called "McCloud" judgement. The ruling had implications for other pension schemes, including the Local Government Pension Scheme (LGPS). At the time of preparing your draft accounts a legal challenge by the government against this ruling was in progress. On 27 June 2019 the Supreme Court refused the government permission to appeal against the judgement. Following the conclusion of the legal process this judgment is likely to give rise to additional pension scheme liabilities for the Council. Your actuary has estimated that the impact of the ruling is to increase the Council's overall pension liabilities at 31.3.19 by £387,000. Your draft accounts included a contingent liability pending the outcome of the appeal process. The accounts have now been amended to include the estimated liabilities. Further details are included at Appendix B.</p> <p>The draft accounts incorporated an initial estimate of the Council's assets and liabilities under the Local Government Pension Scheme as provided by your actuary. A final valuation was provided by the actuary on 28 June 2019. Scheme liabilities remained unchanged other than for the impact of the McCloud judgement as noted above. However, the final valuation showed a reduction of £2,750,000 in the value of scheme assets. The accounts have been amended to reflect the updated figures. Further details are included at Appendix B.</p> <p>Subject to the completion of outstanding work, we anticipate issuing an unqualified audit opinion.</p> <p>We concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our report for 2018/19 does not include any recommendations for management.</p> <p>The standard of your draft financial statements was high. Our work identified only a small number of issues. The working papers produced by the finance team to support the accounts were also of a high standard.</p>

Headlines

Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Our work to review the Council's value for money arrangements is still in progress. We will report the outcomes from our work to the September Audit and Standards Committee.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code. We will certify completion of the audit when we have given our audit opinion and completed our review of your value for money arrangements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based. In particular it included:

- An evaluation of the Council's control environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan as communicated to you in March 2019.

Conclusion

We have substantially completed our audit of your financial statements. Subject to the completion of outstanding work we anticipate issuing an unqualified audit opinion.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

In our audit plan we determined overall materiality to be £916,000 (being 2% of gross revenue expenditure). We updated our materiality to take account of the values in your draft accounts as detailed in the table below

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	874,000	This has been calculated based upon 2% of your gross expenditure (Cost of Services) in the draft accounts.
Performance materiality	611,000	This has been calculated as 75% of materiality for the financial statements, based upon our assessment of the likelihood of a material misstatement. Performance materiality is used in audit testing and helps address the risk that there may be multiple errors which are individually below materiality but aggregate to a material amount.
Trivial matters	43,000	This has been calculated based upon 5% of your headline materiality.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

We have considered the rebuttable presumed risk under ISA (UK) 240 that revenue may be misstated due to the improper recognition of revenue.

We have rebutted this presumed risk for revenue streams that are derived from Council Tax, Business Rates and Grants on the basis that they are income streams primarily derived from grants or formula based income from central government and tax payers and that opportunities to manipulate the recognition of these income streams is very limited.

Auditor commentary

For all material income streams where we have not rebutted the presumed risk of revenue recognition we have:

- evaluated your accounting policy for recognition of income for appropriateness
- obtained an understanding of your system for accounting for income and evaluated the design of the associated controls;
- reviewed and sample tested income to supporting evidence;
- evaluated the significant estimates and the judgments made by management, including those around the adoption of the new IFRS15.

Subject to the completion of outstanding work we have not identified any issues in respect of revenue recognition.

Page 6

We have not deemed it appropriate to rebut this presumed risk for fees, charges and other service income as we do not have cumulative audit testing knowledge of these revenues being your new auditor, and the adoption of IFRS15 Revenue from Contracts with Customers could materially affect recognition of this income.

We therefore identified the occurrence and accuracy of these income streams and the existence of associated receivable balances as a significant risk of material misstatement.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.

Auditor commentary

Our audit work included;

- gaining an understanding of the accounting estimates, judgements applied and decisions made by management, and considering their reasonableness
- obtaining a full listing of journal entries and testing any unusual journal entries for appropriateness
- evaluating the rationale for any changes in accounting policies or significant unusual transactions.

Our audit work has not identified any issues in respect of management override of controls.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of land and buildings

The Council regularly revalues its land and buildings to ensure that carrying value is not materially different from current value. Investment properties are revalued annually at fair value. These valuations represent a significant estimate by management in the financial statements.

Auditor commentary

Our audit work included;

- reviewing management's processes and assumptions for the calculation of the estimate, the instructions issued to the Council's external valuer and the scope of their work
- considering the competence, expertise and objectivity of the external valuer as management's expert
- testing that revaluations made during the year were input correctly into the Council's asset register
- evaluating the assumptions made by management for those property, plant and equipment assets not revalued during the year and how management satisfied themselves that these are not materially different to current value.

Our audit work did not identify any issues in respect of the valuation of land and buildings.

4

Valuation of pension fund net liability

The valuation of the Council's net pension liability as reflected in its balance sheet represents a significant estimate in the financial statements.

Auditor commentary

Our audit work included;

- identifying the controls put in place by management to ensure that the pension fund liability is not materially misstated.
- assessing the competence, capabilities and objectivity of the actuary who carried out your pension fund valuation.
- assessing the accuracy and completeness of the information provided to the actuary
- undertaking procedures to confirm the reasonableness of the actuarial assumptions made
- checking the consistency of the pension fund asset and liability disclosures in the notes to the financial statements with the actuarial report from your actuary.

We set out our view of the above audit work on page 8.

In December 2018 the Court of Appeal ruled that transitional protections in some public sector pension schemes were discriminatory on the basis of age, the so-called "McCloud" judgement. The ruling had implications for other pension schemes, including the Local Government Pension Scheme (LGPS). At the time of preparing your draft accounts a legal challenge by the government against this ruling was in progress. On 27 June 2019 the Supreme Court refused the government permission to appeal against the judgement.

Following the conclusion of the legal process this judgment is likely to give rise to additional pension scheme liabilities for the Council. Your actuary has estimated that the impact of the ruling is to increase the Council's overall pension liabilities at 31.3.19 by £387,000. Your draft accounts included a contingent liability pending the outcome of the appeal process. The accounts have now been amended to include the estimated liabilities. Further details are included at Appendix B.

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Audit findings – other risks

Risks identified in our Audit Plan

5

Migration of ERP system

During the 2018-19 accounting year management have undertaken a data migration from the previous Agresso enterprise resource planning (ERP) system to the new system Unit 4 Business World On ERP system.

The migration took place at the beginning of April 2018. We regarded this as a risk of material misstatement in the accounts as our experience of these types of system migrations has shown that the risk of error in data migration, either via system incompatibilities or via human error is high

Commentary

Auditor commentary

We have:

- documented our understanding of and walkthrough the process for the system migration;
- reconciled the opening trial balance report from Agresso ERP to the opening balance on Unit 4 Business World On ERP and to the signed accounts to demonstrate the brought forward transactions and balances were equivalent and the same as the audited prior year closing position indicating the correct opening balances;
- carried out testing to gain comfort over the correct transfer of historic data.

On completion of this work we were satisfied that the system migration had not resulted in misstatement of the accounts.

Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments	Assessment																														
Page 9	<p>Net pension liability – £57.4m</p> <p>The Council’s net pension liability at 31 March 2019 is £25,348,000 (PY £21,669,000). The Council is a member of the LGPS as operated through the East Sussex Pension Fund. The Council uses Hymans Robertson LLP to provide actuarial valuations of the Council’s assets and liabilities under the scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £3,679,000 net actuarial loss during 2018/19.</p>	<ul style="list-style-type: none"> We assessed your actuary, Hymans Robertson LLP , to be competent, capable and objective. We have used the work and report of a consulting actuary (as an auditor’s expert) to consider whether your actuary’s method of calculating the estimate, including the roll forward approach, is reasonable. We carried out analytical procedures to conclude on whether the Council’s share of the LGPS pension assets and liabilities was reasonable. We concluded that the information used by the actuary was complete and accurate. The auditors’ expert has assessed the assumptions made by your actuary and identified indicative ranges for assumptions. There were no issues arising. 	●																														
		<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary value used for Rother DC</th> <th>Expected range per the auditor’s expert</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4-2.5%</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.5%</td> <td>2.4-2.5%</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Salary growth</td> <td>3.4%</td> <td>3.4-3.5%</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45</td> <td>22.1</td> <td>21.5-22.8</td> <td style="text-align: center;">●</td> </tr> <tr> <td>aged 65</td> <td>23.8</td> <td>23.7-24.4</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45</td> <td>24.4</td> <td>24.1-25.1</td> <td style="text-align: center;">●</td> </tr> <tr> <td>Aged 65</td> <td>26.3</td> <td>26.2-26.9</td> <td style="text-align: center;">●</td> </tr> </tbody> </table>	Assumption	Actuary value used for Rother DC	Expected range per the auditor’s expert	Assessment	Discount rate	2.4%	2.4-2.5%	●	Pension increase rate	2.5%	2.4-2.5%	●	Salary growth	3.4%	3.4-3.5%	●	Life expectancy – Males currently aged 45	22.1	21.5-22.8	●	aged 65	23.8	23.7-24.4	●	Life expectancy – Females currently aged 45	24.4	24.1-25.1	●	Aged 65	26.3	26.2-26.9
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Aged 65	26.3	26.2-26.9	●																														
		<ul style="list-style-type: none"> We concluded that there was appropriate disclosure of the estimate in the financial statements. 																															

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570). Public sector bodies are assumed to be going concerns where the continued provision of a service in the future is anticipated.

Going concern commentary

Management’s assessment process

Management’s assessment process is based on your financial planning framework. You have a detailed five year Medium Term Financial Strategy (MTFS).

Auditor commentary

- you have a history of delivering services within budget
- you have a comprehensive medium term planning framework. The MTFS is updated annually and integrated with your annual budget processes
- management has concluded that it is appropriate to use the going concern basis of accounting.

Work performed

Detailed audit work performed on management’s assessment

Auditor commentary

- you have delivered a general fund revenue budget surplus of £631,000 for 2018/19
- you have set a balanced budget for 2019/20
- you had total usable (cash-backed) reserves of £22,137,000 at 31.3.19.

Concluding comments

Auditor commentary

- we concluded that management’s continued use of the going concern concept to prepare the financial statements remains appropriate. We did not identify any material uncertainty about your ability to continue as a going concern

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Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations. We have not identified any other incidences of non-compliance with relevant laws and regulations from our audit work.
④ Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from you.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We seek external confirmations from the relevant banks and financial institutions to support our review of your cash and investment balances. We received positive confirmation for all balances. There are no issues to report to you.
⑥ Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
⑦ Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information requested from management was provided. We did not encounter any significant difficulties during our audit.

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Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
① Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We did not identify any inconsistencies.
② Matters on which we report by exception	<p>We are required to report on matters by exception in a number of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
③ Specified procedures for Whole of Government Accounts	<ul style="list-style-type: none"> We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Detailed work is not required as the Council does not exceed the threshold specified by NAO.
④ Certification of the closure of the audit	<ul style="list-style-type: none"> We have completed the majority of work under the Code. We will certify completion of the audit when we have given our audit opinion and completed our review of your value for money arrangements.

Independence and ethics

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following non-audit services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing Benefit Subsidy claim (from 2018/19)	9,000	Self-Interest (because this is a recurring fee from 2018/19).	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £46,769 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
None			

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement	Statement of Financial Position	Impact on total net expenditure
	£000	£000	£000
1 Pension assets and liabilities adjusted to reflect final figures provided by the Council's actuaries. These figures include the additional liabilities arising from the McCloud judgement. Various amendments to the accounts. Increase in the Net Defined Pension Liability of £3,137,000.			
Overall impact	0	0	0

Impact of unadjusted misstatements

There were no unadjusted misstatements which we need to report to you.

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Detail	Auditor recommendations	Adjusted?
Disclosure	Note 10	<ul style="list-style-type: none"> Agreed that note provided limited additional information and could be removed 	✓
Disclosure	Note 21	<ul style="list-style-type: none"> Disclosure amended to more clearly show how closing balances at 31.3.18 had been identified to new classification categories under IFRS9 at 1.4.18. 	✓
Disclosure		<ul style="list-style-type: none"> Various other minor amendments to the amounts or narrative at disclosure notes. 	✓

Fees

We confirm below our final fees charged for the audit. There were no fees for the provision of non audit services.

Audit Fees

	Proposed fee	Final fee
Council Audit	37,059	TBC
Total audit fees (excluding VAT)	37,059	TBC

The fees reconcile to the financial statements:

£990

- 37 Council audit fee
- 9 2018/19 housing benefit subsidy certification fee
- 46 Total fee per financial statements (Note 50)

Audit opinion

We anticipate we will provide the Council with an unmodified audit report.

Independent auditor's report to the members of Rother District Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Rother District Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Assistant Director Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Director Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Assistant Director Resources is responsible for the other information. The other information comprises the information included in the Financial Report and Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Financial Report and Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

Audit opinion

- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Assistant Director Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities the Authority 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 authority, that officer is the Assistant Director Resources. The Assistant Director Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Assistant Director Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Assistant Director Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit & Standards Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise

from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature

Darren Wells
for and on behalf of Grant Thornton UK LLP, Local Auditor
110 Bishopsgate
London
EC2N 4AY

XX July 2019

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Rother District Council

Report to	-	Audit and Standards Committee
Date	-	31 July 2019
Report of the	-	Executive Director
Subject	-	Statement of Accounts 2018/19

Recommendation: It be **RESOLVED:** That the Council's 2018/19 Statement of Accounts be approved.

Corporate Transformation Finance Manager – Catherine Jobling Assistant Director Resources – Robin Vennard

Introduction

1. The Accounts and Audit Regulations 2003 require the Council's accounts to be approved by the Council or, as in Rother's case, its delegated Committee each year. This report discusses the main issues affecting the Statement of Accounts and provides a commentary on the core financial statements. (The full Statement will be circulated separately to Members, when available.)
2. At the time of writing this report, the Council's external auditors, Grant Thornton, had largely completed their work on the accounts for 2018/19. Grant Thornton's report is shown elsewhere on the agenda for this meeting and sets out their work and any issues that have arisen from it. Any further items identified will be verbally reported to the Committee at its meeting. The published accounts include a Narrative Report and the Annual Governance Statement approved by the Committee at its meeting on 25 March (Minute AS18/38 refers).

Changes to the Format of the Statement of Accounts

3. The Code of Practice has required no major changes in the presentation of the accounts. However, the Council restructured its departments in 2018/19 so the presentation of the accounts for 2017/18 has been re-stated for comparative purposes.

Statement of Accounts B (circulated separately)

4. Detailed below is a brief description of the core financial statements and the issues relating to them.
5. **Movement in Reserves Statement** – this shows the movement in the year on the different reserves held by the authority, analysed into "useable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and un-useable reserves such as the revaluation reserve for land and property. The deficit of £2.361m on the provision of services line shows the true economic cost of providing the authority's services, and these are shown in greater detail in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be

charged to the General Fund Balance for Council Tax setting. The net change of £0.631m before transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to earmarked reserves is made by the Council.

6. **Comprehensive Income and Expenditure Statement** – this shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. It therefore does not show the "cash" position for the Council and is intended to reflect private sector accounting practice in presenting a profit and loss account.
7. **Balance Sheet** – this is fundamental to the understanding of the Council's year-end financial position. It shows the balances and reserves at the Council's disposal and its long-term indebtedness, the net current assets employed in its operations and summarised information on the fixed assets held. The net worth of the Council has increased by £2.4m (as shown in the total reserves line).
8. The Balance Sheet also highlights that the useable cash resources of the Council have increased by £1.620m. A detailed analysis of the Council's earmarked reserves is shown in the notes to the accounts.
9. **Cash Flow Statement** – this brings together in a single statement the inflows and outflows of cash arising from the Council's transactions with third parties for revenue, investment and capital purposes. Under International Financial Reporting Standards the statement only reflects those flows of funds directly related to the Council. Where the Council acts as an agent, as in the case of collecting the Council Tax on behalf of precepting authorities, these inflows and outflows of cash are excluded.
10. **Collection Fund Income and Expenditure Account** – this reflects a statutory requirement for the Council, which collects the local taxes, to maintain a separate account in relation to Business Rates and the Council Tax and their distribution. Overall the Collection Fund balance was in surplus for the year by (£1.461m). With the introduction of the Business Rate Retention Scheme in April 2013, this balance is now made up of both Council Tax and Business Rates. For Council Tax the Fund was in surplus by (£1.427m) as at 31 March 2019, with East Sussex County Council entitled to the majority of this amount. For business rates the Fund was in surplus by (£0.034m), with the Government receiving the highest amount followed by this Council.

Conclusion

11. The Balance Sheet shows that overall the financial position of the Authority remains sound with an adequate amount of reserves in place to meet short term needs. The Pension Fund liability of £25m is a long term financial assessment of a possible shortfall on the Fund, based on the current situation and performance. As such, no immediate action is required to manage the deficit.
12. It is, however, essential that in the medium term, the Council continues to deliver the target savings set out in the Medium Term Financial Strategy in order for the Council to continue to balance its budget. Subject to the

approval of this Committee, it is recommended that the Statement of Accounts be signed by the Chairman of the Committee.

Malcolm Johnston
Executive Director

Dr Anthony Leonard
Executive Director

Risk Assessment Statement

There are no risks arising from this report.

Background Documents

Local Government Accounting Code of Practice 2018/19 and associated guidance.

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Rother District Council

**DRAFT FINANCIAL REPORT AND
STATEMENT OF
ACCOUNTS**

2018/19



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NARRATIVE

Introduction

The Statement of Accounts for Rother District Council for the year ended 31 March 2019 has been prepared and published in accordance with the Accounts and Audit Regulations 2015 and the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (“the Code”) issued by the Chartered Institute of Public Finance and Accountancy. The Code is based on International Financial Reporting Standards, as adapted for the UK public sector under the oversight of the Financial Reporting Advisory Body.

The information contained in these accounts can be technical and complex to follow. The aim of this report, therefore, is to provide a narrative context to the accounts by presenting a clear and simple summary of the Council’s financial position and performance for the year and its prospects for future years. This will give electors, local Rother residents, Council Members, partners, other stakeholders and interested parties confidence that public money which has been received and spent, has been properly accounted for and that the financial standing of the Council is secure.

The Accounts and Audit Regulations 2015 came into force on 1 April 2015, setting out the detailed requirements in relation to the duties and rights specified in the Local Audit and Accountability Act 2014. These regulations introduce earlier deadlines for publication of the accounts. The deadline for completion of the accounts is 31 May for the unaudited statement of accounts and 31 July for the audited statement of accounts. The Council is required to publish unaudited accounts by the end of May and Audit and Standards Committee will need to approve audited accounts by the end of July 2019.

As the financial statements demonstrate, the financial standing of the Council is sound. The Council has well established good financial management disciplines and processes and operate in an environment of continuous improvement.

This narrative report is structured as follows:

1. An Introduction to Rother
2. Summary of Achievements
3. Governance
4. Summary of the 2018/19 Financial Performance of the Council
5. Strategic Risks
6. Liability for Pensions Costs
7. Future Plans
8. Material assets/liabilities
9. Explanation of the Financial Statements
10. Acknowledgements

1. An Introduction to Rother

For the greater part, Rother is rural in character, forming the south-eastern part of the High Weald. However, it also embraces low-lying coastal areas at both the eastern and western ends of the District. The District covers some 200 square miles and serves a population of around 90,000 inhabitants. With the exception of Bexhill with its distinctive town centre and seaside character and the historic towns of Battle and Rye, the area is mainly rural.

The majority of the countryside located within the district falls within the High Weald Area of Outstanding Natural Beauty. Rother has around 4,635 businesses, with small and micro businesses forming a fundamental part of the Rother economy with 88% of businesses in Rother employing less than 9 people.

NARRATIVE

The area we serve



2. Summary of Achievements

The Corporate Plan

One of the key strategic documents that frames the actions of the Council is the [Corporate Plan](#). This is a working document that exists to help elected Members, staff and partners work together to deliver the vision for Rother. Its primary purpose is to set out the strategic direction of Rother.

The Council publishes progress on the Corporate Plan once a year in the [Annual Report](#).

The current Corporate Plan was approved by full Council in September 2014. The Corporate Plan sets out the Council's vision for 2014-2021. To this end, a broad vision has been set out around the themes of an efficient, flexible and effective Council; sustainable economic prosperity; stronger, safer communities and a quality physical environment.

The Corporate Programme

To support the achievement of the aims and broad outcomes, a Corporate Programme of Priority Projects has been identified within the Corporate Plan to help deliver the Vision. There are 29 projects and programmes being delivered between 2014-2021. Here follows the list of Corporate Programme Priority Projects;

NARRATIVE

Efficient, Flexible and Effective Council

- Member Development
- Better Connected
- Workforce Development Plan
- Asset Management Plan
- Rother 2020 (was Service Resetting Plan)

Stronger, Safer Communities

- Development of Old Bexhill High School Site
- Active Rother Programme
- Private Sector Housing Renewal
- Housing Development Programme
- Empty Homes Back into Use
- Council Tax Reduction Scheme
- Welfare Reform Rollout
- Walking and Cycling Strategy

Sustainable Economic Prosperity

- NE Bexhill Master Plan Delivery (BX2)
- NE Bexhill Master Plan Delivery (BX3)
- Blackfriars, Battle
- Camber Regeneration
- Bexhill Town Centre Strategy
- Development of Key Employment Sites
- Economic Development – Rye Area
- Superfast Broadband Rollout
- Barnhorn Road Development
- Skills Development
- Community Infrastructure Levy

A Quality Physical Environment

- Improving Recycling Rates in Rother
- Fuel Poverty
- Collective Energy Switching
- Coastal Environments
- Combe Valley Countryside Park

The [Overview and Scrutiny Committee](#) receives quarterly performance progress reports and makes recommendations to Cabinet. The Committee selects [in January](#) a small number of key performance indicators (KPIs) for focussed monitoring related to the priorities for the coming financial year.

The Council has achieved many of the performance targets it set for 2018/19 as well as delivering many projects and initiatives.

Efficient, Flexible and Effective Council

During 2018/19:

- A new Customer Relationship Management system has been developed and implemented allowing more services to be available online, and improve integration with existing systems.
- The Council's Property Investment Strategy was approved by Full Council in May 2018 supporting and safeguarding the economy of the Rother area, through the long term protection of existing and the creation of new employment space, whilst creating an opportunity for income generation.
- A Local Government Association (LGA) grant was secured to enable the council to appoint experts to provide support in property investment and energy efficiency and generation. As a direct result, solar panels have been installed on the Council's Amherst Road administrative building and the Bexhill Museum. This will not only reduce money spent on energy bills, but will generate an income through the Government's Feed In Tariff and Deemed Export scheme. It will also help the council to reduce carbon emissions. In the first month of installation, the systems (combined) saved £338 and 1,090kg of CO2 emissions.
- A project to generate an increase in annual Direct Debit sign-up and to reduce cheque payments for the Garden Waste scheme renewals has saved the equivalent of £29,000 in cheque processing time. This project has been used as a best practice case study by the LGA and was presented at national conference in March 2019.
- New Housing Benefit claims were processed in 30 days (35 days – 2017/18).
- Changes to Housing Benefit claims were processed in 19 days (25 – 2017/18). Last year we reported we were drawing up an improvement plan to address performance in processing housing benefit claims and that we would see the effects of introducing new automation and various process improvements in 2018/19. By the end of 2018/19 the backlog was removed and performance had improved from worst quartile at the start of the year to above median (better than median) quartile performance for all English district councils by the final quarter.

NARRATIVE

Sustainable Economic Prosperity

During 2018/19:

- Phase one of construction at the North East Bexhill BX2 site is complete, providing 108 dwelling, including two wheelchair adapted homes. Phase 2 has now started and will to deliver 1050 dwellings, 7,000sqm employment floor space, primary school, open space and commercial uses. This scheme ensures sustainable development of residential, community, retail and employment sites.
- North East Bexhill BX3 site is underway, delivering 139 residential units and up 33,500sq.m of employment floor space.
- The Bexhill Ready Jobs and Apprenticeships fair saw over 350 people attending to find out about available jobs and training from 53 businesses and organisations exhibiting on the day.
- Three Neighbourhood Plans were formally consulted on and submitted to Examiners. These were for Rye, Ticehurst and Crowhurst. Neighbourhood Plans allow communities to shape development in their area, including the location of residential, retail and employment.
- The value of Community Infrastructure Levy (CIL) Liability Notices (excluding exemptions) is £7,251,137 (£5,009,894 - 2017/18). Total net receipts after admin fee and parish contributions from CIL were £1,029,282 (£165,158 – 2017/18). The total amount held in reserves is £1,233,533. The Council achieved over £250,000 in the fund in 2018/19, which was the threshold that triggered the first round of bidding with infrastructure suppliers on priority projects. The results of bidding will be known in 2019/20.

Stronger, Safer Communities

During 2018/19:

- The Development of the Former Bexhill High School site reached a major milestone with the submission of an outline planning application for a new leisure centre, residential units and a hotel. The new leisure centre will bring together the two currently separate facilities under one roof, making it more convenient for residents and visitors. It will also eliminate the need to travel between two sites, helping to reduce the environmental impact.
- The Walking and Cycling strategy programme has seen the development of;
 - Bexhill Cycle Network Plans: through working with ESCC and other partners where a common interest in sustainable transport exists. Combe Valley Countryside Park, Link and Gateway Roads, Hastings BC, RDC, Sustrans and Developers have all played a part in seeing the benefits of a Cycle Network that is integrated, connected and safe for users. This project was to develop plans for the delivery and integration of the cycle routes.
 - Active Transport initiatives: There were 242 organised Health Walks in six different locations in Rother in 2018; the average attendance was 18, and the total number of hours walked was over 4300. Approximately 300 people participated. 25 trained volunteer health walk leaders led these walks, contributing nearly 700 volunteer hours. A new fortnightly Health Walk was launched in 2018 in partnership with Freedom Leisure, starting at the Bexhill Leisure Pool. This walk has proved so successful that plans are currently being drawn up to make the walk weekly

NARRATIVE

- 323 homelessness applications were received against an expected number of 204, a 50% increase in demand from 2017/18. As expected and reported last year, new housing legislation increased demand on housing services. Not only is there limited social housing but the private sector is increasingly unaffordable. The knock on effect is a large increase in households in temporary accommodation. We have gone from an average of 25 households at the end of each month in 2016/17 to an average of 38 in 2017/18 and 50 households in 2018/19. The peak, in April 2019, was 65 households in temporary accommodation. Local supply is limited to around 20 places and most households are placed outside the district in neighbouring authorities. In response, and with extensive consultation with local organisations, the Council wrote a new Housing and Homelessness and Rough Sleepers Strategy to start from April 2019. This includes a commitment to create more temporary accommodation in the district in 2019/20.
- 60 new affordable homes were delivered (gross) across the district (68 – 2017/18), including 2 specialist wheelchair accessible bungalows and 19 homes for older people or sheltered accommodation. One rural village site delivered 36 of these homes and was made possible with a grant of £133,000 of s106 funding to enable a larger proportion of affordable rent and general needs housing and address the high need for this type of housing on the housing register. One development was slightly late in completion and a further 26 new affordable homes were delivered in April 2019, including seven wheelchair accessible dwellings.

A Quality Physical Environment

During 2018/19:

- East Sussex County Council started work to replace the ornamental lampposts (30 lanterns) to ensure the street lighting scheme remains in keeping with the architectural backdrop and heritage importance of East Parade, Bexhill. RDC officers continued to work with local groups and organisations to identify and attract funding for the improvement of East Parade, to deliver improved access in the east, (including refurbishing the car park and rebuilding the Bexhill Sea Angling Club), restoration and conservation of the Grade II listed shelters and a landscape uplift in keeping with the heritage context.
- The draft Public Realm Strategic Framework (PRSF) document was issued for public and stakeholder consultation. The PRSF aims to deliver the vision of “an attractive, well-maintained, quality public realm, delivered collaboratively by statutory bodies and stakeholders, that protects the locally distinctive character and identity of the district, whilst embracing the potential for new design to create public realm that fosters civic pride and contributes to regeneration aims”.
- 50.4% (estimated) of household waste being recycled or composted compared with the total amount being collected (50.2% - 2017/18). Reaching a 50% rate for re-use, recycling and composting has been a long term goal of the Council. The publication ‘Let’s Recycle’ recently published the recycling league table for 2017/18 and Rother District Council is 79th out of 345 local authorities, with a rate of 50.2% for a combination of dry mixed recycling and composting: <https://www.letsrecycle.com/councils/league-tables/2017-18-overall-performance/>

Key Business Indicators

During 2018/19 we achieved:

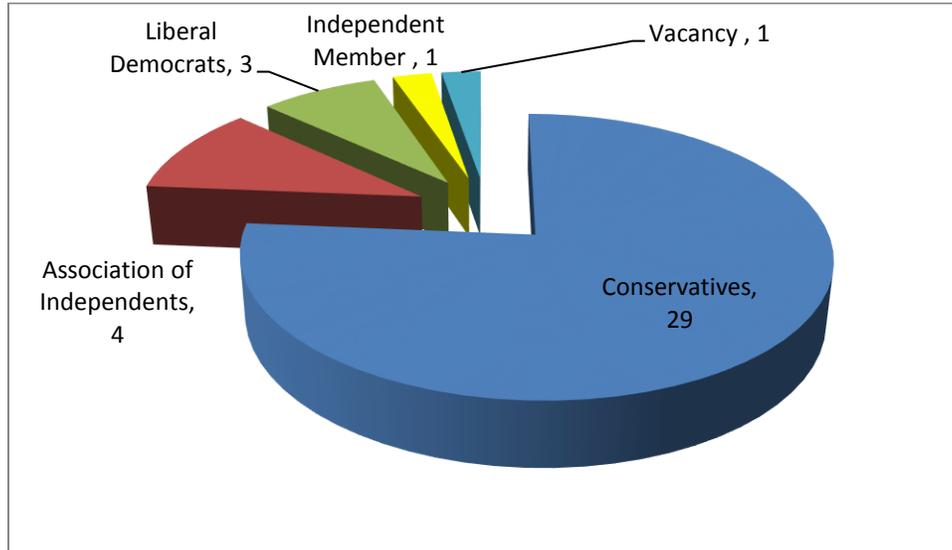
- 99.27% of Business Rates collected within the financial year (99.06% - 2017/18)
- 98.44% of Council Tax collected within the financial year (98.45% - 2017/18)
- 100% of major planning applications processed within 13 weeks (87.5% - 2017/18)

NARRATIVE

3. Governance

The Council

The Council has 38 District Councillors. The political composition of the Council at 31 March 2019 was:



District Council elections were last held on 5th May 2015 with all seats being up for election. The results of the election were: Conservative 31; Association of Independents 3; Liberal Democrats 2; Independent 1; and Labour 1.

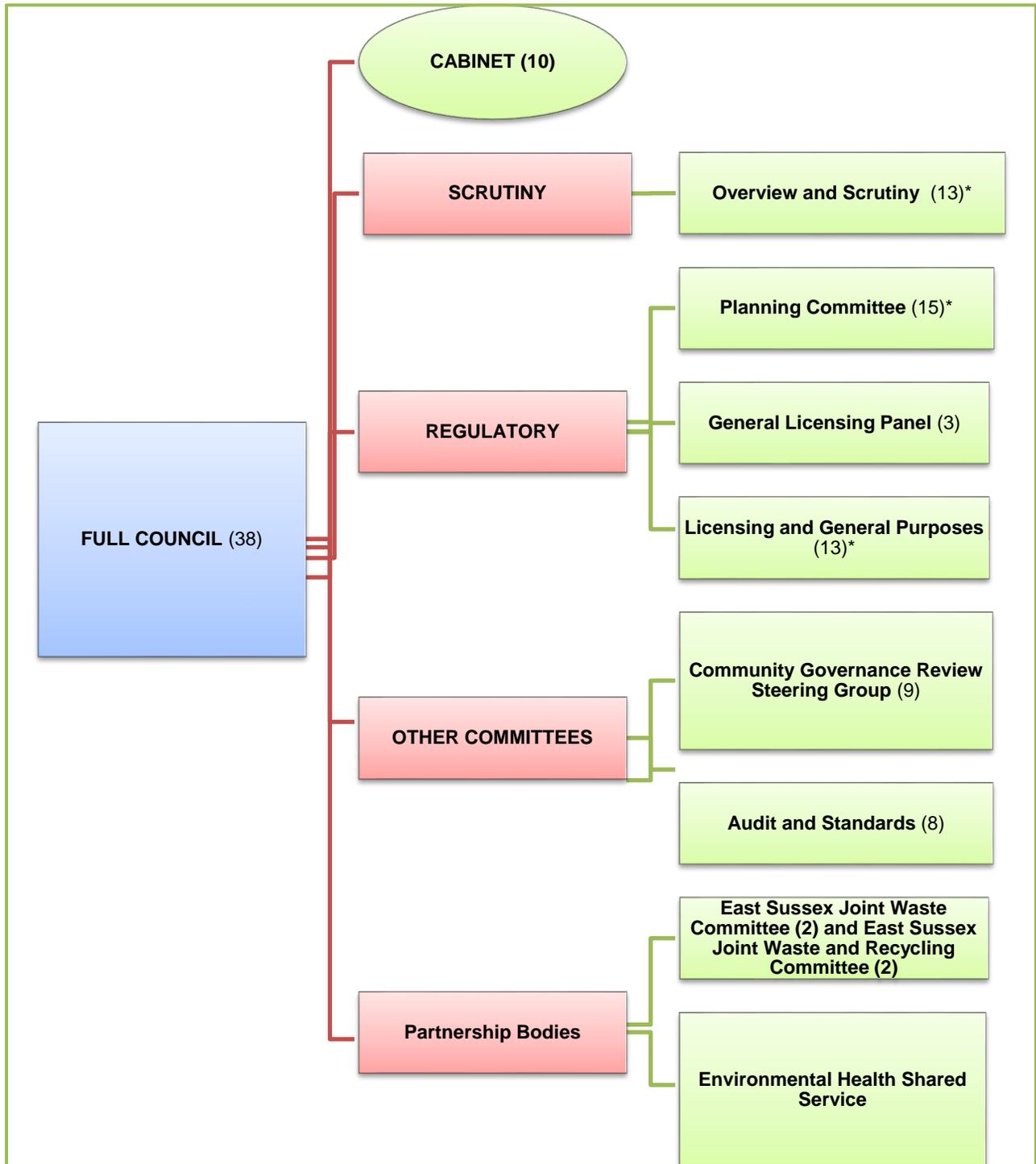
From May 2015 to March 2019 there were four by-elections, two defections (one from Labour to Conservative and one from Conservative to Association of Independents and one recent resignation leading to a vacancy being held over until May 2019. These events have changed the make-up of the Council to the current position of Conservative 29; Association of Independents 4 (unchanged); Liberal Democrats 3 (+1); and Independent 1 (unchanged). The Conservative Group has overall control of the Council. Elections are held every four years for all 38 seats; the next all-out Elections are being held on 2 May 2019 and by the time of publication the political make up of the Council may change.

All the Councillors meet together as Full Council and set the policy and budget framework within which the Council operates. Set out below is a diagram of the Decision-Making bodies for Rother District Council that were in place during 2018/19.

Following the elections in May 2019, the Council is now formed of four political Groups: Conservatives (14), Association of Independents (13), Labour (3) and Liberal Democrats and Green (8), resulting in a “no overall control” Council.

The Association of Independents, Labour and Liberal Democrats and Green have formed an alliance are currently the Council's administration.

NARRATIVE



*Chairman of Council sits as an ex-officio Member on these Committees but has no voting rights.

NARRATIVE

The Cabinet

The Cabinet consists of the Leader of the Council and up to nine other Councillors and meets monthly. The main functions are:-

- To propose the budget and policy framework for approval by the Council
- To carry out all of the Council's functions and take all decisions except:
 - (a) those reserved to Council, the Audit and Standards Committee, the Planning Committee and the Licensing and General Purposes Committee
 - (b) those delegated to the officers, providing those decisions are not in conflict with the approved budget policy framework
- To refer matters including the review of strategies and policies to the Overview and Scrutiny Committee for consultation, investigation and report
- To perform the Employers Side function of the Local Staff Joint Committee.

Overview and Scrutiny Committee

This Committee is responsible for overview and scrutiny, which supports the work of the Cabinet and the Council as a whole. The Committee is made up of 12 Councillors and it meets 8 times per year. The main activities are:

(a) Policy development and review:

- Assist the Council and the Executive in the development of its budget and policy framework by in-depth analysis of policy issues;
- Conduct research, community and other consultation in the analysis of policy issues and possible options;
- Consider and implement mechanisms to encourage and enhance community participation in the development of policy options;
- Question Members of the Executive and/or the Head of Paid Service, Executive Directors or Service Managers about their views on issues and proposals affecting the area; and
- Liaise with other external organisations operating in the area, whether national, regional or local, to ensure that the interests of local people are enhanced by collaborative working, and challenge the relevance of joint working, and in particular any service level agreements, in the delivery of the Council's 4 Aims.

(b) Scrutiny:

- Review and scrutinise the decisions made by and performance of the Executive and/or council officers both in relation to individual decisions and the impact of those decisions over time;
- Review and scrutinise the performance of the Council in relation to its policy objectives, performance targets and/or particular service areas;
- Question Members of the Executive and/or the Head of Paid Service, Executive Directors and Service Managers about their decisions and performance, whether generally in comparison with service plans and targets, over a period of time, or in relation to particular decisions, initiatives or projects;
- Make recommendations to the Executive and/or Council arising from the outcome of the scrutiny process;
- Review and scrutinise the performance of other public bodies in the area and invite reports from them by requesting them to address the Overview and Scrutiny Committee and local people about their activities and performance; and
- Question and gather evidence from any person (with their consent).

Audit and Standards Committee

The Committee is made up of 8 Councillors and normally meets 5 times per year.

When carrying out the Audit function, its purpose is

- to provide independent assurance of the adequacy of the risk management framework and the associated control environment;
- to provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

When carrying out the Standards functions, its purpose is

- to promote and maintain high standards of conduct by Members and Co-opted Members of the Council;
- to adopt a Code of Conduct dealing with the conduct expected of Members and Co-opted Members of the Council when acting in that capacity;

NARRATIVE

- to put in place arrangements to investigate and make decisions on written allegations against Elected Members both at District and Parish level and undertake an overview of complaints handling and Local Government Ombudsman investigations, including the power to make payments or other benefits in cases of maladministration etc.

Licensing and General Purposes Committee

The Committee is made up of 12 Councillors and normally meets 4 times per year. The Licensing and General Purposes Committee has specific responsibility for:

- Licensing
- Health and Safety at Work Act
- Appeals against any decision made by or on behalf of the authority
- Determination of applications for benefits and discretionary rate relief
- Elections and Electoral Registration
- Parish and Town Council matters
- Standing Orders
- Staffing matters
- Control of pollution, contaminated land and air quality

General Licensing Panel

These are made up of 3 Councillors drawn from the membership of the Licensing and General Purposes and meet ad hoc to deal with business as it arises. The Panels consider all aspects of licence applications, variations, suspensions and revocations across the spectrum of local authority licensing responsibilities.

Taxi and Private Hire Licensing Panel

These are made up of 3 Councillors from the membership of the Licensing and General Purposes Committee and meet on an ad-hoc basis to deal with business as it arises. The Panels consider all aspects in regard to Hackney Carriage, Private Hire Driver, Operator and Vehicle Licences.

Planning Committee

The Planning Committee is made up of 14 Councillors and normally meets monthly. The Planning Committee has specific responsibility for:

- Determine Planning Applications
- Building Regulations and Safety of Buildings and Premises
- Conservation and Listed Buildings
- Tree Preservation and Planting
- Strategic Highway and Transportation issues

East Sussex Joint Waste Committee

The Joint Waste Committee is made up of elected Member representatives from the Cabinets of each of the following authorities: Eastbourne Borough Council (EBC) ; East Sussex County Council (ESCC); Hastings Borough Council (HBC); Rother District Council (RDC) and Wealden District Council (WDC).

These authorities established the Joint Waste Committee in 2011 with the intention of facilitating the authorities in working together to improve the quality and effectiveness of the discharge of their waste collection functions under the relevant provisions of the Environmental Protection Act 1990 by procuring a single Joint Waste Contract which was awarded to Kier Services Limited and started in April 2013 and ends on 28 June 2019.

From July 2019 the joint partnership arrangement fully integrates to the East Sussex Joint Waste and Recycling Committee.

East Sussex Joint Waste and Recycling Committee

To enable a clear distinction between matters concerning the current Joint Waste Contract and the future procurement decisions for those authorities remaining in the partnership, HBC, RDC and WDC a new Joint Waste and Recycling Committee (JWRC) was established with its inaugural meeting taking place in September 2017. The

NARRATIVE

new committee operates concurrently to the existing JWC and meets consecutively so matters concerning the current contract and matters concerning procurement and the future delivery of services are handled separately.

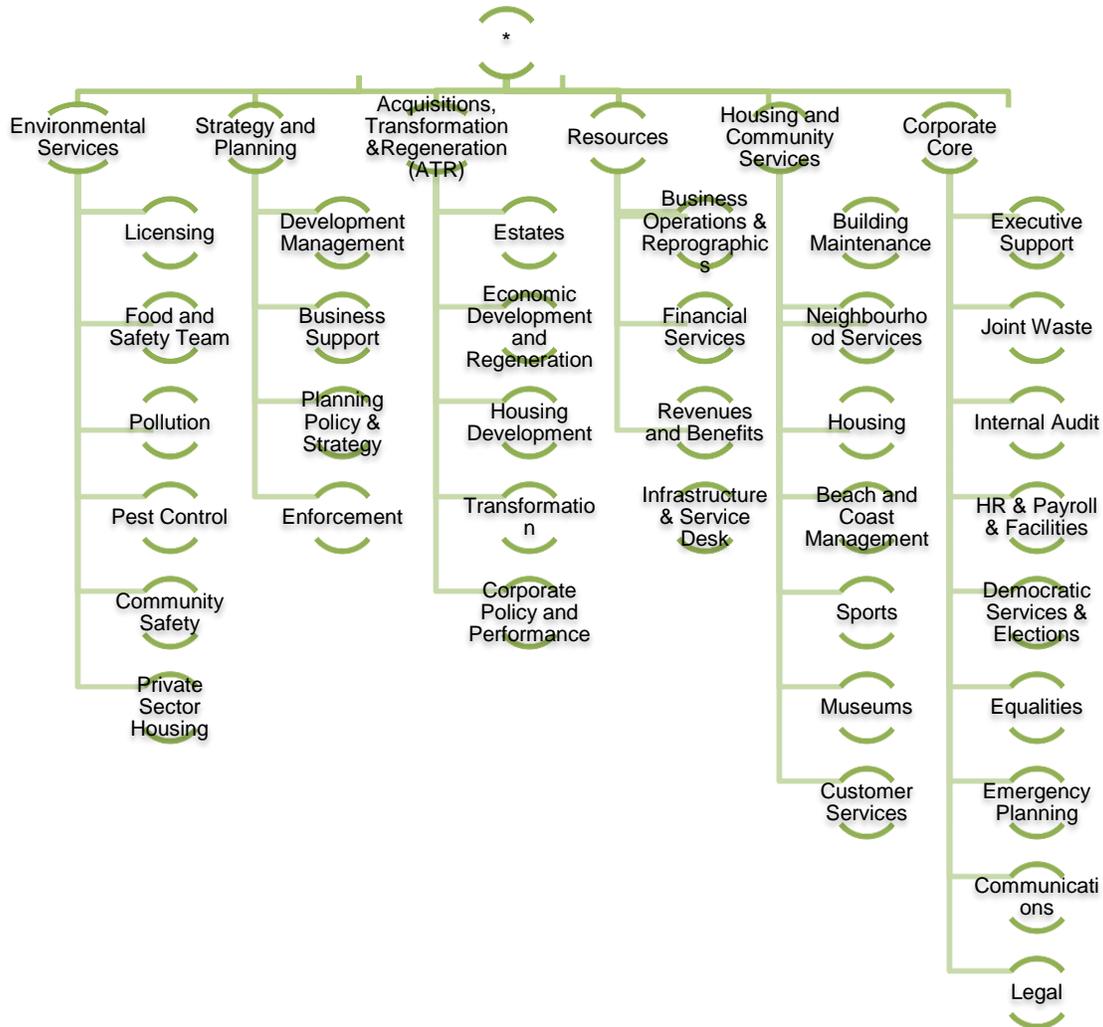
The Joint Waste and Recycling Committee is made up of elected Member representatives from the Cabinets of each of the following authorities: East Sussex County Council; Hastings Borough Council (HBC); Rother District Council (RDC) and Wealden District Council (WDC).

The Joint Waste Committee also facilitates the authorities to work in partnership with East Sussex County Council as the Waste Disposal Authority to maximise integration opportunities.

The Management Structure of the Council

Supporting the work of elected Members is the organisational structure of the Council headed by the Strategic Management Team (SMT). This is comprised of Rother District Council's most senior officers. The Executive Directors and the Assistant Director Resources (Chief Finance Officer).

The Council appoints a Monitoring Officer (Democratic Services Manager) and Chief Finance Officer, as required by law. These officers have responsibility to take action if the Council has, or is about to, break the law or if the Council is about to set an unbalanced budget. Areas of responsibility are shown in the following diagram:



As from 1 June 2018 a revised management and departmental structure was implemented. These changes have been reflected in the financial management reports of 2018/19 and the previous year has been re-stated for comparison purposes.

NARRATIVE

Staffing

A summary of the Council's staffing is shown in the table below:

Employees	2017/18	2018/19
Total number of current permanent full and part time employees	251	249
Total number of current temporary / fixed term employees	11	14
Total number of current job share employees	0	0
Total number of employees	262	263
Total number of employees expressed as full time equivalents	228	228

Posts	2017/18	2018/19
Total number of permanent full and part time posts	256	258
Total number of temporary / fixed term posts	15	17
Total number of job share posts	0	0
Total number of posts	271	275
Total number of posts expressed as full time equivalents	232	234

Sickness and accident statistics are shown in the table below:

	2017/18	2018/19
Short term sickness (days per FTE)	2.85	2.11
Medium term sickness (days per FTE)	2.39	2.13
Long term sickness (days per FTE)	7.50	5.75
Overall sickness (days per FTE)	12.74	9.99
Number of accidents	3	2

4. A Summary of the 2018/19 Financial Performance of the Council

General Fund

The Council approved a Council Tax Demand of £6.580 million at its budget meeting in February 2018 resulting in a Council Tax charge for a Band D property of £174.32, an increase of £5.

A summary of the General Fund position is shown below in the format used for management accounting and reported to Members throughout the year.

NARRATIVE

	2018/19 Budget £ (000)	2018/19 Estimated Outturn £ (000)	2018/19 Variance £ (000)	2018/19 Variance %
Executive Directors & Corporate Core	2,043	1,977	(66)	-3.2%
Environmental Services	740	110	(630)	-85.1%
Strategy and Planning	930	839	(91)	-9.8%
Acquisitions, Transformation and Regeneration	132	(30)	(162)	-122.7%
Housing and Community Services	5,421	5,206	(215)	-4.0%
Resources	3,286	3,163	(123)	-3.7%
Total Cost of Services	12,552	11,265	(1,287)	-10%
Interest from Investments	(512)	(446)	66	-12.9%
Impairment losses		87	87	
Capital Expenditure Charged to Revenue	1,493	828	(665)	-44.5%
Interest payments	97	18	(79)	-81.4%
Net Cost of Services	13,630	11,752	(1,878)	-13.8%

	2018/19 Budget £ (000)	2018/19 Estimated Outturn £ (000)	2018/19 Variance £ (000)	2018/19 Variance %
Parish Precepts	1,549	1,549	0	0.0%
Special Expenses	(715)	(715)	0	0.0%
Business Rates				
Local Share of business rates	(7,141)	(7,141)	0	0.0%
s31 Grants	(1,350)	(1,536)	(186)	13.8%
Tariff	4,926	4,923	(3)	-0.1%
Levy payment on account	617	708	91	14.7%
Share of net retained Levy from the pool		(344)	(344)	
Revenue Support Grant	(73)	(73)	0	0.0%
Non-Specific Revenue Grants		0		
New Homes Bonus Grant	(714)	(714)	0	0.0%
Rural services delivery grant	(38)	(61)	(23)	60.5%
New Burdens Grant and other non-specific grants	0	(181)	(181)	
Local Council tax Support Grant	(101)	(101)	0	0.0%
Benefits Administration Grant	(233)	(236)	(3)	1.3%
Homelessness Grant - New Burdens	(41)	(41)	0	
Flexible Homeless Support Grant	(203)	(290)	(87)	42.9%
Council Tax Requirement (Rother and Parishes)	(8,125)	(8,125)	0	0.0%
Other Financing				
Collection Fund (Surplus)/Deficit	(5)	(5)	0	0.0%
Contributions to Earmarked Reserves	0		0	
Contributions (from) Earmarked Reserves	(1,983)	631	2,614	-131.8%
Contributions to/(from) General Fund Balance	0	0	0	
Total Income	(13,630)	(11,752)	1,878	-13.8%

NARRATIVE

The General Fund Revenue Budget outturn is a surplus of £0.631 million. When the budget was originally set in February 2018 the Council estimated it would need to make a contribution of (£1.983m) from the General Fund in order to balance the budget. This therefore represents a £2.614 million variance.

The main variances are detailed in the sections that follow:-

Executive Directors & Corporate Core (£66,000) surplus

- £50,000 savings on joint waste on the variable elements of the contract and procurement of the new contract.

Environmental Health Service (£630,000) surplus

- (£70,000) This saving represents Rother's share of the savings on the partnership costs. It is mainly as a result of staff vacancies.
- (£470,000) of disabled facilities grant monies which will be transferred to earmarked reserves
- (£90,000) of housing grant repayments

Strategy and Planning Development (£92,000) saving

- (£130,000) slippage on the Local Development Framework. This work is planned to be funded from reserves and therefore the underspend reduces the amount of reserves utilised. Further expenditure is planned in 2019/20.
- £67,000 shortfall on planning fees possibly due to uncertainty in the market due to delays in Brexit.
- Other savings mainly on salaries due to delays in recruitment following the retirement of a number of officers during the year.

Acquisitions, Transformation and Regeneration (£162,000) extra income

- (£186,000) extra income due to backdated rents being recovered during the year
- Additional costs of £48,000 have been incurred in repairs to the Landgate, Rye which is an ancient monument.

Housing and Community Services (£215,000) savings

- (£250,000) one off income from the sale of additional beach huts in Bexhill.
- £240,000 extra spend on Homelessness. The number of households in temporary accommodation increased substantially during 2018/19. In addition households are spending longer in temporary accommodation due to the lack of supply of social housing and unaffordable rents in the private sector.
- (£250,000) extra car parking income due to increased number of users. This additional income was partially reduced by increased business rate charges and costs incurred as part of the property devolvement programme to Parish and Town Councils.

Other variations

- £66,000 shortfall on interest income
- £87,000 impairment losses
- (£79,000) savings on interest payments relating to long term borrowing.
- (£665,000) slippage on capital expenditure charged to revenue. This mainly relates to spending on disabled facility grants
- (£186,000) extra s31 grant income in lieu of business rates.
- (£256,000) net retained income from the business rate pool
- (£294,000) extra non-specific grants relating to homelessness, neighbourhood planning and new burdens relating to welfare reform have been received.

The Colonnade Bexhill Ltd

The Colonnade Bexhill Ltd was established by the Council as a trading company to manage operations at the Colonnade in April 2018. This company employed the staff and entered into the various arrangements needed to operate the business, including with suppliers, service contracts, till system, furniture, etc.

NARRATIVE

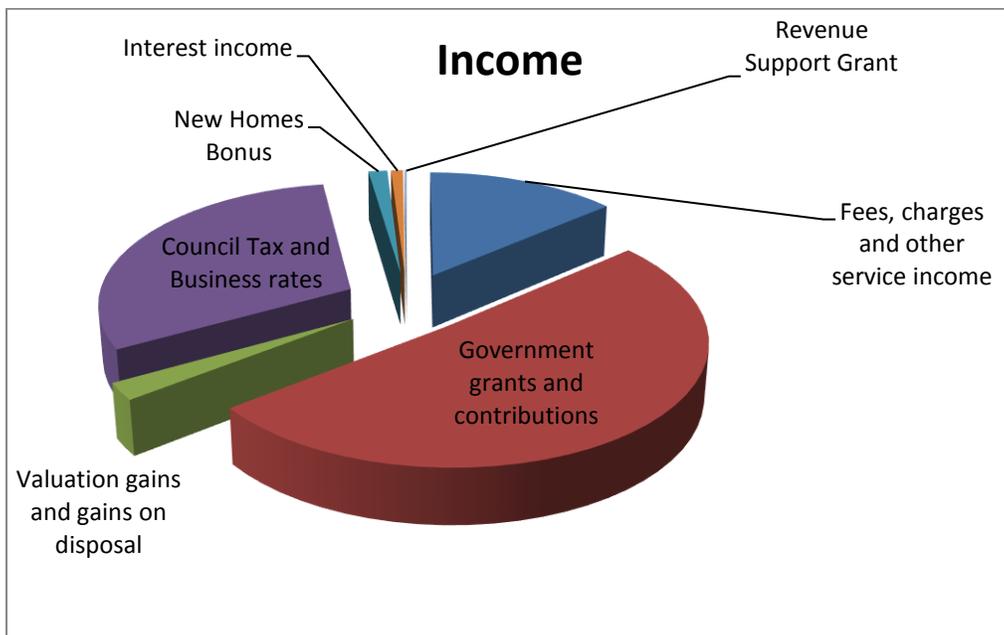
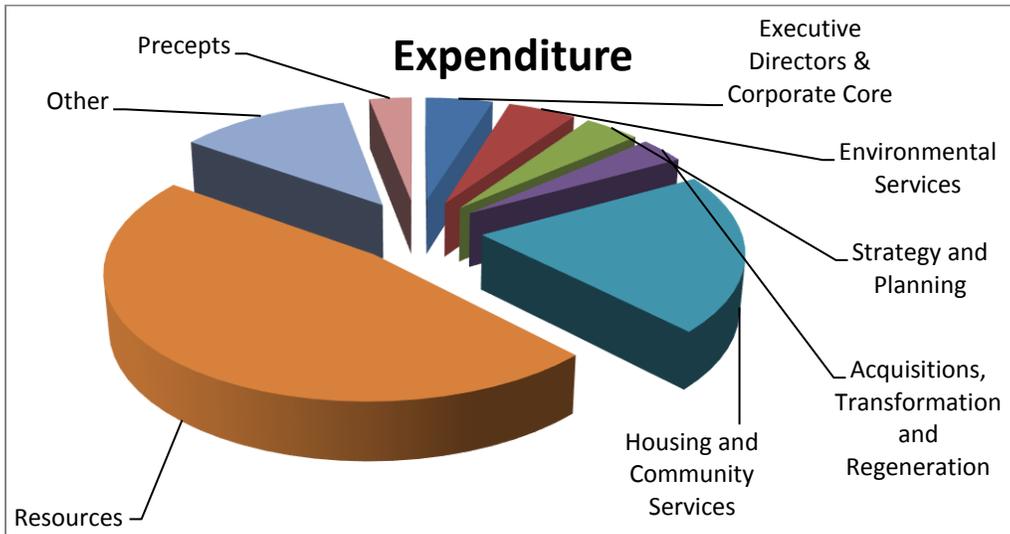
Council officers were appointed as Directors to get the company established and the administration of the company was supported by other officers of the Council.

The Council employed a Catering Manager to lead initially on refining the business plan, to set up the business operations and recruit the staff team while the fitting-out works were taking place, and to manage the business, once trading had commenced.

Following the opening of the Colonnade in summer 2018 the Council was approached independently by several operators expressing interest in taking on the premises. Discussions took place with all of these, resulting in the report to Cabinet in October 2018 and the decision to let the premises to Wingrove House Ltd

The company has now ceased trading and debts of £58,000 have been written off in respect of the company.

An analysis of income and expenditure is shown in the graphs below:



NARRATIVE

General Fund: Capital Programme

The General Fund Capital Programme is summarised in the table below:

Rother District Council Capital Programme Summary

	2018/19 Original Budget Feb 18 £ (000)	2018/19 Revised Budget £ (000)	2018/19 Outturn £ (000)	2018/19 Variance £ (000)
<u>Acquisitions, Transformation and Regeneration</u>	-			
Community Grants	130	130	136	(6)
East Parade - project A - Bexhill East Beach	295	8	8	0
East Parade - project B - Shelters and Heritage Hub	0	2	0	2
East Parade - project D - Ornamental lighting	8			0
Colonnade Restaurant/units	0	333	346	(13)
Cemetery Entrance	0	50	10	40
Community Led Housing Schemes	390	300	0	300
Blackfriars Housing Development	0	100	198	(98)
Affordable Housing Contribution	0	0	30	0
Rother 2020 Programme				
Property Investment Strategy	4,000	0	0	0
Acquisition 14 Terminus Road	0	887	887	0
Acquisition 3 sites - Beeching Road	0	1,625	1,740	(115)
Demolition				0
Solar Panels	0	47	39	8
Rother 20/20 ICT Investment	458	390	0	390
Corporate Document Image Processing System	203	232	0	232
<u>Housing and Community Services</u>	-			
De La Warr Pavilion - Capital Grant	52	52	52	0
Fairlight Coastal Protection	0	29	6	23
Sidley Sports and Recreation	300	0	8	(8)
Land Swap re Former High School Site	1,085	1,085	0	1,085
Bexhill Leisure Centre - site development	2,190	260	77	183
Disabled Facilities Grant	791	1,300	1,035	265
New bins	13	13	14	(1)
Beach huts	95	0	0	0
Camber Western Car park	0	120	0	120
Corporate Core including Executive Directors				
Delegate Conference System	50	50	63	(13)
Resources				
Enterprise Resource Planning System upgrade	36	52	136	(84)
Printing Services - Guillotine	0	15	15	0
ICT Infrastructure - Ongoing Upgrade Programme	166	166	0	166
Total Capital Programme	10,262	7,246	4,800	2,446

NARRATIVE

	2018/19 Original Budget Feb 18 £ (000)	2018/19 Revised Budget £ (000)	2018/19 Estimated Outturn £ (000)	2018/19 Variance £ (000)
Funded By:				
Capital Receipts	3,057	1,345	159	1,186
Grants and contributions	0	1,729	1,147	582
Borrowing	4,845	2,559	2,666	(107)
Capital Expenditure Charged to Revenue	2,360	1,493	828	665
Unfunded		120		120
Total Funding	10,262	7,246	4,800	2,446

The outturn on the General Fund Capital Programme is an overall underspend of £2.446 million. The reasons for the significant variances are as follows:

- Slippage of £1.085 million on the Land Swap. Work continues to resolve the outstanding issues with ESCC and the land swap for the former Bexhill High School site. Delays will have a knock on effect in progressing the redevelopment of the leisure centre, located adjacent to this site.
- Actual spend in 2018/19 on Disabled Facility Grants (DFGs) was £1,035,000 and this compares against a grant received of £1,507,000. The balance of £471,000 has been transferred to earmarked reserves.
- The slippage of project spend on the 20/20 ICT investment scheme, Bexhill Leisure site redevelopment and the Corporate Document Image Processing System will be re-profiled into 2019/20.

Collection Fund

The outturn on the Collection Fund is a surplus of £0.034 million on Business Rates against a budgeted deficit of £1.226 million; and a surplus of £1.427 million on Council Tax against a budgeted surplus of £1.238 million.

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5. Strategic Risks

Risk	Impact	Mitigation
<p>Business Rates Reduction in funding and impact of backdating of appeals. The new pilot for Localising of Business Rates has increased this risk to 75% for this Authority.</p>	<p>Adverse financial outcome(s) for the Council in future years.</p>	<p>Continuing to engage with the MHCLG through their consultations.</p>
<p>Reliance on Commercial Income Exploring alternative sources of income to offset core funding reductions and also ensure value for money for residents. Particularly in relation to the property investment strategy and the Colonnade restaurant.</p>	<p>A recession or other unexpected/uncontrollable event could leave the Council exposed to under-funding or large losses in income.</p>	<p>Rigorous monthly monitoring which scrutinises forecast projections and challenges material movements against budgeted targets.</p>

6. Liability for Pensions Costs

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

The Council's net Pension Liability valued on an IAS 19 basis increased from £21.669 million at 31st March 2018 to £22.211 million at 31st March 2019. It is detailed in Note 8 to the accounts. Gross liabilities have increased by £8.3 million mainly due to changes in the discount rate, this has been partly offset by increases in the return on assets of £6.7 million.

The Council does not operate its own Pension Fund but is part of the East Sussex Local Government Pension Scheme which is administered by East Sussex County Council. Full details of the Pension Scheme and its accounts are available on-line at www.eastsussex.gov.uk

7. Future Plans

In common with the rest of local government, the Council has seen a steady reduction in its core funding in recent years. The Government's aim is to phase out non-specific grant funding altogether, instead allowing local authorities to retain a higher proportion of business rates collected locally.

The Medium Term Financial Strategy has recently been updated indicating that due to reductions in government funding and demands on Council services as well as more general economic changes brought about by Brexit the financing of the Council services remains challenging.

NARRATIVE

To balance the budget there will be a continuing need for service transformation, efficiencies and other savings initiatives for the foreseeable future.

The Medium Term Financial Strategy

The budget for 2019/20 was set against further reductions in Government grant. The Council's Medium Term Financial Strategy has been updated to reflect the provisional four-year Funding Settlement announced in December 2015. This also takes into account inflation (both pay and contract), superannuation and national insurance changes.

The medium term financial strategy for the period 2019/20 to 2023/24 updated is set out in the table below.

Rother District Council 2019/20-2023/24 Medium Term Financial Strategy

	2019/20 Budget £ (000)	2020/21 Budget £ (000)	2021/22 Budget £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)
Executive Directors & Corporate Core	2,084	2,070	2,072	2,073	2,075
Environmental Services	750	750	750	750	750
Strategy and Planning	961	961	961	961	961
Acquisitions, Transformation and Regeneration	295	296	298	299	281
Housing and Community Services	7,148	7,597	7,723	7,852	7,983
Resources	3,288	3,289	3,289	3,289	3,289
Total Cost of Services	14,526	14,963	15,093	15,224	15,339
Interest from Investments	(512)	(512)	(415)	(415)	(415)
Capital Expenditure Charged to Revenue	1,670	535	238	238	238
2020 Savings					
(i) Increase income - investment in property	(899)	(1,724)	(1,929)	(1,929)	(1,929)
(ii) MRP	27	153	362	371	380
(iii) Interest payments	372	871	867	858	849
(iv) Service Based Savings		(400)	(800)	(800)	(800)
Contingency					
Salary Inflation		191	97	98	99
Net Cost of Services	15,184	14,077	13,513	13,645	13,761

NARRATIVE

	2019/20 Budget £ (000)	2020/21 Budget £ (000)	2021/22 Budget £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)
Parish Precepts	1,549	1,549	1,549	1,549	1,549
Special Expenses	(674)	(674)	(674)	(674)	(674)
Business Rates					
Local Share of business rates	(8,020)	(8,180)	(8,344)	(8,511)	(8,681)
s31 Grants	(1,297)	(1,323)	(1,349)	(1,376)	(1,404)
Tariff	5,715	5,829	5,946	6,065	6,186
Levy payment on account	0	0	0	0	0
Revenue Support Grant		0	0	0	0
Non-Specific Revenue Grants					
New Homes Bonus Grant	(449)	(84)	(12)	0	0
Rural services delivery grant	0	0	0	0	0
Local Council tax Support Grant	(100)	(100)	(100)	(100)	(100)
Benefits Administration Grant	(233)	(233)	(233)	(233)	(233)
Homelessness Grant - New Burdens	(43)	(43)	(43)	(43)	(43)
Flexible Homeless Support Grant	(275)	(275)	(275)	(275)	(275)
Council Tax Requirement (Parishes and Rother)	(8,379)	(8,709)	(9,049)	(9,399)	(9,769)
Other Financing					
Collection Fund (Surplus)/Deficit	336	0	0	0	0
Contributions to/(from) Earmarked Reserves	(3,314)	(1,834)	(929)	(648)	(317)
Contributions to/(from) General Fund Balance	0	0	0	0	0
Total Income	(15,184)	(14,077)	(13,513)	(13,645)	(13,761)

A number of efficiency savings were identified as part of the Rother 2020 programme. These have been built into the Medium Term Financial Strategy (MTFS). The previous target of achieving £1.8m of savings has now been increased to deal with the additional costs of dealing with homelessness and the new waste collection and street cleaning contract which is approximately £1.5 million more than the 2018/19 budget in a full year. This adds considerable financial pressure on the Council and further work is required during 2019/20 to identify how this funding gap will be met.

The Council has recently adopted a property investment strategy which is focussed on investment within Rother District in order to facilitate economic regeneration and help secure existing, and develop new, employment space. Some success has been achieved in 2018/19 and work on identifying suitable properties continues to meet the savings targets indicated below.

To summarise the amount that is needed to balance the budget in the next 5 years is as follows:-

Description	2019/20 Budget £'000	2020/21 Budget £'000	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000	Total £'000
Property investment strategy	(500)	(700)	(700)	(700)	(700)	(3,300)
Service based savings		(400)	(800)	(800)	(800)	(2,800)
Use of reserves	(3,314)	(1,834)	(929)	(648)	(317)	(7,042)
Total	(3,814)	(2,934)	(2,429)	(2,148)	(1,817)	(13,142)

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Income Generation

The Council has a number of key income streams besides Council Tax and Non domestic rates. These include car parking, rents from land and industrial estates, planning, licensing and land charges.

The Council has stepped up the level of income it is receiving from property through the property investment scheme. The table below highlights the contribution these assets are making towards services including income from the Council's recent acquisition of Glovers House in April 2019*. The table excludes a property at 1-7 Wainwright Road which is being redeveloped.

As can be seen the recent purchases are already help achieve the savings identified in the table above.

Property	2019/20 Estimated Net Additional Income £'000
14 Terminus Road	(57)
18-40 Beeching Road	(20)
16 Beeching Road	(29)
Glovers House*	(200)
<hr/>	
Total	(306)

Property Funds

The Council has £5million invested in the CCLA Local Authority Property Fund and £3million in the Hermes Property Fund. The reason for these investments was due to the current low interest rates offered by banks and in a bid to achieve improved investment returns. These funds are returning between 4/4.5% revenue return which help support Council services. They also provide a capital return or potential loss depending on property values but this is not realised until the funds are sold.

Capital Strategy 2019/20

The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, which seeks to provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how associated risk is managed
- the implications for future financial sustainability

The Council's Capital Strategy for 2019/20 was approved by full Council on 25th February 2019 and is available on the Council's website.

Within the capital strategy is the Capital Programme for 2019/20 to 2023/24 which was prepared to mirror the 5 year timeframe of the MTFS.

The Council plans to incur £35m of capital expenditure on its Property Investment Strategy as part of its regeneration ambitions and £14.5 million on a new leisure centre.

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**Rother District Council
Capital Programme Summary**

	2019/20 Budget £ (000)	2020/21 Budget £ (000)	2021/22 Budget £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)
<u>Acquisitions, Transformation and Regeneration</u>					
Community Grants	130	130	130	130	130
East Parade - project A - Bexhill East Beach	0	360	327	0	0
East Parade - project B - Shelters and Heritage Hub	30	358	0	0	0
Cemetery Entrance	200	0	0	0	0
Community Led Housing Schemes	350	0	0	0	0
Blackfriars Housing Development	3,150	0	0	0	0
Rother 2020 Programme					
Property Investment Strategy	12,238	20,000	0	0	0
Demolition	250	0	0	0	0
Corporate Document Image Processing System	203	0	0	0	0
<u>Housing and Community Services</u>					
De La Warr Pavilion - Capital Grant	53	0	0	0	0
Fairlight Coastal Protection	47	0	0	0	0
Sidley Sports and Recreation	300	0	0	0	0
Bexhill Leisure Centre - site development (move to A,T,R)	1,930	11,810	0	0	0
Disabled Facilities Grant	797	0	0	0	0
New bins	13	0	0	0	0
Replacement/New bins - new contract	108	108	108	108	108
Camber Western Car park	120	120	0	0	0
Bexhill Promenade - Protective Barriers	50	0	0	0	0
Bexhill Promenade - Outflow pipe	100	0	0	0	0
Housing (purchases - temp accommodation)	1,000	1,000	0	0	0
Corporate Core including Executive Directors					
Accommodation Strategy	TBD				
Lift for Amherst Road Offices	100	0	0	0	0
Resources					
Enterprise Resource Planning System upgrade	36	0	0	0	0
Total Capital Programme	21,205	33,886	565	238	238

NARRATIVE

	2019/20 Budget £ (000)	2020/21 Budget £ (000)	2021/22 Budget £ (000)	2022/23 Budget £ (000)	2023/24 Budget £ (000)
Funded By:					
Capital Receipts	1,930	0	0	0	0
Grants and contributions	3,847	0	0	0	0
Borrowing	12,488	20,000	0	0	0
Capital Expenditure Charged to Revenue	1,670	535	238	238	238
Unfunded	1,270	13,351	327	0	
Total Funding	21,205	33,886	565	238	238

8. Material assets/liabilities

The Council purchased the following significant assets during the year as part of its economic development and regeneration strategy:

Beeching Road	£1.65m
14 Terminus Road	£0.9m
Glovers House (purchased April 2019)	£7.45m

These significant new material assets will be financed by loans from the Public Works Loan Board (PWLb). As at 31st March 2019 a £900,000 loan had been taken out with the PWLB.

9. Explanation of the Financial Statements

The Accounts and Audit Regulations 2015 require the Council to produce a Statement of Accounts for each financial year. There have been no changes to policies.

These statements contain a number of different elements which are explained below.

Statement of Responsibilities sets out the respective responsibilities of the Council and the Chief Finance Officer.

Independent Auditor's Report gives the auditor's opinion of the financial statements and of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

Statement of Accounts

- **Comprehensive Income and Expenditure Statement** shows the cost of providing services in the year in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation.
- **Movement in Reserves 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 unusable reserves.
- **Balance Sheet** shows the value of the Council's assets and liabilities at the reporting date. These are matched by reserves which are split into two categories; usable and unusable reserves.
- **Cash Flow Statement** shows the changes in the Council's cash and cash equivalents during the reporting period.
- **Collection Fund** is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the

NARRATIVE

collection from taxpayers of Council Tax and National Non-Domestic Rates (NDR) and its distribution to precepting bodies.

10. Acknowledgements

I would like to thank all those involved in managing the Council's finances and preparing this Statement of Accounts. Their support under ever increasing competing demands has been appreciated throughout these challenging times.

A handwritten signature in black ink that reads "R Vennard." The signature is written in a cursive, slightly slanted style.

Robin Vennard

Chief Finance Officer

(Assistant Director Resources)

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

Rother District Council (RDC) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. RDC also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, RDC is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

RDC has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. The local code has been amended to reflect updated framework and guidance issued in 2016. A copy of the Code is on the RDC website or can be obtained from the Council's Monitoring Officer, Lisa Cooper, Town Hall, Bexhill-on-Sea, East Sussex, TN39 3JX or telephone 01424 787813. This statement explains how RDC has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

The Purpose of the Governance Framework

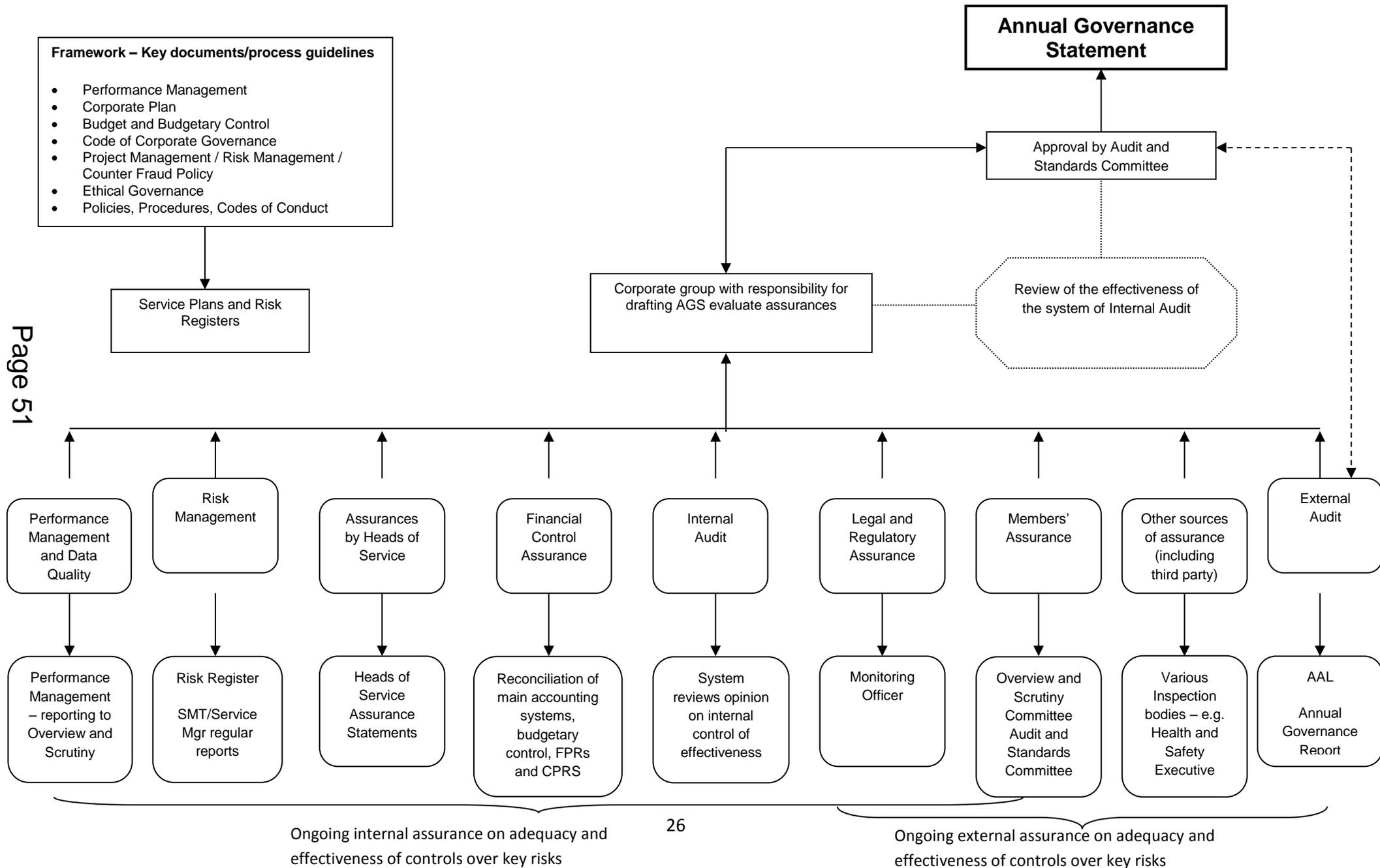
The governance framework comprises the systems and processes, and culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designated to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of Rother's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Rother for the year ended 31 March 2019 and up to the date of approval of the statement of accounts.

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ANNUAL GOVERNANCE FRAMEWORK TO 31 MARCH 2019



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Review of Effectiveness

RDC has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive directors within the authority who have responsibility for the development and maintenance of the governance environment, the Audit Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The way the Council complied with the Code of Corporate Governance is explained below:

PRINCIPLE A - Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Legal and Regulatory Assurance

The role of Solicitor to the Council entails oversight of all the Council's legal dealings, including as necessary the sealing or signing of formal legal documents. The role of Monitoring Officer entails oversight of the Council's ethical framework, oversight of the Council's Constitution including the proper allocation of functions between the executive, regulatory and scrutiny limbs of the democratic machinery, and the statutory duty to report direct to full Council with respect to any breach of law. Key to the performance of the Monitoring Officer is the vetting of the agenda, reports and minutes of all meetings.

The Democratic Services Manager was the Council's Monitoring Officer in 2018/19. The Council's Legal Services are provided by Wealden District Council and their lead officer is the appointed Solicitor to the Council.

Members' Assurance – Audit and Standards Committee

During 2018/19, the Audit and Standards Committee (A&SC) received and scrutinised quarterly reports from the Audit Manager on the reviews carried out and progress against the plan and the year-end report includes a formal opinion of the adequacy, reliability and effectiveness of the Council's Internal Control systems.

In carrying out its responsibilities for Standards matters, the Committee also includes two Independent Person(s) and two Parish and Town Councillor representatives, who usually attend meetings of the A&SC twice a year, when standards related matters are considered. Under the Localism Act 2011, the Standards regime changed and Councils were given the responsibility of setting their own Codes of Conduct and procedures for dealing with complaints against Members. The Monitoring Officer is now able to assess all complaints after consultation with one of the Independent Persons and determine what actions, if necessary, should be taken. All valid complaints are reported to the A&SC for information bi-annually. Sanctions for dealing with Councillors who may have breached the Code of Conduct are significantly reduced under the new regime.

In addition to its statutory responsibilities, the Council has also vested in the Committee the overview of complaints handling and Local Ombudsman investigations. In this regard, the Committee receives a bi-annual report and an annual report on the Council's whole year performance.

Anti-Fraud and Corruption Framework

All officers and Members are signed up to the Council's Anti-Fraud and Corruption Framework. The Framework is made up five separate but related documents, namely:

- ✓ Anti-Fraud and Corruption Strategy
- ✓ Fraud Response Plan
- ✓ Anti-Bribery Policy
- ✓ Anti-Money Laundering Policy
- ✓ Whistleblowing Policy

The Whistleblowing policy places emphasis on the agreed ethical values of Members and employees, providing protection for individuals to raise concerns in confidence about suspect behaviour and ensuring that any concerns raised are properly investigated.

ANNUAL GOVERNANCE STATEMENT

PRINCIPLE B – Ensuring openness and comprehensive stakeholder engagement

Full Council, Cabinet, Regulatory and Scrutiny meetings are open to the public and all agenda papers, reports and decisions made by the Council are published on the Council's website together with details of forthcoming consultation exercises, surveys and public meetings, except those determined as exempt from publication.

The Council's consultation charter sets out how it engages with stakeholders and partners. Rother residents who want to have their say and hear regularly about new opportunities can join Rother Citizens Panel. Currently there are around 300 residents and other interested parties involved. The Council website has a section called "Ask the Leader!" where the Leader of the Council will answer question posted online. The Council has a public question time scheme which allows the public to put questions to the appropriate Member of Cabinet at full Council meetings. Anyone who works or lives in the Rother District can submit one written question to full Council attended by all the elected Councillors.

PRINCIPLES C AND D - Defining, optimising and achieving outcomes

The Rother Corporate Plan 2014 - 2021 sets out our vision for the district and priority areas for improvement in quality of life locally. The Corporate Plan is delivered through a programme of projects and complemented by a resetting strategy that seeks to adapt our services to on-going cuts in central grant support. The Corporate Plan is regularly monitored by Members.

Rother's performance management framework is set out in its Annual Report, published on 30 June each year. Objectives and targets are set against the Council's corporate aims:

- An Efficient, Flexible and Effective Council
- Sustainable Economic Prosperity
- Stronger, Safer Communities
- A Quality Physical Environment

Performance is monitored against a key performance indicator (KPI) set recommended by Overview and Scrutiny (OSC) Members in January of each year and subsequently approved by Full Council. Performance against the KPI basket is reported to Members quarterly and includes other areas if performance is giving rise for concern. Details of any remedial action to be undertaken are included in these reports. Benchmarking against other similar authorities and national quartiles where available is a key aspect of performance reporting. Strategic Management Team and the OSC routinely carry out high-level oversight of performance. The Committee recommends actions and resource reallocation for action by Cabinet where appropriate.

The Council's performance reporting system, Pentana, is used to capture and analyse data for the Council. The use of the system has been extended to record data to enable the effective monitoring of the delivery of projects and business plans associated with the Corporate Plan.

The Council shares the system with Wealden District Council and this has brought significant financial savings to both authorities. This management information system incorporates robust data quality features. A regular User Group brings together users from across the Council to share experience and ideas. Data quality is also managed through service representatives across the organisation. Quality control processes include Head of Service sign off, risk assessment and internal auditing of measures and their data.

PRINCIPLE E – Developing capacity and capability

A key element of the Council's service planning is to maximise the investment in staff through staff training to ensure we have the necessary skills for the future. All employees' training and development needs are considered as part of their annual appraisal. The Council is the lead authority for the Sussex Training Consortium which provides access

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to cost effective training for all Councils across East and West Sussex. The Council works across a broad set of partnerships and collaborative arrangements, and uses commissioning and procurement processes to maximise capacity by delivering services in the most effective and efficient way.

PRINCIPLE F – Managing risks and performance

Risk Management

The Council has an approved Risk Management Policy and Strategic Integrated Framework. This document shows the role both Members and officers have in the identification and minimisation of risk. Progress has been made to further embed risk management within the organisation and is now driven by risk and corporate governance forming an integral part of meetings of the Strategic Management Team (SMT). Desk top exercises are held on a regular basis to test identified risks against our Business Continuity planning. Risk Management is a feature of all new projects and is an integral part to the service planning process. Day to day management and monitoring processes and procedures are in place but work continues to improve the awareness of all staff. The corporate risk register forms an integral part of the Council's risk management process and is now available throughout the Council's services.

Financial Control Assurance

A regular process of reconciling the main accounting systems is in place. Budget monitoring is produced monthly for all budget managers and regular reports have been submitted to Cabinet. The quality of reporting is continually under review by Finance and budget managers and improvements have been made this last year.

Internal Audit

Each year an Internal Audit plan of work is agreed by the SMT, the Section 151 Officer and the Audit and Standards Committee. The majority of the 2018/19 Audit Plan is expected to be completed by the financial year end. At the time of writing this report 83.5% had been completed. All core financial audits were completed together with the audits that had been categorised as high/medium risk within the Plan.

The Audit Manager reports quarterly to the A&SC on the audit reviews that have been undertaken, highlighting any significant recommendations that have been made. The Audit Manager reports monthly to the Executive Director and quarterly to the A&SC on the audit reviews that have been undertaken, highlighting any significant recommendations that have been made. In addition, SMT and the Section 151 Officer review the effectiveness of Internal Audit annually.

External Audit

External audit provide the Council with an Annual Audit Letter and an Audit Finance report, which reports on the Council's financial performance, value for money and a review of the effectiveness of the governance arrangements.

PRINCIPLE G – Implementing good practices in transparency, reporting, and accountability

All Council decisions are published online together with supporting information to outline why that decision was chosen above other options. The Council has developed both its website and the format of Council reports to improve transparency and accessibility.

The Council reports performance against targets and financial targets on a regular basis. This reporting incorporates services provided by all models of delivery including services shared with other authorities, partnerships and contracted out services. All high risk audit recommendations are reported to the A&SC, to ensure that officers undertake any follow up actions as appropriate.

Significant Governance Issues

In terms of internal control, there have been areas where weaknesses which have been identified through the review of compliance to the local code of corporate governance, Managers' Assurance Statements, Internal Audit and the work of the A&SC and these are commented on below. In addition, there are areas where due to external factors these have potential to adversely impact on the Council.

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Governance issues arising from the review of the Local Code of Corporate Governance

The following summarises progress against the areas for review identified in the 2017/18 statement that have yet to be completed:

- Counter Fraud Strategy – a draft Counter Fraud Strategy has been produced but is yet to be finalised. The launch of this strategy was originally postponed pending the outcome of a proposal by the East Sussex Counter Fraud Hub to fund a fixed-term Investigator post, whose duties would have included work in the Hastings and Rother area. However, agreement could not be reached on how this would operate. Negotiations are now underway with Hastings Borough Council to jointly fund an alternative proposal to enhance the Council's capacity in this area. If approved, this should boost counter fraud activity in Rother and this will need to be reflected in the strategy.
- Requirements under the new General Data Protection Regulations (GDPR) – The Council responded well to the introduction of the new regulations. Further work is planned in 2019/20 including providing annual refresher training for staff.
- Revised Communication Strategy – An officer Communications Board supported by service liaison meetings has been established. The Board meets quarterly to best manage planned major communications (e.g. annual council tax billing) and to take on lessons learned from previous communications. The Board will also take on issues raised through the service liaison meetings.
- Revised Procurement Strategy – the Council is working with the East Sussex Procurement Hub (ESPH) to update Procurement Strategies for all member Councils. This work is now long outstanding and is yet to be resolved.
- Update to the Council Workforce Plan – a new workforce plan is in preparation. It will be looking at a number of factors that will direct the skills and training for employees of the Council.
- *Colonnade Café/Restaurant*
The Council made the decision to establish and run a new catering operation at the Colonnade on the Bexhill promenade. In doing so, it took on all of the commercial risk for this venture but also the potential financial surpluses should the business prove to be a success. The Café operated for a short period during which time the operation was offered to the market for an external operator to run it. This proved successful and the operator took control in December 2018. This will deliver the Council a rental stream from 2019/20.

Internal Audit Reviews Showing Unacceptable Internal Control Environment

Internal audit reviews identified areas where the internal control environment was not satisfactory and action needed:

Homelessness Prevention Grants and Loans – Whilst some progress has been made to improve procedures since the 2017 audit, only limited assurance could be given at the latest review owing to the number of issues that are still outstanding. In particular, management oversight of the authorisation of payments, private landlord checks and the raising of invoices was found to be inadequate.

Procurement – This review received a limited assurance rating owing to a number of factors. These include the need for an up-to-date procurement strategy, the absence of any formal agreement with the ESPH regarding service provision, and the failure of some officers to comply with Procurement Procedure Rules when ordering goods or services under £50,000. The need for a formal agreement was further highlighted by the ESPH's failure to finalise the Public Conveniences Cleaning Contract prior to work commencing and the subsequent difficulties experienced in obtaining the required paperwork when the matter was raised with the ESPH.

Housing Temporary Accommodation – The limited assurance rating on this audit was due in part to the shortage of temporary accommodation within the district and the increased cost of the service. Steps are now being taken to address these issues and these are outlined in a new Housing, Homelessness and Rough Sleeping Strategy. It should be noted, however, that this is a major piece of work, and any new initiatives may take time to implement.

U4BW ERP Finance Modules – This year's Governance Audits have identified a number of issues with the new Finance modules around access rights, workflow/approval procedures and the accuracy of budgetary reports, etc. This demonstrates that there is still further work to be done to ensure that the new system is properly controlled.

Other issues and areas of emerging risk that may impact on the Council include:

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Joint Waste Contract – A new contract with Biffa Waste Services Ltd is now in place and is due to commence on 29 June 2019. The Council will be managing the performance of the outgoing contractor up to this date whilst simultaneously overseeing the preparations for the start of the new contract. Even with a relatively smooth handover period, the introduction of a major new contract like this has the potential for some short-term local disruption as the new contractor settles in.

U4BW ERP Implementation Project – This project was originally due to complete in April 2018, but it is still ongoing. The Finance and Payroll modules have been operational since April and July 2018 respectively, but the implementation of the Human Resources and Self Service modules has been delayed due to staff sickness and other factors. Work on the remaining modules is now at an advanced stage and they are due to go live in early 2019/20.

BREXIT – Preparations for the possibility of a no deal exit from the European Union are being made but many of the potential issues fall outside the Council's control. It is therefore difficult to estimate what impact a no deal exit would have. Areas of emerging risk include:

ERP System Administration Support – The new U4BW ERP system is far more complex than the old Agresso system ever was leading to concerns about whether there are sufficient resources in place to administer the system effectively, and whether the current arrangement of sharing certain duties with the Finance team are resilient enough to cope if the designated system administrator is absent from work for any length of time. There is a risk that the Council will become overly reliant on potentially costly remote support if it does not have sufficient in-house expertise to administer the system itself.

Further Reductions in Government Funding – The reduction in central Government funding continued with a further reduction from £450,000 in 2017/18 to £73,000 in 2018/19. Total formula grant funding from Government ended in 2019/20. The expectation therefore is that not all current services can continue to be delivered or delivered at existing levels of performance. The Council has put in place a programme of work (Rother 2020) to meet the decline in government funding and aims to deliver cost reductions and increase revenue of £1.8m by 2020/21. Failure to deliver the desired outcomes from the programme will expose the Council to the risk of challenge / failure to meet statutory requirements and the risk of service failure through lack of resources.

It is also becoming apparent that the actions of other public bodies as a result in the decline in funding will start to impact on the Council. Reductions in services, particularly those delivered by the County Council, have had knock on impacts as the public seek the support of the district council instead.

Business Rate Retention Scheme – The outcome of the Government review of the scheme and the fairer funding review is unknown at present and therefore also presents a risk to the future financial stability of the Council. The Council will from April 2019 be part of the East Sussex 75% Business Rate Retention Pilot. This is expected to increase retained resources in the County but does the Council as a result bears a greater proportion of the risk should business rate income fall.

Capital Programme – At a time of major public funding cuts, the level of investment required under the Council's Corporate Plan is likely to be of a scale beyond the financial ability of the Council, based on traditional funding models. The Council with its Rother 2020 programme will work in partnership with the public, voluntary and private sectors to pool resources but this brings with it a higher risk of failure than projects solely delivered by the Council. To mitigate the risk, the Council will need to demonstrate strong leadership skills to align aspirations and funding to deliver the investment in the area.

Joint Working – It is expected that the Council will continue with its programme of delivering services jointly with other bodies where it helps to maintain or improve services at a reduced cost. Joint working does however reduce the Council's flexibility and ability to redirect its resources when committed to delivery of a service for another Council. The last service to be delivered through joint working was Building Control which is a partnership of four district and borough councils led by Wealden District Council. The new joint service commenced on the 1 April 2017.

Local Government Recruitment – The recruitment of professional level Local Government posts continues to be problematic. There are a range of factors influencing this, but seasoned professionals and specialists are becoming a

ANNUAL GOVERNANCE STATEMENT

real issue for Local Government and in particular, semi-rural Councils such as Rother. Our ability to deliver services and projects can be severely compromised by the inability to recruit.

Property Investment – The Council has commenced a programme of acquisition and development of commercial property in the district with a view to stimulating economic activity and generating rental income to support the revenue budget. Most of this property investment will be funded by borrowing and this is expected to peak at approximately £35m by 2021. Whilst the potential gains from such an approach can be very attractive, there can also be significant financial risks if the Council does not invest wisely or fails to secure the expected rental income. The Council carefully considers all property investment opportunities and seeks professional advice before making acquisitions. This is why the Council has put in place a Property Investment Panel that comprises Members and Officers who will be supported by specialist valuation and financial advisors. Internal Audit intends to review the governance arrangements in 2019/20.

We propose over the coming year to take steps to address these matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.



Cllr Carl Maynard

Leader of the Council

On behalf of Rother District Council



Malcolm Johnson and Dr Tony Leonard

Heads of Paid Service

On behalf of Rother District Council

STATEMENT OF RESPONSIBILITIES

The Council's Responsibility

The Council is required:

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

The Assistant Director of Resources (as the Chief Financial Officer) Responsibility

The Assistant Director of Resources 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 Assistant Director of Resources has:

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

The Assistant Director of Resources has also:

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

Chief Financial Officer Certificate

I certify that I have fulfilled my responsibilities noted above and that the accounts set out on pages 37 to 95 give a true and fair view of the financial position of the Council as at 31 March 2019 and its income and expenditure for the year ended 31 March 2019.

Robin Vennard

Assistant Director Resources

31 July 2019

Approval of Accounts

The accounts were presented to the Audit and Standards Committee on the 31 July 2019 and were authorised by the Chairman of the Committee Councillor Kevin Dixon.

Councillor Kevin Dixon

Chairman of Audit and Standards Committee

31 July 2019

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of Rother District Council

Report on the Audit of the Financial Statements

To follow

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2017-18 re-stated				2018-19		
Expenditure	Income	Net		Expenditure	Income	Net
£'000	£'000	£'000		£'000	£'000	£'000
2,590	(447)	2,143	Executive Directors & Corporate Core	2,506	(208)	2,298
2,210	(1,879)	331	Environmental Services	2,572	(2,123)	449
1,906	(1,013)	893	Strategy and Planning and Development	2,138	(1,017)	1,121
2,057	(290)	1,767	Acquisitions, Transformation and Regeneration	1,767	(274)	1,493
9,437	(3,822)	5,615	Housing and Community Services	10,679	(4,658)	6,021
27,590	(24,274)	3,316	Resources	24,376	(21,327)	3,049
45,790	(31,725)	14,065	Cost of Services	44,038	(29,607)	14,431
1,573	0	1,573	Parish Council Precepts	1,549	0	1,549
125	0	125	Levies	127	0	127
0	(267)	(267)	(Gains) on the disposal of assets	0	(171)	(171)
1,698	(267)	1,431	Other Operating Expenditure	1,676	(171)	1,505
559	0	559	Net interest on defined pension liabilities	573	0	573
0	(337)	(337)	Interest receivable and similar income	0	(446)	(446)
0	0	0	Interest payable and similar expensesd	18	0	18
0	0	0	Gains and losses on financial assets - Note 21	136	0	136
126	(1,293)	(1,167)	Income and expenditure in relation to investment properties and changes in their fair value	119	(2,154)	(2,035)
685	(1,630)	(945)	Financing and Investment Income and Expenditure	846	(2,600)	(1,754)
0	(8,719)	(8,719)	Council Tax Income	0	(8,968)	(8,968)
5,363	(6,869)	(1,506)	Non Domestic Rates	5,289	(7,209)	(1,921)
0	(450)	(450)	Revenue Support Grant	0	(73)	(73)
0	(3,133)	(3,133)	Non-ringfenced government grants	0	(2,870)	(2,870)
0	(9)	(9)	Capital grants and contributions	0	(1,085)	(1,085)
5,363	(19,180)	(13,817)	Taxation and non-specific grant income and expenditure	5,289	(20,205)	(14,917)
53,536	(52,802)	734	(Surplus) or Deficit on Provision of Services	51,849	(52,583)	(735)
		(355)	Surplus on revaluation of non-current assets.			(3,574)
		(45)	Valuation (gains) / losses on available for sale financial assets reserve			5
		(1,685)	Remeasurement of the net defined benefit pension liability			1,943
		(2,085)	Other Comprehensive Income and Expenditure			(1,626)
		(1,351)	Total Comprehensive Income and Expenditure			(2,361)

MOVEMENT IN RESERVES

	General Fund Balance	Ear-marked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2017/18							
Balance at 1 April 2017	1,000	14,901	2,950	1,022	19,873	22,105	41,978
Movement in Reserves in 2017/18:							
Surplus (deficit) on the provision of services (accounting basis)	(734)	0	0	0	(734)	0	(734)
Other Comprehensive Income and Expenditure	0	0	0	0	0	2,085	2,085
Total Comprehensive Income and Expenditure	(734)	0	0	0	(734)	2,085	1,351
Adjustments between accounting and funding basis under regulation - note 6	1,564	0	(64)	(122)	1,378	(1,378)	0
Net increase/decrease before transfers to Earmarked reserves	830	0	(64)	(122)	644	707	1,351
Transfers to/from Earmarked reserves - note 11	(830)	830	0	0	0	0	0
Increase/(Decrease) in Year	0	830	(64)	(122)	644	707	1,351
Balance at 31 March 2018	1,000	15,731	2,886	900	20,517	22,812	43,329

MOVEMENT IN RESERVES

	General Fund Balance	Ear-marked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2018/19							0
Balance at 1 April 2018	1,000	15,731	2,886	900	20,517	22,812	43,329
Movement in Reserves in 2018/19:							
Surplus (deficit) on the provision of services (accounting basis)	735	0	0	0	735	0	735
Other Comprehensive Income and Expenditure	0	0	0	0	0	1,626	1,626
Total Comprehensive Income and Expenditure	735	0	0	0	735	1,626	2,361
Adjustments between accounting and funding basis under regulation - <i>note 6</i>	(104)	0	16	973	885	(885)	0
Net increase/decrease before transfers to Earmarked reserves	631	0	16	973	1,620	741	2,361
Transfers to/from Earmarked reserves - <i>note 11</i>	(631)	631	0	0	0	0	0
Increase/(Decrease) in Year	0	631	16	973	1,620	741	2,361
Balance at 31 March 2019	1,000	16,362	2,902	1,873	22,137	23,553	45,690

BALANCE SHEET

31 March 2018 £'000		31 March 2019 £'000
34,283	Property, Plant and Equipment	42,531
10,805	Investment Properties	9,456
620	Intangible Assets	661
4,959	Long Term Investments	7,935
49	Long Term Debtors	42
50,716	LONG TERM ASSETS	60,625
13	Assets Held for Sale	0
4,158	Short Term Debtors	4,984
34	Inventories	11
6,125	Short Term Investments	8,555
11,547	Cash and Cash Equivalents	5,600
21,877	CURRENT ASSETS	19,150
(4,981)	Short Term Creditors	(5,087)
(698)	Provisions	(726)
0	Short Term Borrowing	(15)
(78)	Capital grants receipts in advance	(91)
(5,757)	CURRENT LIABILITIES	(5,919)
(1,838)	Capital grants receipts in advance	(1,932)
0	Long Term Borrowing	(886)
(21,669)	Net Defined Pension liability	(25,348)
(23,507)	LONG TERM LIABILITIES	(28,166)
43,329	NET ASSETS	45,690
1,000	General Fund	1,000
15,731	Earmarked Reserves	16,362
2,886	Capital Receipts Reserve	2,902
900	Capital grants unapplied reserves	1,873
20,517	USABLE RESERVES	22,137
12,084	Revaluation Reserve	15,445
32,545	Capital Adjustment Account	33,447
45	Deferred capital receipts	41
(21,669)	Pensions Reserve	(25,348)
0	Collection Fund Adjustment Account	190
(157)	Accumulated Absences Account	(157)
(36)	Available for Sale Reserve	0
0	Pooled Investment Funds Adjustment Account	(65)
22,812	UNUSABLE RESERVES	23,553
43,329	TOTAL RESERVES	45,690

CASH FLOW STATEMENT

2017-18		2018-19
£'000		£'000
(15,628)	Taxation	(16,116)
(30,138)	Grants and Contributions	(27,552)
(6,814)	Sales of goods and rendering of services	(5,517)
(326)	Interest received	(411)
(5)	Other receipts from operating activities	(47)
(52,911)	Cash inflows generated from operating activities	(49,643)
7,438	Cash paid to and on behalf of employees	7,548
23,453	Housing benefit payments	20,272
5,363	NNDR Tariff payments	5,288
1,698	Precepts paid	1,676
8,165	Cash paid to suppliers of goods and services	9,397
0	Interest paid	12
5,887	Other operating cash payments	4,647
52,004	Cash outflows generated from operating activities	48,840
(907)	Net cashflows from operating activities	(803)
(414)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(171)
467	Purchase of property, plant and equipment, investment property and intangible assets	3,547
22,740	Purchase of short-term and long-term investments	20,450
(25,690)	Proceeds from the sale of short-term and long-term investments	(15,050)
113	Other payments for investing activities	0
(723)	Other receipts from investing activities	(693)
(3,507)	Net cashflows from investing activities	8,083
0	Cash Receipts - long/short term borrowing	(900)
0	Repayments of long/short term borrowing	4
434	Changes in Council Tax balances held for preceptors	(303)
44	Changes in National Non-Domestic Rates balances held for preceptors	(134)
478	Net cashflows from financing activities	(1,333)
(3,936)	Net (Increase) / decrease in cash and cash equivalents	5,947
7,611	Cash and cash equivalents 1 April	11,547
3,936	Net increase / (decrease) in cash and cash equivalents	(5,947)
11,547	Cash and cash equivalents 31 March	5,600
2	Cash in hand	1
5,303	Call accounts and short term deposits	2,303
6,242	Bank balances	3,296
11,547	Cash and cash equivalents 31 March	5,600

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 1. ACCOUNTING POLICIES

Going Concern

The concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. Where this is not the case, particular care will be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept can have a fundamental impact on the financial statements.

Accounts drawn up under the Code assume that a local authority's services will continue to operate for the foreseeable future. This assumption is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of Central Government). If an authority was in financial difficulty, the prospects are thus that alternative arrangements might be made by Central Government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

2. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the 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. However for low individual value annual transactions (e.g. annual payment for beach hut licences) this is recognised on a cash basis.
- The new revenue recognition standard in IFRS 15 introduces a single model for income with prescribed steps to identify when control of goods or services passes to the customer together with associated revenue in the contract between the parties. An assessment was made of the income streams and the effect of IFRS 15 on the accounts which was found to be immaterial.
- 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 revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3. Accounting for Council Tax and Non Domestic Rates

The Council collects income from payers of Council Tax and Non-Domestic Ratepayers, but only part of the income relates to this Council, the balance being collected on behalf of other major precepting authorities, including the

NOTES TO THE ACCOUNTING STATEMENTS

Government. The amounts of debtors, adjustments for doubtful debts, overpayment creditors and receipts in advance that relate to the precepting authorities are shown as a single net debtor or creditor in the balance sheet. The element of the Collection Fund due to preceptors is held as part of the Short Term Creditors balance. Annual changes in the amounts held for preceptors are shown as part of financing activities in the Cash Flow Statement.

The amounts legally credited to the General Fund are those estimated before the start of the financial year, including distributions of estimated surplus, or contributions towards estimated deficits. In accounting terms, however, the Council's share of the collectable debit (including adjustments to allowances for doubtful debts and appeals) are credited to the Comprehensive Income and Expenditure Statement. The difference between the cumulative amounts for statutory and accounting purposes forms the Collection Fund Adjustment Account (an unusable reserve) and the annual adjustment forms part of the accounting and financing adjustments.

4. Cash and Cash Equivalents

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

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

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

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

6. Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. This provision, known as Minimum Revenue Provision (MRP), is equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. 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

NOTES TO THE ACCOUNTING STATEMENTS

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 these benefits are charged to the General Fund in the financial year in which payment is made.

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 cost line in the CI&ES 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

The majority of the Council's employees are members of the Local Government Pensions Scheme, administered by East Sussex County Council. The Scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

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

- The liabilities of the East Sussex pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bond chosen by the Fund's Actuary.
- The assets of the East Sussex pension fund attributable to the 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 pensions liability is analysed into the following components:
 - current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the CI&ES 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 CI&ES as part of the cost of the Finance and Welfare service
 - net interest on the defined benefit liability, i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the financing and investment income line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the defined benefit liability at the beginning of the period – taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
 - remeasurements comprising:
 - the return on plan assets, excluding amounts included in net interest on the net defined liability, charged to the Pension Reserve as Other Comprehensive Income and Expenditure

NOTES TO THE ACCOUNTING STATEMENTS

- actuarial gains or 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 - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- contributions paid to the East Sussex pension fund - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the 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 Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

8. Events after the Reporting Period

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

The Council measures some of its non-financial assets (surplus assets and investment properties), and its available for sale financial asset, at fair value at each reporting date. The Council also discloses fair values for financial assets and liabilities categorised as loans and receivables. Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction at the year end. The fair value measurement assumes that the transaction takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market.

The Council measures the asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that they act in their economic best interest.

When measuring the fair value the Council takes into account the market participants' ability to generate economic benefits by using the asset or liability in its highest or best use, or by selling it to another party that would use the asset or liability for its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques for assets and liabilities that are measured or disclosed in the financial statements are categorised within the fair value hierarchy, as follows:

NOTES TO THE ACCOUNTING STATEMENTS

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the year end.
Level 2	Inputs, other than quoted prices within Level 1, that are observable for the asset or liability, either directly or indirectly.
Level 3	Unobservable inputs for the asset or liability.

10. Financial Instruments

Financial Liabilities

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

This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Liabilities include trade payables. It has been assessed that the carrying amount in the Balance Sheet is a proxy for the fair value of those liabilities.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- Amortised cost
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)

The business model of the council is to hold investments to collect contractual cash flows. Financial assets are therefore classified at amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

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

However, the Council has from time to time made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure

NOTES TO THE ACCOUNTING STATEMENTS

Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased substantially since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased substantially or remains low, losses are assessed on the basis of 12-month expected losses.

The Council has a substantial amount of investments and employs treasury management advisers in addition to full time professional staff. However, reasonable and verifiable information to support the measurement of lifetime losses on individual instruments is not available without undue cost or effort. Losses are mainly assessed for the portfolio on a collective basis.

Financial Assets are amalgamated into the following groups to assess risk and associated loss allowances whilst making use of a simplified approach contained in regulations.

Group 1 – Commercial investments in line with treasury management policy including counterparties that have external credit ratings of A or better. Loss allowances will be assessed on a group basis using the simplified approach of collective assessment.

Group 2 – Loans to related parties. Loss allowances for these loans are assessed on an individual basis and / or an individual borrower basis.

Group 3 – Other loans to local businesses, in support of the Council vision and objectives. Loss allowances for these loans are assessed on an individual basis and / or an individual borrower basis.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

NOTES TO THE ACCOUNTING STATEMENTS

- Level 3 inputs – unobservable inputs for the asset.

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

Financial Assets Measured at Fair Value through Other Comprehensive Income

Financial assets that are measured at FVOCI are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are charged to the Other Comprehensive Income and Expenditure and are held in the Financial Instrument Revaluation Reserve.

Movements in amortised cost are charged to the Surplus or Deficit on the Provision of Services

Cumulative gains/losses on fair value are transferred to the Surplus or Deficit on the Provision of Services on derecognition.

11. 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 CI&ES until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

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

The Council has elected to charge a Community Infrastructure Levy (CIL) on new builds with appropriate planning consent. The income from the levy will be used to fund various projects described as “infrastructure” in a broader sense than used for Council property in Note 1.16 below. The infrastructure investment is determined by a panel and it is not necessarily this Council that will undertake the works. Part of the CIL income is retained to offset the cost of administration, and is accounted for as income for the Strategy and Planning service. Some is also payable to parishes: this is treated as an agency service and is excluded from the Comprehensive Income and Expenditure Statement. The rest is intended for use to finance capital, and is treated as capital contributions. As it is received without conditions it is recognised immediately as capital grants and contributions income, and is then transferred to the Capital Grants Unapplied Reserve.

The income from CIL is accounted for on an accruals basis and recognised immediately in the CI&ES at the commencement date of the chargeable development. Surcharges and interest received in accordance with the CIL regulations will be accounted for as if they were CIL receipts.

12. 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.

NOTES TO THE ACCOUNTING STATEMENTS

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. As a non-financial asset, investment properties are measured at highest and best use.

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 CI&ES. The same treatment is applied to gains and losses on disposal.

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

13. Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and that authority will be able to generate future economic benefits or deliver service potential by being able to use the asset. Costs relating to the development of computer software for internal use are capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred in the development phase. When the software is available for its intended use, these costs are amortised in equal annual amounts over the estimated useful life of the software.

Amounts capitalised include the total cost of any external products or services and labour costs directly attributable to development. Management judgement is involved in determining the appropriate internal costs to capitalise and the amounts involved. The useful life is determined by management at the time the software is acquired and brought into use and is regularly reviewed for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Council will receive benefits from the software.

Intangible assets are measured initially at cost. The depreciable amount of an intangible asset is written down over its useful life, to the appropriate line in the Comprehensive Income and Expenditure Statement. No intangible assets are recorded with indefinite lives. An asset is tested for impairment whenever there is an indication that the asset might be impaired, and any losses are posted to the appropriate line in the Income and Expenditure Statement.

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

14. 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.

All of the Council's leases have been determined to constitute operating leases.

NOTES TO THE ACCOUNTING STATEMENTS

The Council as Lessee

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

The Council as Lessor

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 appropriate line in the CI&ES. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

15. Overheads and Support Services

The recharging of overheads and support services is not reflected in any part of these accounting statements and notes.

16. Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

The cost of assets acquired other than by purchase is deemed to be its current 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). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Council.

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

- Vehicles, plant, etc. and infrastructure - depreciated historical cost.
- Community assets and assets under construction - historic cost.
- Land and buildings - current 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 current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.
- Surplus Properties – fair value, as described in accounting policy 1.9 above, equating to market value for their highest and best use from a market participant's perspective.

Assets included in the Balance Sheet at current value are subject to a full valuation once every five years, but are subject to a desktop review at the end of each year to ensure that their carrying amount is not materially different from their current value, or fair value at the year-end. Increases in valuations are matched by credits to the

NOTES TO THE ACCOUNTING STATEMENTS

Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CI&ES where they arise from the reversal of a loss previously charged to a service. Where decreases in value are identified, they are accounted for by:

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

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.

The values of Land and Buildings assets individually worth less than £10,000 are recorded, but not included in the balance sheet values.

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- dwellings and other buildings - straight-line allocation over the useful life of the property as estimated by the Valuer. Useful life is between 10 and 50 years depending on the asset.
- vehicles, plant, furniture and equipment - a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer. Useful life is between 7 and 20 years.
- Infrastructure - straight-line allocation over 50 years.

No depreciation is charged in year of acquisition but is charged at a full year rate in the year of disposal.

Reclassified assets are depreciated from year of reclassification.

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

Componentisation of Property Assets

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. Where the Council has revalued a property, or carried out major capitalised works, it has been necessary to identify the major components making up the property using the following major component analysis:

NOTES TO THE ACCOUNTING STATEMENTS

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

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

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the other Operating Expenditure line in the CI&ES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CI&ES 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 and are credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

17. Provisions, Contingent Liabilities and Contingent Assets

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. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the CI&ES 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 (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

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.

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.

NOTES TO THE ACCOUNTING STATEMENTS

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

18. Reserves

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

Usable reserves comprise the following:

- Capital Receipts Reserve: proceeds from the sales of non-current assets are initially credited to the CI&ES, but legally can only be used to finance capital expenditure, and so are transferred to the Capital Receipts Reserve and afterwards used for this specific purpose.
- Capital Grants Unapplied: the Council receives grants and contributions towards capital expenditure, and, where repayment conditions are not present or no longer apply, they are credited to the CI&ES and immediately transferred into the Capital Grants Unapplied Reserve until required to finance capital investment.
- Earmarked Reserves: the Council may set aside earmarked reserves to cover specific projects or contingencies. These are transferred from the General Fund, and amounts are withdrawn as required to finance such expenditure. The expenditure itself is charged to the appropriate line in the Comprehensive Income and Expenditure Statement. There are no legal restrictions on the use of earmarked reserves, and unspent balances can be taken back to the General Fund in the same way.
- General Fund: this represents all other usable reserves, without legal restrictions on spending, which arise from annual surpluses or deficits.

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

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

NOTES TO THE ACCOUNTING STATEMENTS

- Collection Fund Adjustment Account: this represents the differences arising from the recognition of Council Tax income and Non-Domestic Rates in the Comprehensive Income and Expenditure Statement as they fall due from payers, compared with the statutory arrangements for paying across amounts from the Collection Fund to the General Fund.
- Accumulated Absences Reserve: this contains the difference between the statutory and accounting liability for the cost of accumulated absences: the cost is properly chargeable to the Comprehensive Income and Expenditure Statement, but not to the General Fund.
- Financial Instrument Revaluation Reserve: this contains 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 is reduced when investments with accumulated gains are:
 - revalued downwards or impaired and the gains are lost.
 - disposed of and the gains are realised.

19. Revenue Expenditure Funded from Capital under Statute

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

20. 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.

21. Interests in Companies and Other Entities

The Council has no material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and therefore is not required to prepare group accounts. In the Council's own single entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

This note sets out information regarding the impact of an accounting change that will be required by any new accounting standards that have been issued but not yet adopted by the CIPFA Code of Practice

The changes introduced by the 2019/20 Code that will be relevant to the financial statements of the Council are as follows.

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2020.
- IAS 40 Investment Property: Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact on the Council as it already complies.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Council does not have any material transactions within the scope of the amendment.
- IFRIC 23 Uncertainty over Income Tax Treatments provides additional guidance on income tax treatment where there is uncertainty. This will have no impact on the accounts.
- IFRS 9 Financial instruments: prepayment features with negative compensation amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Council has no loans to whom this will apply.

NOTE 3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Council acts as the lead authority for the joint waste partnership. This partnership is not a legal entity in its own right and involves Rother District Council, Eastbourne Borough Council, Hastings Borough Council and Wealden District Council. The four Councils have a joint contract with Kier Environmental Services Limited for the provision of waste collection, recycling and street & beach cleaning. Rother District Council employs staff to provide an overarching contract administration function and acts as paymaster, collecting payments from the other Councils and making payments to the contractor based on invoices received. Each Council is responsible for the day to day management of Kier operations in their areas. This arrangement which came into force from 1st April 2013, therefore leads to financial transactions that are not reflected in the Council's Core Statements because the Council is deemed to be acting as an agent.

The transactions of this, and several much smaller partnerships, are summarised in Note 22 below.

The Council collects approximately net £17.6million in business rates. The assumptions around the outcome of appeals against the NNDR valuations (either received to date or expected in future years) represent a material and critical judgement applied to the accounts. The appeals provision is empirically derived from the experience with the 2010 lists as well as appeals determinations so far made against the 2017 list. This year the Council have used a third party, Analyse Local, to provide estimates for the provision for appeals.

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

The Financial Statements contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The main items in the Council's Balance Sheet at 31 March 2019 on which such assumptions have been made are as follows:

NOTES TO THE ACCOUNTING STATEMENTS

Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages and mortality rates. A firm of consulting actuaries, Hymans Robertson, is engaged to provide the Council with expert advice about the assumptions to be applied. For instance:

- A 0.5% decrease in the real discount rate assumption would result in an increase in the pension liability of £10.503m.
- A 0.5% increase in the Salary Increase Rate would result in an increase in the pension liability of £1.653m.
- A 0.5% increase in the Pension Increase Rate would result in an increase in the pension liability of £8.663m.

Changes in any one assumption would be affected by changes in others, so that the effect of a number of changes would be a complex calculation.

Property, Plant and Equipment

The Council's external valuers provide a full valuation of all properties every 5 years. On an annual basis they provided desktop valuations as at 31 March 2019 for all of the Council's investment portfolio and for its operational portfolio where there has been material movement since the last full valuation. The remaining balance of operational properties was also reviewed to ensure values reflect current values.

Valuations of property depend on various assumptions, as set out in detail in Note 1.16 above. In particular, valuers have to determine:

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

Allowance for impairments of doubtful debts

The Balance Sheet contains figures for various groups of debtors, including sundry debtors, council tax, non-domestic rates, and recoveries of overpayments of housing benefits. Allowances are made, and updated at the end of each financial year, on the basis of recent rates of recovery of the particular class of debt, as far as it can be ascertained.

Allowance for impact of rating appeals

There are a number of appeals against rating values outstanding, many going back to 1 April 2010, and this Council is liable for its share (40%) of the losses resulting from successful appeals.

Following the 2017 revaluation, where average rateable values rose by 12.4%, a new check, challenge, appeal process has been introduced, the impact of which is highly uncertain with very few challenges lodged to date for Rother. The Council has made a provision for the likely impact on the its yield of expected future successful appeals based on both the 2010 and 2017 lists for the period to the end of March 2019 based on work completed by Analyse Local.

Britain leaving the European Union: asset values and pension liability

There is a high level of uncertainty about the implications of Britain leaving the European Union. At the current time there are three possible scenarios: a 'no deal' Brexit, an agreement with a transition period and an extension to EU membership of unknown length. It is not possible to predict which path will be taken and whether asset values and the discount rate will consequently change. The assumption has been made that this will not significantly impair the value of the Council's assets or change the discount rate. However, this assumption needs to be revisited and reviewed regularly.

Higher impairment allowances may need to be charged in the future if asset values fall. If the discount rate changes, the size of the net pension liability will also vary.

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 5. EXPENDITURE AND FUNDING ANALYSIS

2017-18			2018-19			
Net Expenditure Chargeable to General Fund	Re-stated Adjustments between Funding and Accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to General Fund	Re-stated Adjustments between Funding and Accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000		£'000	£'000	£'000
1,887	256	2,143	Executive Directors & Corporate Core	1,977	321	2,298
82	249	331	Environmental Services	110	339	449
687	206	893	Strategy and Planning and Development	839	282	1,121
710	1,057	1,767	Acquisitions, Transformation and Regeneration	(30)	1,523	1,493
4,811	804	5,615	Housing and Community Services	5,206	815	6,021
3,517	(201)	3,316	Resources	3,163	(114)	3,049
11,694	2,371	14,065	Cost of Services	11,265	3,166	14,431
(12,524)	(807)	(13,331)	Other Income and Expenditure	(11,896)	(3,270)	(15,166)
(830)	1,564	734	(Surplus) or Deficit on Provision of Services	(631)	(104)	(735)
Earmarked Reserves	General Fund	Total		Earmarked Reserves	General Fund	Total
£'000	£'000	£'000		£'000	£'000	£'000
14,901	1,000	15,901	Opening balances	15,731	1,000	16,731
0	830	830	(Surplus) or Deficit on Provision of Services	0	631	631
830	(830)	0	Transfers between General Fund and earmarked reserves	631	(631)	0
15,731	1,000	16,731	Closing General Fund balance	16,362	1,000	17,362

NOTES TO THE ACCOUNTING STATEMENTS

	Financing and Accounting Adjustments				
	Capital and Assets	Pensions	Tax Collection	Other	Total
	£'000	£'000	£'000	£'000	£'000
2017-18 re-stated					
Executive Directors & Corporate Core	93	166	0	(3)	256
Environmental Services	0	238	0	11	249
Strategy and Planning and Development	0	204	0	2	206
Acquisitions, Transformation and Regeneration	52	206	0	799	1,057
Housing and Community Services	724	258	0	(178)	804
Resources	174	(241)	0	(134)	(201)
Cost of Services	1,043	831	0	497	2,371
Other Income and Expenditure from the Expenditure and Funding Analysis	(1,002)	559	131	(495)	(807)
Total for 2017-18	41	1,390	131	2	1,564

	Financing and Accounting Adjustments				
	Capital and Assets	Pensions	Tax Collection	Other	Total
	£'000	£'000	£'000	£'000	£'000
2018-19					
Executive Directors & Corporate Core	92	228	0	1	321
Environmental Services	0	339	0	0	339
Strategy and Planning and Development	0	282	0	0	282
Acquisitions, Transformation and Regeneration	349	175	0	999	1,523
Housing and Community Services	717	413	0	(315)	815
Resources	288	(274)	0	(128)	(114)
Cost of Services	1,446	1,163	0	557	3,166
Other Income and Expenditure from the Expenditure and Funding Analysis	(3,120)	573	(190)	(533)	(3,270)
Total for 2018-19	(1,674)	1,736	(190)	24	(104)

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

	General Fund Balance	Capital Receipts reserve	Capital grants unapplied	Unusable Reserves	Total
	£'000	£'000	£'000	£'000	£'000
2017-18					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Amortise Intangible Assets	(23)	0	0	23	0
Depreciation and impairment of non-current assets	(883)	0	0	883	0
Movements in value of Investment Properties	370	0	0	(370)	0
Disposal of non-current assets	(12)	0	0	12	0
Capital receipts to Usable Capital Receipts Reserve	279	(420)	0	141	0
Capital grants and contributions to Capital Grants Unapplied Reserve	9	0	(9)	0	0
Difference between accounting and statutory employment benefit	(2)	0	0	2	0
Difference between accounting and statutory credit for Council Tax	(30)	0	0	30	0
Difference between accounting and statutory credit for Non-Domestic Rates	(101)	0	0	101	0
Revenue Expenditure Financed from Capital under Statute	(1,264)	0	0	1,264	0
Difference between accounting and statutory credit for pension costs	(1,390)	0	0	1,390	0
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement					
Capital expenditure financed from revenue	356	0	0	(356)	0
Other adjustments					
Capital expenditure financed from Capital Receipts	0	484	0	(484)	0
Capital expenditure financed from Capital grants and contributions	1,127	0	131	(1,258)	0
Total for 2017-18	(1,564)	64	122	1,378	0

NOTES TO THE ACCOUNTING STATEMENTS

	General Fund Balance	Capital Receipts reserve	Capital grants unapplied	Unusable Reserves	Total
	£'000	£'000	£'000	£'000	£'000
2018-19					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Amortise Intangible Assets	(94)	0	0	94	0
Depreciation and impairment of non-current assets	(1,133)	0	0	1,133	0
Movements in value of Investment Properties	1,035	0	0	(1,035)	0
Disposal of non-current assets	0	0	0	0	0
Capital receipts to Usable Capital Receipts Reserve	171	(175)	0	4	0
Capital grants and contributions to Capital Grants Unapplied Reserve	1,085	0	(1,085)	0	0
Difference between accounting and statutory employment benefit	0	0	0	0	0
Difference between accounting and statutory credit for Council Tax	54	0	0	(54)	0
Difference between accounting and statutory credit for Non-Domestic Rates	136	0	0	(136)	0
Revenue Expenditure Financed from Capital under Statute	(1,253)	0	0	1,253	0
Difference between accounting and statutory credit for pension costs	(1,736)	0	0	1,736	0
Difference between accounting and statutory credit for pooled investment funds	(24)	0	0	24	0
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement					
Capital expenditure financed from revenue	828	0	0	(828)	0
Other adjustments					
Capital expenditure financed from Capital Receipts	0	159	0	(159)	0
Capital expenditure financed from Capital grants and contributions	1,035	0	112	(1,147)	0
Total for 2018-19	104	(16)	(973)	885	0

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 7. EXPENDITURE AND INCOME ANALYSED BY NATURE

2017-18 Surplus / Deficit on the Provision of Services		2018-19 Surplus / Deficit on the Provision of Services
£'000		£'000
10,864	Employee benefits expenses	11,611
40,068	Other service expenses	37,316
0	Interest payments	18
906	Depreciation, amortisation, impairment etc	1,227
1,698	Precepts and levies	1,676
<hr/>		<hr/>
53,536	Total Expenditure	51,848
(5,998)	Fees, charges and other service income	(7,241)
(370)	Investment Properties changes in fair value	(1,035)
(337)	Interest and investment income	(446)
(15,587)	Council Tax and Non-Domestic Rate income	(16,177)
(30,243)	Grants and Contributions	(27,513)
(267)	Gains on the disposal of assets	(171)
<hr/>		<hr/>
(52,802)	Total income	(52,583)
<hr/>		<hr/>
734	Net	(735)

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 8. DEFINED BENEFIT PENSION SCHEME

2017-18 £'000		2018-19 £'000
	Comprehensive Income and Expenditure Statement	
2,600	Current Service Cost	2,977
0	Curtailements	0
2,600	Cost of Services	2,977
559	Net interest expense	573
559	Financing and Investment Income and Expenditure	573
3,159	Total Post Employment Benefit Charged to the Surplus/Deficit on the Provision of Services	3,550
50	Return on plan assets, less included in interest expense	(3,952)
	Actuarial gains & losses:	
(1,775)	Changes in demographic assumptions	0
40	Changes in financial assumptions	5,792
0	Other	103
(1,685)	Remeasurement of the net defined benefit liability	1,943
1,474	Total Comprehensive Income and Expenditure Statement	5,493
	Movement in Reserves Statement	
3,159	Reversal of items relating to retirement benefit debited or credited to the Comprehensive Income and Expenditure Statement	3,550
(1,769)	Employer's pension contributions and direct payments to pensioners payable in the year	(1,814)
1,390	Total taken to Note 6	1,736

NOTES TO THE ACCOUNTING STATEMENTS

2017-18		2018-19
£'000	Reconciliation of Fair Value of Employer Assets (scheme Assets):	£'000
83,174	Value of Assets at 1 April	84,110
2,065	Interest income on plan assets	2,171
424	Contributions by Members	424
1,769	Contributions by the Employer	1,814
(50)	Return on assets excluding amounts recognised in Other Comprehensive Income	3,952
(3,272)	Benefits Paid	(3,361)
84,110		89,110
2017-18		2018-19
£'000	Reconciliation of Defined Benefit Obligation (scheme Liabilities):	£'000
(105,138)	Value of Liabilities at 1 April	(105,779)
(2,600)	Current Service Cost	(2,977)
(2,624)	Interest Cost	(2,744)
(424)	Contribution by Members	(424)
	Actuarial Gains and (Losses):	
0	Change in demographic assumptions	0
1,775	Change in financial assumptions	(5,792)
(40)	Other experience gains and (losses)	(103)
0	Losses on Curtailments	0
3,272	Benefits Paid	3,361
(105,779)		(114,458)
(21,669)	Net Liability at 31st March	(25,348)

NOTES TO THE ACCOUNTING STATEMENTS

Fair value of employer assets

The assets at the year-end listed above are made up of the following categories:

31 March 2018				31 March 2019				
Quoted Prices in Active Markets	Prices not quoted in Active markets	Total	%	Asset Category	Quoted Prices in Active Markets	Prices not quoted in Active markets	Total	%
£,000	£,000	£,000	%		£,000	£,000	£,000	%
				Equity Securities:				
1,567.2	0.0	1,567.2	1.9	Consumer	1,060.3	0.0	1,060.3	1.2
829.3	0.0	829.3	1.0	Manufacturing	729.1	0.0	729.1	0.8
141.3	0.0	141.3	0.2	Energy and Utilities	210.4	0.0	210.4	0.2
2,544.0	0.0	2,544.0	3.0	Financial Institutions	993.4	0.0	993.4	1.1
1,440.4	0.0	1,440.4	1.7	Health and Care	161.6	0.0	161.6	0.2
1,198.6	0.0	1,198.6	1.4	Information Technology	0.0	0.0	0.0	0.0
167.7	285.0	452.7	0.5	Other	173.8	0.0	173.8	0.2
				Debt Securities:				
0.0	2,330.6	2,330.6	2.8	UK Government	0.0	2,156.8	2,156.8	2.4
150.0	0.0	150.0	0.2	Other	0.0	1,649.9	1,649.9	1.9
				Private Equity:				
0.0	4,813.2	4,813.2	5.7	All	0.0	5,480.1	5,480.1	6.2
				Real Estate:				
0.0	8,065.2	8,065.2	9.6	UK Property	0.0	8,346.4	8,346.4	9.4
				Investment funds and unit trusts:				
10.3	46,313.7	46,324.0	55.2	Equities	0.0	49,189.3	49,189.3	55.2
0.0	9,703.1	9,703.1	11.5	Bonds	0.0	14,663.6	14,663.6	16.5
0.0	84.5	84.5	0.1	Hedge Funds	0.0	57.6	57.6	0.1
124.5	0.0	124.5	0.1	Commodities	150.6	0.0	150.6	0.2
0.0	929.7	929.7	1.1	Infrastructure	0.0	528.3	528.3	0.6
0.0	91.6	91.6	0.1	Other	0.0	18.1	18.1	0.0
				Derivatives:				
0.0	17.7	17.7	0.0	Foreign exchange	0.0	(10.2)	(10.2)	(0.0)
				Cash and cash equivalents				
2,121.7	1,180.7	3,302.4	3.9	All	3,553.5	(2.6)	3,550.9	4.0
10,295.0	73,815.0	84,110.0	100.0	Totals	7,032.7	82,077.3	89,110.0	100.0

NOTES TO THE ACCOUNTING STATEMENTS

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension scheme liabilities have been assessed by Hymans Robertson LLP an independent firm of Actuaries, estimates being based on the latest full valuation of the scheme as at 31 March 2019.

2017-18		2018-19
2.4%	Rate of inflation	2.5%
2.8%	Rate of increase in salaries	2.9%
2.4%	Rate of increase in pensions	2.5%
2.6%	Rate for discounting scheme liabilities	2.4%
	Take-up of option to convert annual pension into retirement lump sum:	
50%	Pre 2008	50%
75%	Post 2008	75%

The projections of liabilities assume the following mortality rates:

2017-18		2018-19
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
22.1	Men	22.1
24.4	Women	24.4
	Longevity at 65 for future pensioners:	
23.8	Men	23.8
26.3	Women	26.3

Impact on the Council's Cash Flows

The Council anticipates paying £1,691,000 of contributions to the scheme in 2019/20.

Mc Cloud Judgement

When the LGPS was reformed in 2014, transitional protections were applied to certain older members within ten years of normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme by effectively giving them the better of the benefits from the old and new schemes.

In December 2018 the Court of Appeal upheld a ruling that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government has requested leave to appeal to the Supreme Court and is expected to hear later in 2019 if this will be granted. The Government's request for appeal was rejected and benefits accrued from 2014 need to be enhanced so that all members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that younger members would see an enhanced benefit rather than older members losing their existing protections.

Quantifying the impact of outcome 2 is very difficult because it will depend on members' future salary increases, length of service and retirement age. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression. The Fund's actuary has estimated the following impact should the judgement be upheld (outcome 2):

NOTES TO THE ACCOUNTING STATEMENTS

	Central Estimate	Monetary impact based on central estimate £'000	Possible range
Past service cost	0.3% of opening obligations	317	0.1% - 1.0%
Current service cost	0.8% of pay	51	0.1% - 1.6% of pay
Change in financial assumptions		20	
Closing defined benefit obligations	Depends on current and past service costs	387	Depends on current and past service cost impact

These estimates have been applied in 2018/19.

NOTE 9. INCOME FROM GRANTS AND CONTRIBUTIONS

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

2017-18 £'000		2018-19 £'000
(23,795)	DWP benefits grants	(20,333)
(1,127)	Grants for revenue financed from capital under statute	(1,036)
(1,729)	Other Grants and Contributions	(2,116)
<u>(26,651)</u>	Total within Cost of Services	<u>(23,485)</u>
(450)	Revenue Support Grant	(73)
(96)	New Burden Grant	(149)
(257)	Benefits Administration Grant	(236)
(1,123)	New Homes Bonus	(714)
(1,345)	Section 31 Grant Income	(1,536)
(108)	Local Services Support Grant	(101)
0	Community Housing Fund	0
(204)	Other non-specific grant	(134)
(9)	Grants and contributions towards capital expenditure	(1,085)
<u>(3,592)</u>	Total within Taxation and non-specific grant income	<u>(4,028)</u>
<u>(30,243)</u>	Total income from grants and contributions	<u>(27,513)</u>

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 10. EARMARKED RESERVES

The Council maintains a number of Earmarked Reserves for a variety of purposes. Below is an analysis of the Council's reserves showing the movements and transfers that took place.

	Balance at 31 March 2017	Transfers out	Transfers in	Balance at 31 March 2018	Transfers out	Transfers in	Balance at 31 March 2019
	£'000	£'000		£'000	£'000		£'000
Medium Term Financial Strategy Reserve	5,572	(2,320)	410	3,662	(876)	948	3,734
Economic Development Fund	30	0	0	30	0	0	30
Risk Management Fund	147	0	48	195	0	0	195
Interest Equalisation Reserve	922	(922)	0	0	0	0	0
Repairs and Renewals Reserve	1,435	(300)	248	1,383	(47)	78	1,414
Corporate Plan Projects Reserve	540	(540)	0	0	0	0	0
Invest to Save Reserve	218	(218)	0	0	0	0	0
Affordable Housing Reserve	920	0	1	921	0	0	921
Corporate Development Reserve	1,559	(1,425)	187	321	0	0	321
Planning Improvement & LDF Reserve	170	0	95	265	0	18	283
Housing Benefit Subsidy Reserve	55	(55)	0	0	0	0	0
Homelessness Reserve	127	0	99	226	(12)	0	214
New Home Bonus Reserve	933	(933)	0	0	0	0	0
Business Rate Equalisation Reserve	1,121	(1,121)	0	0	0	0	0
Grants Reserve	1,152	0	559	1,711	0	522	2,233
Treasury Investment Reserve	0	0	7,017	7,017	0	0	7,017
Total	14,901	(7,834)	8,664	15,731	(935)	1,566	16,362

The transfer to reserves shown in the MIRS as at the 31 March 2019 is £631,000 (£1,566,000 less £935,000).

The purposes of these reserves are set out below:

Medium Term Financial Strategy	A reserve created to help the Council meet our agreed objectives not just now but moving into the future. It is primarily aligned with the Council's Corporate Plan but can also be used to respond to pressures and uncertainties of the current financial climate. The total transfer in for 2018/19 includes the £631,000 budget surplus for the year.
Economic Development	A reserve created to fund one off research, investigation and projects that relate to the economic development of the Rother area.
Risk Management	A reserve to meet expenditure under excess arising from insurance claims.
Interest Equalisation	A reserve created in advance of the financial crisis to deal with unexpected falls in investment income. This reserve has been closed and the balance transferred to the Treasury Management Reserve.
Repair and Renewals	A reserve to fund expected repairs and renewals of the Council's assets.
Corporate Plan Projects	A reserve to fund projects outlined in the Council's Corporate Plan. This reserve has been closed and the balance transferred to the Treasury Management

NOTES TO THE ACCOUNTING STATEMENTS

	Reserve.
Invest to Save	A reserve used to improve the Council's efficiency and make saving through investment in the services. This reserve has been closed and the balance transferred to the Treasury Management Reserve.
Affordable Housing	A reserve to subsidise social housing providers capital projects relating to the provision of new affordable housing.
Corporate Development	A reserve funding a variety of Council provided services supporting among others Tourism, Economic Development, Democratic Engagement, Staff and Member training etc.
Planning Improvement and LDF	A reserve supporting the development and maintenance of the Council's long term Planning Strategy.
Housing Benefit Subsidy Reserve	A reserve for meeting fluctuations in housing benefit subsidy recovered. This reserve has been closed and the balance transferred to the Treasury Management Reserve.
Homelessness	A reserve to support the prevention of homelessness.
New Homes Bonus Scheme Reserve	A reserve created to help the council manage the expected decline in NHB from 2018/19. This reserve has been closed and the balance transferred to the Treasury Management Reserve.
Business Rates equalisation	A reserve created to address the volatility in business rate income year to year. The Council needs to build a substantial reserve to protect the General Fund for the possible impact of the business rate revaluation in 2017 where it is predicted that rating appeals could be substantial. This reserve has been closed and the balance transferred to the Treasury Management Reserve.
Grant Reserve	A reserve created to hold grants received in one year with no conditions but used in following years.
Treasury Management Reserve	This reserve has been created as part of the 2020 efficiency plan and in accordance with the 2018/19 budget to ensure cash balances remain at £10 million to ensure the Council retains its professional client status.

NOTE 11. UNUSABLE RESERVES

Revaluation Reserve

2017-18		2018-19
£000		£000
11,937	Balance 1 April	12,084
	Comprehensive Income & Expenditure:	
355	Gain on revaluation of assets	3,574
	Accounting / Financing Adjustments:	
(208)	Depreciation charged to Revaluation Reserve	(213)
12,084	Balance 31 March	15,445

NOTES TO THE ACCOUNTING STATEMENTS

Capital Adjustment Account

2017-18		2018-19
£000		£000
32,051	Balance 1 April	32,545
	Accounting / Financing Adjustments:	
(23)	Write down Intangible Assets	(94)
(883)	Depreciation and impairment of non-current assets	(1,133)
370	Movements in value of Investment Properties	1,035
(12)	Gain or (loss) on sale of non-current assets	0
(1,264)	Revenue Expenditure Financed from Capital under Statute	(1,253)
356	Capital expenditure financed from revenue	828
484	Capital expenditure financed from Capital Receipts	159
	Capital expenditure financed from Capital grants and	
1,258	contributions	1,147
208	Depreciation charged to Revaluation Reserve	213
32,545	Balance 31 March	33,447

Deferred Capital Receipts Reserve

2017-18		2018-19
£000		£000
186	Balance 1 April	45
	Accounting / Financing Adjustments:	
(141)	Deferred receipts received to Capital Receipts Reserve	(4)
45	Balance 31 March	41

Pensions Reserve

2017-18		2018-19
£000		£000
(21,964)	Balance 1 April	(21,669)
	Comprehensive Income & Expenditure:	
1,685	Remeasurement of the net defined benefit liability	(1,943)
	Accounting / Financing Adjustments:	
	Difference between accounting and statutory credit for	
(1,390)	pension costs	(1,736)
(21,669)	Balance 31 March	(25,348)

Pension

NOTES TO THE ACCOUNTING STATEMENTS

Collection Fund Adjustment Account

2017-18		2018-19
£000		£000
131	Balance 1 April	0
	Accounting / Financing Adjustments:	
	Difference between accounting and statutory credit for	
(30)	Council Tax	54
	Difference between accounting and statutory credit for Non-	
(101)	Domestic Rates	136
0	Balance 31 March	190

Accumulated Absences Account

2017-18		2018-19
£000		£000
(155)	Balance 1 April	(157)
	Accounting / Financing Adjustments:	
	Difference between accounting and statutory employment	
(2)	benefit	0
(157)	Balance 31 March	(157)

Available for Sale Financial Instruments Reserve

2017-18		2018-19
£000		£000
(81)	Balance 1 b/f	(36)
	IFRS 9 adjustment as at 1st April 2018	41
	Comprehensive Income & Expenditure:	
	Gain/(Loss) on revaluation of available for sale financial	
45	instruments	(5)
0		
(36)	Balance 31 March	0

Pooled Investment Funds Adjustment Account

2017-18		2018-19
£000		£000
0	Balance b/f	0
0	IFRS 9 adjustment as at 1st April 2018	(41)
	Comprehensive Income & Expenditure:	
0	Gain/(Loss) revaluation Pooled Investment funds	(24)
0	Balance 31 March	(65)

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 12. CAPITAL EXPENDITURE AND FINANCING

The total amount of capital expenditure charged 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), a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

2017-18 £'000		2018-19 £'000
1,091	Opening Capital Financing Requirement 1 April	1,092
	<i>Capital Investment</i>	
248	Property, Plant and Equipment	3,410
587	Intangible assets	135
1,264	Revenue Expenditure Funded from Capital under Statute (REFCUS)	1,253
	<i>Sources of finance</i>	
(484)	Capital receipts	(159)
(131)	Government grants and other contributions	(112)
(356)	Sums set aside from revenue and reserves	(828)
(1,127)	Grants and contributions towards REFCUS	(1,035)
1,092	Closing Capital Financing Requirement 31 March	3,756

The Capital Financing Requirement (CFR) is made up of the following balance sheet items.

31 March 2018 £'000		31 March 2019 £'000
34,283	Property, Plant and Equipment	42,531
10,805	Investment Properties	9,456
620	Intangible Assets	661
13	Assets Held for Sale	0
(12,084)	Revaluation Reserve	(15,445)
(32,545)	Capital Adjustment Account	(33,447)
1,092		3,756

The opening balance of £1,092,000 represents an "Item A" adjustment dating back to 2004: this is the agreed historic amount on which it is not necessary to provide the annual Minimum Revenue Provision (MRP) for repayment of debt. MRP would be payable for any capital expenditure financed from loan in the future.

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 13. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings	Vehicles Plant etc	Infra- structure	Commun. Assets	Assets under Const- ruction	Surplus Props.	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost:							
Opening value 1 April 2017	16,372	1,005	14,590	0	0	5,003	36,970
Additions	0	284	(36)	0	0	0	248
Disposals	0	(202)	0	0	0	0	(202)
Impairment losses	0	0	0	0	0	(1)	(1)
Revaluations	(48)	0	0	0	0	203	155
Value 31 March 2018	16,324	1,087	14,554	0	0	5,205	37,170
Cumulative Depreciation:							
Opening value 1 April 2017	0	(421)	(1,986)	0	0	0	(2,407)
Charge for the year	(483)	(109)	(290)	0	0	0	(882)
Disposals	0	202	0	0	0	0	202
Revaluations	200	0	0	0	0	0	200
Balance 31 March 2018	(283)	(328)	(2,276)	0	0	0	(2,887)
Net book value 31 March 2018	16,041	759	12,278	0	0	5,205	34,283

NOTES TO THE ACCOUNTING STATEMENTS

	Land & Buildings	Vehicles Plant etc	Infra-structure	Commun. Assets	Assets under Const-ruktion	Surplus Props.	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost:							
Opening value 1 April 2018	16,324	1,087	14,554	0	0	5,205	37,170
Additions	2,939	165	6	0	300	0	3,410
Disposals	0	(16)	0	0	0	0	(16)
Impairment losses	(244)	0	0	0	0	0	(244)
Reclassifications	1,751	0	0	0	0	646	2,397
Revaluations	1,534	0	0	0	0	1,591	3,125
Value 31 March 2019	22,304	1,236	14,560	0	300	7,442	45,842
Cumulative Depreciation:							
Opening value 1 April 2018	(283)	(328)	(2,276)	0	0	0	(2,887)
Charge for the year	(489)	(111)	(289)	0	0	0	(889)
Disposals	0	16	0	0	0	0	16
Reclassifications	0	0	0	0	0	0	0
Revaluations	449	0	0	0	0	0	449
Balance 31 March 2019	(323)	(423)	(2,565)	0	0	0	(3,311)
Net book value 31 March 2019	21,981	813	11,995	0	300	7,442	42,531

Assets are revalued on a 5-year programme and the last major review was carried out as at 31 March 2017 by DVS, the property services' arm of the Valuation Office Agency. The useful economic life of operational land and buildings was also assessed. An annual desktop assessment is also carried out at the end of each financial year, and the values are updated where necessary. Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.

The Council's surplus properties consist of various parcels of land which are surplus to operational requirements, but which are not yet being actively marketed. There are no quoted prices for identical assets, but there are values available for similar assets, so it has been possible to value them at Level 2 of the Fair Value hierarchy (see Note 2.9 above), both at the start and end of the financial year.

Capital Commitments

A number of sites previously owned by Rother District Council are now occupied by East Sussex County Council as part of the development of the Bexhill to Hastings link road, Coombe Valley Way. The values of these sites were impaired to zero in 2013/14. Because there are several complex legal issues to resolve, the formal transfer of title had not taken place at the balance sheet date. As part of this transfer the Council will receive in return land at the former Bexhill High School site which has been valued at £1.085m. The commitment to purchase this site has been included in the Capital Programme, but the legal issues have meant that the Council has been unable to complete the transaction.

At 31 March 2019 there were no other commitments relating to capital expenditure on Property Plant and Equipment.

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 14. 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:

2017-18		2018-19
	£'000	£'000
(923)	Rental income from investment property	(1,119)
126	Direct operating expenses arising from investment property	119
(370)	Net gains from fair value adjustments	(1,035)
<hr/>		<hr/>
(1,167)	Total	(2,035)

Balance Sheet movements in Investment Properties during the year:

2017-18		2018-19
	£'000	£'000
10,447	Balance at start of the year	10,805
(12)	Disposals	0
370	Net gains from fair value adjustments	1,035
0	Assets reclassified to Property Plant & Equipment	(2,384)
<hr/>		<hr/>
10,805	Balance at end of the year	9,456

The Council's Investment Properties consist of commercial properties let at market rents. There are no quoted prices for identical properties, and also no significant observable values for similar properties. Values have therefore been assessed under Level 3 of the Fair Value hierarchy (see Note 2.9 above), both at the start and end of the financial year. They are measured using the income approach, by means of the discounted cash flow method, where the discounted cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream. In all cases the highest and best use for these assets is their current use.

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 15. INTANGIBLE ASSETS

2017-18		2018-19
£'000		£'000
152	Gross Carrying Amount 1 April 2018	649
(96)	Accumulated Amortisation 1 April 2018	(29)
56	Net Carrying Amount at start of year	620
587	Additions	136
0	Disposals	0
(23)	Amortisation	(95)
649	Gross Carrying Amount 31 March 2019	756
(29)	Accumulated Amortisation 31 March 2019	(95)
620	Total	661

NOTE 16. DEBTORS

31 March 2018		31 March 2019
£'000		£'000
	Amounts falling due within one year:	
550	Central government bodies	372
874	Other Local Authorities & Public Bodies	1,343
0	NHS	15
2,734	All other bodies	3,254
4,158	Total short term debtors	4,984
49	Amounts falling due after one year (all other bodies)	42
4,207	Total Debtors	5,026

NOTE 17. CREDITORS

31 March 2018		31 March 2019
£'000		£'000
	Amounts falling due within one year:	
(2,549)	Central government bodies	(2,353)
(756)	Other Local Authorities & Public Bodies	(1,064)
0	Public Corporations	0
(1,676)	All other bodies	(1,670)
(4,981)	Total short term creditors	(5,087)

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 18. PROVISIONS AND CONTINGENT LIABILITIES

Provisions

The Council has a liability for its share of refunds of rate income arising from successful appeals against rateable values. The provision increased from £698,000 to £726,000 during 2018/19.

Contingent Liabilities

Municipal Mutual Insurance Limited (MMI)

In 1993 the Council's insurers, MMI, ceased accepting new business. On 13th November 2012 the Directors of MMI triggered the Scheme of Arrangement. The Scheme provides that following the occurrence of a Trigger Event, a levy may be imposed on all those scheme creditors which, since the record date, have been paid an amount or amounts in respect of established scheme liabilities which, together with the amount of Elective Defence costs paid by MMI on its behalf, exceed £50,000 in aggregate.

The Scheme Administrator, Ernst & Young LLP had originally determined that a levy rate of 15% shall be applied to the value of claims paid since 30th September 1993. There remains a potential liability for a further £179,451. The trigger event related to the Supreme Court ruling on the 28th March 2012 which said that the insurer who was on risk at the time of an employee's exposure to asbestos was liable to pay compensation for the employee's mesothelioma.

NOTE 19. CAPITAL GRANTS RECEIPTS IN ADVANCE

31 March 2018		31 March 2019
£'000		£'000
	Amounts falling due within one year:	
77	S106 Land off Pebsham Lane Employment Contribution	77
0	S106 North East Bexhill Worsham	13
1	Other	1
<hr/>		<hr/>
78	Total short term capital grants received in advance	91
	Amounts falling due after one year (all other bodies)	
914	S106 Unit 10 Ravenside, Bexhill-on-Sea	907
605	S106 Land off Pebsham Lane, Bexhill	633
283	S106 Station Road, Northiam	255
0	S106 North East Bexhill Worsham	100
36	S106 The Saltings	37
<hr/>		<hr/>
1,838	Total long term capital grants received in advance	1,932

On the 21 August 2012, the Council entered into an agreement under Section 106 of the Town and Country Planning Act 1990, with regard to a site at Ravenside Retail Park, Bexhill-on-Sea. The agreement resulted in a payment to the Council of £959,000 which was received for the provision and improvement of leisure facilities in Bexhill and the enhancement of shopping facilities in Bexhill town centre. The monies have to be expended within 15 years of the date of the agreement or they will have to be repaid to the property owner plus interest. Further spend against this of £7,000 was made in 2018/19. The balance at 31 March 2019 was £907,000, compared to £914,000 at 31 March 2018.

On the 13 May 2015, the Council entered into an agreement under Section 106 of the Town and Country Planning Act 1990, with regard to a site at Pebsham Lane, Bexhill-on-Sea. The agreement resulted in 3 payments to the

NOTES TO THE ACCOUNTING STATEMENTS

Council totalling £520,000. £134,000 was for a new leisure centre, £277,000 for maintenance of pitches and £109,000 was for creation of a Countryside Park, The monies have to be expended within 10 years of the date of the agreement or they will have to be repaid to the property owner plus interest. £109,000 was paid out in 2017/18 to the Coombe Valley Countryside Park. A further £193,000 was received for arts and public realm, £28,000 for a community worker and £77,000 employment contribution. The balance at the 31st March 2019 is £709,000.

On the 24 March 2016, the Council entered into an agreement under Section 106 of the Town and Country Planning Act 1990, with regard to a site at Worsham, Bexhill-on-Sea. An amount of £27,000 was received for legal planning costs and £86,000 for employment skills development.

NOTE 20. FINANCIAL INSTRUMENTS

Financial instruments balances

Balance Sheet	31/03/2018 £,000	Reclassified as at 1st April 2018 £,000
Short Term Investments		
Available for sale financial assets amortised cost*	1108	1103
Loans and Receivables	5015	5015
Financial assets at amortised cost		5015
Balance Sheet		
Available for Sale Financial Instruments Reserve		5
	<hr/> 6,123 <hr/>	<hr/> 6,123 <hr/>
* includes accrued interest		
Long Term Investments		
Available for sale financial assets	4959	
Fair Value through the profit and loss		4959
Loans and Receivables	49	
Financial assets at amortised cost		49
Balance Sheet		
Available for Sale Financial Instruments Reserve		(41)
Pooled Investment Adjustment Account		41
	<hr/> 5,008 <hr/>	<hr/> 5,008 <hr/>
Short Term Debtors		
Short Term Debtors	468	
Short Term Debtors at amortised cost		468
Trade accounts receivable	1251	
Trade accounts receivable at amortised cost		1251

NOTES TO THE ACCOUNTING STATEMENTS

	1,719	1,719
Cash and Cash Equivalents		
Bank deposits less than 3 months	5303	
Bank deposits less than 3 months at amortised cost		5303
Cash and bank accounts	6244	
Cash and bank accounts at amortised cost		6244

	11,547	11,547
		Reclassified as at 1st April 2018
Balance Sheet	31/03/2018	April 2018
	£,000	£,000
Short Term Creditors	(1,511)	
Short Term Creditors at amortised cost		(1,511)
	(1,511)	(1,511)

Categories of Financial Instruments

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

1st April 2018			31 March 2019	
Book Value £,000	Fair Value £,000		Book Value £,000	Fair Value £,000
49	49	Financial assets at fair value through profit and loss	8,000	7,935
4959	4959	Financial assets at amortised Cost	42	42
5,008	5,008	Long term Assets	8,042	7,977
6125	6120	Financial assets at amortised Cost	8,500	8,555
6,125	6,120	Short term Investments	8,500	8,555
468	468	Short Term Debtors	840	840
1,251	1,251	Trade accounts receivable	2,108	2,108
5,303	5,313	Bank deposits less than 3 months	2,303	2,331
6,244	6,085	Cash and bank accounts	3,297	3,301
13,266	13,117	Other financial assets at amortised cost	8,548	8,580
24,399	24,245	Total Financial Assets	25,090	25,112

The value of debtors and creditors reported in the table above are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the balance sheet and Notes 17 and 18 also include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

NOTES TO THE ACCOUNTING STATEMENTS

1st April 2018			31 March 2019	
Book Value £,000	Fair Value £,000		Book Value £,000	Fair Value £,000
(1,511)	(1,511)	Short Term Creditors	(1,298)	(1,298)
0	0	Public Works Loan Board	(15)	(15)
<hr/>			<hr/>	
(1,511)	(1,511)	Short Term Financial liabilities at amortised cost	(1,313)	(1,313)
<hr/>			<hr/>	
0	0	Public Works Loan Board	(896)	(937)
<hr/>			<hr/>	
0	0	LongTerm Liabilities at amortised cost	(896)	(937)
<hr/>			<hr/>	
(1,511)	(1,511)	Total Financial Liabilities	(2,209)	(2,250)
<hr/>			<hr/>	

Valuation Techniques for Fair Values

The fair values valuations have been provided by the Council's Treasury Management advisor, Link Asset Services. This uses the Net Present Value (NPV) approach, which provides an estimate of the value of payments in the future in today's terms. This is a widely accepted valuation technique commonly used by the private sector. The discount rate used in the NPV calculation should be equal to the current rate in relation to the same instrument from a comparable lender. This will be the rate applicable in the market on the date of valuation, for an instrument with the same duration i.e. equal to the outstanding period from valuation date to maturity. The structure and terms of the comparable instrument should be the same.

Fair values in the tables above are calculated in line with the levels described in Accounting Policy 1.9 above. The Fair value through the profit and loss assets are assessed at Level 1 (quoted price), while the others are at Level 2 (observable inputs other than quoted prices).

For loans from the PWLB, valued in line with level 2, new loan rates from the PWLB have been applied to provide the fair value.

NOTES TO THE ACCOUNTING STATEMENTS

Nature and Extent of Risks arising from financial instruments

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

- (i) credit risk - the possibility that other parties might fail to pay amounts due to the Council.
- (ii) liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments.
- (iii) market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movement.

The Council's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise the potential adverse effects on the resources available to fund services. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and associated regulations. These require the Council to comply with CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and Investment Guidance issued through the Act. Risk Management is carried out by the Financial Services Team in accordance with the policies laid out in the Annual Treasury Management Strategy Statement and Annual Investment Strategy, which govern the maximum type of investment risk to which the Council can be exposed.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet minimum credit criteria using the Link Asset Services creditworthiness model. The model uses a sophisticated modelling approach which uses credit ratings from all three ratings agencies (Fitch, Moody's and Standard and Poor's) overlaid with credit watches and outlooks, Credit Default Swap spreads and sovereign ratings. Deposits are not made with banks or financial institutions unless they are rated independently with a minimum score. The minimum score will depend on the type and length of investment as detailed in the Council's Treasury Management Strategy Statement and Annual Investment Strategy. Credit limits are set for each institution where deposits are placed.

The credit criteria in respect of the financial assets held by the Council at 31 March 2019 are summarised below.

- i. All investments will be with approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch.
- ii. The total principal funds invested for up to 6 months is 50%
- iii. The total principal funds invested for up to 3 months is 50%
- iv. The total principal funds invested for up to 1 year is 30%
- v. The total principal funds invested for more than 1 year is £10million

A copy of the Annual Treasury Management Strategy Statement Annual Investment Strategy is available on the Council's website.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on a review during 2018/19 of past experience:

The council does not generally allow credit for customers such that £504,000 is past due for payment. The past due not impaired is analysed as follows'

31 March 2018 £'000		31 March 2019 £'000
0	0 to 28 days	3
32	1st reminder - 29 to 42 days	85
15	2nd reminder - 43 to 55 days	14
364	Over 55 days	402
<hr/> 411	Total	<hr/> 504

NOTES TO THE ACCOUNTING STATEMENTS

Debtors include trade receivables of £2,108,000 as at 31 March 2019 (£1,251,000 as at 31 March 2018). The historical experience of default is 5% (31 March 2018 7%) with an estimated exposure to default of non-collection of £104,000 (31 March 2018 £86,000). The Council has provided £104,000 (31 March 2018 £86,000) as a general impairment allowance for non-collection of this debt.

Deposits with Banks and Financial Institutions	Long Term Rating - Fitch	Amount at 31 March 2019	Historical Experience of Default	Estimated maximum exposure to default and uncollectability at 31 March 2019
		£'000	%	£'000
Deposits more than 3 months				
Nat West	A+	2,013	0.05%	1
Lloyds Bank Plc.	A+	1,511	0.05%	1
Lloyds Bank Plc.	A+	1,007	0.05%	1
Lloyds Bank Plc.	A+	1,007	0.05%	1
Bank of Scotland	A+	3,017	0.05%	2
Short-Term Deposits - less than 3 months (excluding accrued interest)				
Bank of Scotland 32 Day Notice	A+	2,300	0.05%	1
Santander 31 Day Notice Account	A+	2	0.05%	0
Barclays	A+	1	0.05%	0
Lloyds Bank Plc.	A+	3,297	0.05%	2
Customer Debtors		2,108	5.00%	104
Total		5,405		111

Gains and Losses

31 March 2018 £,000		31 March 2019 £,000
0	Gains and losses arising from the derecognition of financial assets measured at amortised cost	69
0	Impairment losses	43
0	Losses on financial assets measure at fair value through profit and loss	24
0	Total	136

NOTES TO THE ACCOUNTING STATEMENTS

Liquidity Risk

The Council has a robust cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has access to borrowings from the Public Works Loans Board for long term funding and substantial reserves. Interest rate risk is managed through the Council's Medium Term Financial Strategy Reserve. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Liquidity Risk

31 March 2018	PWLB	31 March 2019
£'000		£'000
0	Less than one year	9
0	Between one and two years	16
0	Between two and five years	64
0	Maturing in five to ten years	80
	Maturing in more than ten years	726
<u>0</u>	Total	<u>895</u>

Market Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its investments. Changes in interest rates on variable rate investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund balance. The average investment rate for the reported year was 1.15%.

If interest rates had been 1% higher as at 31 March 2019 with all other variables held constant, the financial effect would be:

	£'000
Increase in interest receivable on variable rate investments	295
Impact on Surplus/Deficit on Provision of Services	295

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 and affect the General Fund Balance.

Price Risk

The Council held at 31st March 2019 an investment in the Local Authorities' (CCLA) Property Fund valued at £5m. A shift of 1% in the market value of the fund would therefore have resulted in a gain or loss of £50,358.

The Council held at 31st March 2019 an investment in the Hermes Property Fund valued at £3m. A shift of 1% in the market value of the fund would therefore have resulted in a gain or loss of £28,994.

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 21. AGENCY EXPENDITURE AND INCOME

The Council acts as the lead authority for several arrangements, in particular the Joint Waste Partnership. This partnership is not a legal entity in its own right and involves Rother District Council, Eastbourne Borough Council, Hastings Borough Council, and Wealden District Council. The four Councils have a joint contract with Kier Environmental Services Limited for the provision of waste collection, recycling and street & beach cleaning. Rother District Council employs staff to provide an overarching contract administration function and acts as paymaster, collecting payments from the other Councils and making payments to the contractor based on invoices received. Each Council is responsible for the day to day management of Kier operations in their areas.

There are two other lead authority arrangements, under which expenditure is initially incurred by this Council and recharged to the partner councils. These arrangements cover Rother and Wealden Environmental Health Shared Service and the Sussex Training Consortium. In each case Rother bears the cost of support services charges associated with the running of the partnerships and so the support services are excluded from total expenditure in the relevant columns shown below. In case of the Environmental Health Shared Service income from fees and charges is accounted for by each of the councils separately and does not feature in the table below.

The tables below summarise the transactions for the year: the amounts shown as recharged to partner Councils are treated as agency expenditure and therefore not included within this Council's Comprehensive Income and Expenditure Statement.

	2017-18			
	Joint Waste	Environmental Health	Sussex Training Consortium	Total
	£'000	£'000	£'000	£'000
Total expenditure	13,252	1,618	113	14,983
Income	0	(63)	0	(63)
Net Cost	13,252	1,555	113	14,920
Recharged to Rother District Council	(3,068)	(592)	(18)	(3,678)
Recharged to partner councils	(10,228)	(963)	(95)	(11,286)
Total recharges	(13,296)	(1,555)	(113)	(14,964)
Net Cost*	(44)	0	0	(44)
	2018-19			
	Joint Waste	Environmental Health	Sussex Training Consortium	Total
	£'000	£'000	£'000	£'000
Total expenditure	13,953	267	63	14,283
Income	0	(60)	0	(60)
Net Cost	13,953	207	63	14,223
Recharged to Rother District Council	(3,243)	799	(15)	(2,459)
Recharged to partner councils	(10,755)	(1,006)	(49)	(11,810)
Total recharges	(13,998)	(207)	(64)	(14,269)
Net Cost*	(45)	0	(1)	(46)

* to meet Rother's support costs

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 22. LEASES

Council as a Lessee

Vehicles and equipment have been acquired through operating leases. The minimum lease payments due under non-cancellable leases in future years are:

31 March 2018		31 March 2019
£'000		£'000
45	Not later than one year	58
93	Later than one year and not later than five years	48
<u>138</u>		<u>106</u>

Council as Lessor:

The Council leases out property, a number of industrial and commercial units, land and other buildings under operating leases. The future minimum lease payments receivable under non-cancellable leases in future years are:

31 March 2018		31 March 2019
£'000		£'000
610	Not later than one year	804
2,159	Later than one year and not later than five years	2,806
25,450	Later than five years	21,761
<u>28,219</u>		<u>25,371</u>

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 2018/19 the Council received £129,800 in contingent rents, compared to £288,000 in 2017/18.

NOTE 23. MEMBERS' ALLOWANCES

Allowances and expenses paid to Councillors during the year were:

2017-18		2018-19
£'000		£'000
226	Members Allowances	221
<u>9</u>	Travelling Expenses	<u>8</u>
<u>235</u>		<u>229</u>

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 24. OFFICERS' REMUNERATION AND EXIT PACKAGES

Senior Officer Remuneration

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

Post holder information (Post title)	Salary (Inc. fees & Allow- ances)	Expense Allowance	Com- pensation for loss of office	Pension Cont- ributions**	Total Remun- eration
	£	£	£	£	£
Financial Year: 2017-18					
Executive Director	94,874	0	0	16,653	111,527
Executive Director	96,030	0	0	16,653	112,683
Assistant Director Resources	73,413	0	0	12,571	85,984
Service Manager Strategy and Planning	64,960	0	0	11,045	76,005
Service Manager Corporate Resources and HR	64,960	0	0	11,045	76,005
Service Manager Environmental Services	64,241	0	0	11,045	75,286
Service Manager Community and Economy	67,890	0	0	11,045	78,935
Service Manager ICT & Customer Services	38,899	0	30,000	39,223	108,122

Post holder information (Post title)	Salary (Inc. fees & Allow- ances)	Expense Allowance	Com- pensation for loss of office	Pension Cont- ributions**	Total Remun- eration
	£	£	£	£	£
Financial Year: 2018-19					
Executive Director	97,927	0	0	16,952	114,879
Executive Director	97,685	0	0	16,952	114,637
Assistant Director Resources	75,653	0	0	12,975	88,628
Service Manager Strategy and Planning	66,058	0	0	11,243	77,301
Head of Service Acquisitions, Transformation and Regeneration	46,951	0	0	7,966	54,917
Service Manager Environmental Services	66,160	0	0	11,243	77,403
Head of Service Housing and Community	43,376	0	0	7,360	50,736

NOTES TO THE ACCOUNTING STATEMENTS

Salaries of over £50,000

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

2017-18		2018-19	
4	£50,000 - 54,999	5	
0	£55,000 - 59,999	3	
3	£60,000 - 64,999	0	
2	£65,000 - 69,999	2	
1	£70,000 - 74,999	0	
0	£75,000 - 79,999	1	
0	£80,000 - 84,999	0	
0	£85,000 - 89,999	0	
1	£90,000 - £94,999	0	
1	£95,000 - £99,999	2	
<hr/>		<hr/>	
12		13	

Exit Packages

2017-18			Banding		2018-19				
Number of exit packages			Cost		Number of exit packages			Cost	
Compuls. Redund.	Other departures	Total exit packages	Total		Compuls. Redund.	Other departures	Total exit packages	Total	
			£					£'000	
1	0	1	2	£0 - 20,000	2	0	2	26	
0	0	0	0	£20,001 - 40,000	1	0	1	22	
0	0	0	0	£40,001 - 60,000	0	0	0	0	
0	1	1	73	£60,001 - 80,000	1	0	1	77	
0	0	0	0	£80,001 - 100,000	0	0	0	0	
0	0	0	0	£100,001 - 150,000	0	0	0	0	
<hr/>			<hr/>		<hr/>			<hr/>	
1	1	2	75		4	0	4	125	

NOTE 25. EXTERNAL AUDIT COSTS

Fees were payable to Grant Thornton (BDO LLP 2017/18) as the Council's external auditors as follows:

2017-18		2018-19	
£'000		£'000	
48	External audit services	37	
10	Other services	9	
<hr/>		<hr/>	
58		46	

NOTES TO THE ACCOUNTING STATEMENTS

NOTE 26. 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 significant influence over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and subsidies and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits). Grants received from the Government are set out in Note 9 (Income from Grants and Contributions).

Members

Members of the Council have direct control over the Council's financial and operating policies. During 2017/18 grants and payments to the value of £1,530,062 as shown below, were paid to organisations in which Members had an interest. The grants and payments were made with proper consideration of declarations of interest. These Members did not take part in any discussion or decision relating to the grants or payments.

2017-18		2018-19
£		£
540,000	De La Warr Pavilion Charitable Trust	542,271
228,138	East Sussex County Council	642,498
135,215	Amicus Horizon Area Panel	0
121,121	Romney Marsh Internal Drainage Board	123,437
121,000	Action in Rural Sussex	1,050
108,980	Combe Valley Community Interest Company	0
85,000	Rother District Citizens Advice Bureau	109,493
56,882	Rother Voluntary Action	47,207
19,950	Hastings Advice & Representation Centre	12,120
11,443	Local Government Association	9,506
9,050	Hastings and Rother Mediation Service	11,050
8,794	South East Employers	7,297
8,594	Bexhill Museum Association	6,536
4,600	Sussex Wildlife Trust	4,250
4,000	Bexhill Town Forum	2,000
2,123	Robertsbridge Children's Services	0
1,601	Hastings Furniture Service Ltd	10,847
1,000	Bexhill Youth and Community Association	0
557	St Mary the Virgin Church Battle PCC	0
492	District Councils Network	500
300	Etchingham Trust for Sport and Recreation	0
<hr/>		<hr/>
1,468,840	Total	1,530,062

Officers

During 2018/19 officers with pecuniary interests made appropriate declarations during Committee meetings and took no part of decision making. Interests are recorded in the minutes of the relevant meetings and are available at www.rother.gov.uk. There were no related party transactions in the year between the Council and officers.

NOTES TO THE ACCOUNTING STATEMENTS

East Sussex County Council pension fund

The Council made payments totalling £1,814,000 during 2018/19 to East Sussex County Council as the administering body for the East Sussex Local Government pension fund, compared to £1,769,000 in 2017/18. Note 8 provides further information on the Council's pension arrangements.

Members elected to East Sussex County Council

During 2018/19 there were 7 Members of Rother District Council who were also members or related to members of East Sussex County Council listed below:

- Councillor Mr J Barnes
- Councillor Mrs K Field
- Councillor C Maynard
- Councillor C Clark
- Councillor Elford
- Councillor Mrs M.L. Barnes (related)
- Mrs D.C. Earl-Williams (related)

NOTE 27. POST BALANCE SHEET EVENTS

Non-adjusting event

The financial statements were authorised by the Chief Finance Officer on the 30th May 2019. On the 24th June 2019 Rother District Council purchased a property Glover's House for £7.45million. North East Bexhill is the key commercial development zone in Rother District. The majority of the commercial development land in this area is owned by SCS (Sea Change Sussex), who are a not-for-profit development and regeneration company. Selling the freehold of Glovers House would enable SCS to repay the outstanding loans to the SELEP (South East Local Enterprise Partnership), and use the surplus to further their agreed business plan, which includes investment in new infrastructure and developments in the North East Bexhill area. This investment should also be seen as part of a longer term partnership with SCS which will see further developments and acquisitions in the Bexhill Enterprise Park.

This acquisition would be compliant with the Council's approved Property Investment Strategy and the rental income from this acquisition would provide the Council with an important source of revenue, helping to maintain delivery of services into the future.

COLLECTION FUND STATEMENT AND NOTES

2017-18 £'000		2018-19 £'000
	<u>Council Tax</u>	
	INCOME	
(67,537)	Income from Council Taxpayers	(72,212)
	EXPENDITURE	
	Precepts and demands on Collection Fund	
48,974	East Sussex County Council	52,558
5,735	Sussex Police Authority	6,259
3,294	East Sussex Fire Authority	3,434
8,597	Rother District Council	8,840
	Apportionments of previous year surplus	
870	East Sussex County Council	414
104	Sussex Police Authority	48
60	East Sussex Fire Authority	28
153	Rother District Council	73
	Bad & Doubtful Debts	
48	Write offs of uncollectable income	55
(73)	Provision for uncollectable income-addition / (reduction)	41
67,762		71,750
225	Movement on Fund Balance - (surplus)/deficit	(462)
	FUND BALANCE FOR COUNCIL TAX	
(1,190)	Balance brought forward	(965)
225	Surplus for year	(462)
(965)	Balance - (surplus)/deficit carried forward	(1,427)

COLLECTION FUND STATEMENT AND NOTES

2017-18 £'000		2018-19 £'000
	<u>Non-Domestic Rates</u>	
	INCOME	
(16,520)	Income from Ratepayers	(17,634)
	Apportionments of previous year deficit	
(40)	Government	(84)
(7)	East Sussex County Council	(15)
(1)	East Sussex Fire Authority	(2)
(32)	Rother District Council	(68)
(973)	Transitional relief	(715)
<hr/> (17,573)	Total	<hr/> (18,518)
	EXPENDITURE	
	Precepts and demands on Collection Fund	
8,752	Government	8,926
1,575	East Sussex County Council	1,607
175	East Sussex Fire Authority	179
7,001	Rother District Council	7,140
	Apportionments of previous year surplus	
0	Government	0
0	East Sussex County Council	0
0	East Sussex Fire Authority	0
0	Rother District Council	0
0	Transitional Relief	0
	Bad & Doubtful Debts	
63	Write offs of uncollectable income	(77)
83	Provision for uncollectable income	188
	Impairments resulting from appeals	
0	Write offs of uncollectable income	448
29	Provision for uncollectable income	(379)
146	Transfer to General Fund - Cost of Collection Allowance	147
<hr/> 17,824		<hr/> 18,179
<hr/> 251	Movement on Fund Balance - (surplus) / deficit	<hr/> (339)

COLLECTION FUND STATEMENT AND NOTES

FUND BALANCE FOR NON-DOMESTIC RATES

54	Balance brought forward	305
251	(Surplus) / deficit for year	(339)
305	Balance - (surplus) / deficit carried forward	(34)

COLLECTION FUND BALANCE

(1,136)	Balances brought forward	(660)
476	(Surplus) / deficit for year	(801)
(660)	Balance - (surplus) carried forward	(1,461)

NOTE 1. GENERAL

These accounts represent the transactions of the Collection Fund (accounting separately for income relating to council tax and non-domestic rates) which is a statutory fund separate from the main accounts of the Council, although the elements related to this Council are included within its accounting statements and notes. The account has been prepared on the accruals basis. The costs of administering collection are accounted for within Central Services in the Cost of Services in the Comprehensive Income and Expenditure Statement.

NOTE 2. COUNCIL TAX

Council Tax derives from charges raised according to the value of residential properties, which have been classified into 9 valuation bands (A-H). Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council for the forthcoming year and dividing this by the Council Tax base (i.e. the equivalent numbers of Band D dwellings).

Band & Value	Number of Chargeable Dwellings	Relationship to Band D	Band D Equivalent
	Total		£
Band A - up to £40,000 (disabled)	1	5/9	(0.10)
Band A - up to £40,000	4,607	6/9	2020.23
Band B - over £40,000 up to £52,000	7,029	7/9	3777.69
Band C - over £52,000 up to £68,000	9,783	8/9	6765.56
Band D - over £68,000 up to £88,000	8,948	-	7683.94
Band E - over £88,000 up to £120,000	7,197	11/9	7884.80
Band F - over £120,000 up to £160,000	3,825	13/9	5075.16
Band G - over £160,000 up to £320,000	2,606	15/9	4071.86
Band H - over £320,000	233	18/9	447.84
	44,229		37,726.98

The Council Tax Base, as shown in the final column above, assumes a collection rate of 98.75% of the numbers of properties adjusted for discounts.

COLLECTION FUND STATEMENT AND NOTES

NOTE 3. INCOME FROM BUSINESS RATEPAYERS

Under the arrangements for business rates, the Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate. The national multipliers for 2018/19 were:

- 48.0p for qualifying Small Businesses (46.6p in 2017/18)
- 49.3p for other businesses (47.9p in 2017/18) – the standard multiplier

The rateable value as at the 31st March 2019 was £55,752,127 (£55,443,362 as at 31 March 2018).

GLOSSARY

ACCRUALS

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

ACTUARIAL GAINS & LOSSES

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

AMORTISATION

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

BUDGET

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

CAPITAL EXPENDITURE

Expenditure on the provision and improvements of lasting assets such as land, buildings, vehicles and equipment. The Council may also incur capital expenditure on assets that it does not actually own (see Revenue Expenditure Financed from Capital under Statute, below).

CAPITAL RECEIPTS

The proceeds from the sale of fixed assets.

CASH EQUIVALENTS

Cash equivalents are investments that mature three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING

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

COMMUNITY ASSETS

Assets that the Council intends to hold in perpetuity, that have no determinable useful life, and that have restrictions on their disposal. Examples include parks and open spaces.

CONTINGENCY

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

CREDITORS

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

DEBTORS

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

DEFINED BENEFIT SCHEME

A pension scheme under which benefits are payable under regulations, in which the benefits are not directly related to the scheme investments. The scheme may be funded or unfunded.

DEPRECIATION

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

GLOSSARY

EARMARKED RESERVES

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

EXCEPTIONAL ITEMS

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

FAIR VALUE

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction.

FINANCIAL INSTRUMENTS

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

GENERAL FUND

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

GOVERNMENT GRANTS

Central Government contributions towards local authority expenditure. Examples are Revenue Support grant and Housing Benefit Subsidy.

INFRASTRUCTURE ASSETS

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

INTANGIBLE ASSETS

Identifiable non-monetary assets such as software licences.

INVESTMENT PROPERTIES

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

LEASE

An agreement whereby the lessor conveys to the lessee, in return for a payment or a number of payments, the right to use an asset (property, plant and equipment, investment properties, non-current assets available for sale or intangible assets) for an agreed period of time.

PAST SERVICE COST

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

PRECEPT

The amount of money the County Council, Sussex Police & Crime Commissioner and the Fire Authority have instructed the Council to collect and pay out of council tax receipts held in the Collection Fund. The Council also pays from its General Fund precepts issued by parish and town councils within the district.

PROPERTY, PLANT & EQUIPMENT (PPE)

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

PROVISIONS

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

GLOSSARY

PUBLIC WORKS LOAN BOARD (PWLB)

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

REVENUE EXPENDITURE

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

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Legislation in England and Wales allows certain expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset, for example Disabled Facility Grants.

REVENUE SUPPORT GRANT

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

SURPLUS ASSETS

Items of Property Plant and Equipment that are no longer held for council purposes, but are not being actively marketed.

UNUSABLE RESERVES

These are reserves, including those offsetting non-current assets and the negative reserve that offsets the long term pension liability, that are not immediately available to support revenue or capital expenditure.

USABLE RESERVES

These reserves are available to support the Council's expenditure, although the Capital Receipts Reserve and the Capital Grants and Contributions Reserve may only be used for capital purposes.

Rother District Council

Report to	-	Audit and Standards Committee
Date	-	31 July 2019
Report of the	-	Executive Director
Subject	-	Treasury Management Report – Quarter 1

Recommendation: It be **RESOLVED:** That the report be noted.

Corporate Transformation Finance Manager – Catherine Jobling
Assistant Director Resources – Robin Vennard

Introduction

1. Council approved the Council's 2019/20 Investment Strategy in February 2019 (Minute CB18/66 refers). The investment strategy requires regular reports to be presented to this Committee on the Council's treasury management activities. Members are also reminded that investment activity is also reported through the Members' Bulletin. In managing its treasury management activities, the Council follows the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).
2. Treasury Management covers two main areas:-
 - i. The management of day to day cash flows by way of short term investing and borrowing. Longer term investment opportunities may arise depending on cashflow requirements.
 - ii. Management of the Council's long term debt portfolio which is used to finance capital expenditure that cannot be immediately funded by internal resources (e.g. by Capital Receipts).

Economic Update

3. Appendix A is our treasury advisors, Link Asset Services', view on the current economic environment and their outlook for the remainder of 2019/20. It details the impact this is likely to have on the Council's investment performance.
4. The expectation for interest rates within the treasury management strategy for 2019/20 was that rates would rise to 1% in June. The latest forecast from Link Asset services suggests a rise in March 2020.

Investments review

5. The Council currently makes most of its investments through the use of call and deposit accounts with the major financial UK institutions.

6. In addition to this the Council has invested £5 million in the Churches, Charities, Local Authorities' (CCLA) Property Investment Fund and £3 million in the HERMES Property Investment Fund.
7. As at 31 May 2019 the Council's total investments were £25,366,860. There was £12.045m borrowing at 31 May 2019 and the Capital Financing requirement was £17.284m.
8. The Council's investment policy is governed by Ministry of Housing, Communities and Local Governance investment guidance, which has been implemented in the annual investment strategy approved by the Council in February 2019. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).
9. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
10. The total income from investments is estimated at £85,270 compared to a profiled budget of £85,000.
11. The average rate of return on investments was 1.67%.
12. The investment portfolio as at 31 May 2019:

Deposit with	Type of account	Maturity Date	Amount £	Deposit	%
Lloyds (RFB)	Call Account		5,364,120	0.65%	21.15%
Bank of Scotland (RFB)	32 Days notice		1,000,000	0.80%	3.94%
Bank of Scotland (RFB)	Call Account		35	0.65%	0.00%
Barclays (RFB)	Call Account		1,060	0.50%	0.00%
Santander	Call Account		1,647	0.55%	0.01%
Lloyds (RFB)	Deposit	02/07/2019	1,500,000	1.00%	5.91%
Lloyds (RFB)	Deposit	05/07/2019	1,000,000	1.00%	3.94%
Lloyds (RFB)	Deposit	16/08/2019	1,000,000	1.05%	3.94%
Lloyds (RFB)	Deposit	24/04/2020	2,000,000	1.25%	7.88%
Lloyds (RFB)	Deposit	08/05/2020	1,000,000	1.25%	3.94%
Bank of Scotland (RFB)	Deposit	18/09/2019	3,000,000	1.05%	11.83%
Bank of Scotland (RFB)	Deposit	03/02/2020	1,500,000	1.05%	5.91%
HERMES Property Fund	Long Term		2,999,998	3.52%	11.83%
CCLA Local Authority Property Fund	Long Term		5,000,000	4.28%	19.71%
Total			25,366,860		100%
Total managed in-house			17,366,862		
Total managed externally			7,999,998		
Total Treasury Investments			25,366,860		

Prudential Indicators

13. During the period to 31 May 2019, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities to the period ended 31 May 2019, with comparators, are as follows:

Rother District Council

Capital Expenditure in £ millions

	2019/20 Budget £ (000)	2019/20 Estimated Outturn £'000
General Fund Services	8,967	8,967
Property Investment Strategy	12,238	12,238
Total	21,205	21,205

Capital financing requirement in £ millions

	2019/20 Budget £ (000)	2019/20 Estimated Outturn £'000
CFR	3,650	17,484
Gross borrowing (a)	2,512	12,046
Internal borrowing	1,138	5,438
Investments > 1year	5,000	7,935
Investments under 1 year	17,000	17,432
Total (b)	22,000	25,367
Net Borrowing (a-b)	(19,488)	(13,321)

14. Other prudential and treasury indicators are to be found in the main body of this report. The Chief Finance Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, the authorised limit, was not breached.
15. The financial year 2019/20 continued the challenging investment environment of previous years, namely low investment returns.
16. The Council undertakes capital expenditure on long-term assets. These activities may either be:
- (a) financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- (b) if insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
17. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Capital Expenditure and Financing 2019/20

	2019/20 Budget £ (000)	(Apr - May) Actual £'000
Capital Expenditure	21,205	21,205
Financing		
Capital Receipts	1,930	1,930
Grants and contributions	3,847	3,847
Borrowing	13,758	13,758
Capital Expenditure Charged to Revenue	1,670	1,670
Total Funding	21,205	21,205

Borrowing

18. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2019/20 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not been paid for by revenue or other resources.
19. Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, such as the Government, through the Public Works Loan Board (PWLB), or the money markets, or utilising temporary cash resources within the Council.
20. The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP) to reduce the CFR. This is effectively a repayment of the borrowing need. External debt can also be borrowed or repaid at any time, but this does not change the CFR.
21. The total CFR can also be reduced by:
 - the application of additional capital financing resources, (such as unapplied capital receipts); or
 - charging more than the statutory revenue charge (MRP) each year through Voluntary Revenue Provision (VRP).
22. The Council's 2019/20 MRP Policy, (as required by MHCLG Guidance), was approved as part of the Treasury Management Strategy Report for 2019/20 in February 2019.

23. The Council's CFR for the year is shown below:

CFR		
	2019/20 Budget	2019/20 Estimated Outturn
	£ (000)	£'000
Opening balance	3,650	3,756
Add unfinanced capital expenditure	16,136	13,758
Less MRP/VRP	(156)	(30)
Closing balance	19,630	17,484

24. Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

25. The authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2019/20 the Council plans to maintain gross borrowing within its authorised limit.

Treasury Indicators	2019/20 Budget	(Apr - May)* Actual
	£'000	£'000
Authorised limit for external debt	20,000	57,400
Operational boundary for external debt	10,000	52,000
Gross external debt	12,488	12,046
Investments		25,367
Net borrowing		(13,321)

26. The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

27. The actual financing costs as a proportion of net revenue stream identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

Prudential indicators	2019/20 Budget £'000	2019/20 Estimated Outturn £'000
Capital expenditure charged to the general fund	1,670	1,670
Capital Financing Requirement (CFR)	19,630	17,484
Annual change in CFR	15,980	13,728
In year borrowing requirements	12,488	12,046
Ratio of financing costs to net revenue stream %	2.50%	2.59%

28. During 2018/19, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.
29. The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting, detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the 31 May 2019 the Council's treasury borrowing position was as follows:

Borrowing position as at 31 May 2019

PWLB Ref:	Amount o/s	Interest rate	Term	Type	Repayments
507499	447,776.00	2.59%	50	Annuity	16102.16
507503	447,770.00	2.58%	50	Annuity	16070.34
509130	1,650,000.00	2.39%	50	Annuity	56729.24
509131	1,000,000.00	2.24%	50	Maturity	22,400.00
509165	8,500,000.00	2.48%	50	Annuity	297571.66
Total Borrowing	12,045,546.00	2.46%			408,873.40

30. The maturity structure of the debt portfolio was as follows:

Maturity structure of fixed rate borrowing		(Apr - May)* Actual £'000
Under 12 months		66
12 months to 2 years		234
2 years to 5 years		373
5 years to 10 years		686
10 years to 20 years *1		1,653
20 years to 30 years *1		2,114
30 years to 40 years *1		2,704
40 years to 50 years *1		4,215
Upper limit of fixed interest rates based on net debt		100%
Upper limit of variable interest rates based on net debt		50%
Upper limit for principal sums invested over 364 days	10,000	10,000

Non Treasury Investments

31. The Council has invested in regeneration of Rother through its Property Investment Strategy and the expected income from these non Treasury Investments is estimated as follows.

Property	2019/20 Estimated Property Investment Income		
	Income Property Investment Strategy	MRP & interest	Net Income
14 Terminus Road*	106,000	(32,091)	73,909
18-40 Beeching Road*	87,684	(48,435)	39,249
16 Beeching Road*	97,000	(48,435)	48,565
Glovers House	389,583	(190,133)	199,450
Total	680,267	(319,094)	361,173

* Ground rent included in rental income

Conclusion

32. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Malcolm Johnston
Executive Director

Dr Anthony Leonard
Executive Director

Risk Assessment Statement

There are no direct risks arising from this report. Failure to follow the Council's investment strategy could increase the risk of financial loss

Investment Strategy for 2019/20

Interest Rate Forecasts								
Bank Rate	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link	0.75%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.25%
Cap Econ	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	-
5Y PWLB RATE								
Link	1.80%	1.80%	1.90%	2.00%	2.10%	2.20%	2.20%	2.30%
Cap Econ	1.50%	1.60%	1.60%	1.70%	1.80%	2.00%	2.10%	-
10Y PWLB RATE								
Link	2.10%	2.20%	2.30%	2.40%	2.50%	2.50%	2.60%	2.70%
Cap Econ	1.80%	1.80%	1.80%	2.00%	2.10%	2.20%	2.30%	-
25Y PWLB RATE								
Link	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%	3.20%	3.30%
Cap Econ	2.20%	2.20%	2.20%	2.40%	2.50%	2.60%	2.60%	-
50Y PWLB RATE								
Link	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.10%
Cap Econ	2.20%	2.20%	2.20%	2.40%	2.50%	2.60%	2.70%	-

The expectation for interest rates within the treasury management strategy for 2019/20 was that rates would rise to 1% in June. The latest forecast from Link Asset services suggests a rise in March 2020.

Borrowing Strategy for 2019/20

During 2019/20, the Council is expecting to maintain an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Chief Finance Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks.

After taking advice from our Treasury advisors, the Council took advantage of low long term interest rates and locked into 50 year fixed rate borrowing to fund the property investment strategy purchases.

Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2019/20 and the two subsequent financial years. Variable or short-term rates were expected to be the cheaper form of borrowing over the period.

The Economy and Interest Rates

The Economy and Interest Rates

UK. After weak **economic growth** of only 0.2% in quarter one of 2018, growth picked up to 0.4% in quarter two and to a particularly strong 0.7% in quarter three, before cooling off to 0.2% in the final quarter. Given all the uncertainties over Brexit, this weak growth in the final quarter was as to be expected. Subsequently, the date for the UK leaving the EU has been put back to 31 October 2019 and although quarter one growth in 2019 came in at 0.5%, this performance was due in many areas to stockpiling ahead of the original 31 March 2019 exit day, and the economy is therefore expected to cool in quarter two 2019.

The annual growth in quarter one 2019 came in at 1.8% year on year, generally in line with the Bank of England's estimate of trend growth for the UK.

After the Monetary Policy Committee (MPC) raised **Bank Rate** from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a disorderly exit, it is likely that Bank Rate would be cut to support growth. Nevertheless, the MPC has been having increasing concerns over the trend in **wage inflation** which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling only marginally to 3.4% in the three months to January. British employers ramped up their hiring at the fastest pace in more than three years in the three months to January, as the country's labour market defied the broader weakness in the overall economy as Brexit approached. The number of people in work surged by 222,000, helping to push down the unemployment rate to 3.9 percent, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

As for **Consumer Price Index (CPI) inflation** itself, this has been on a falling trend since peaking at 3.1% in November 2017, reaching a new low of 1.8% in January 2019 before rising marginally to 1.9% in February. However, in the February and May 2019 Bank of England Inflation Reports, the forecast for inflation over both the two and three year time horizons remained marginally above the MPC's target of 2%.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.5%, i.e. a real terms increase, albeit the distribution of wage increases is broadly spread with those changing jobs enjoying significantly higher wage increases than the norm. Given the UK economy is very much services sector driven, an increase in **household spending power** is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

Brexit. The Conservative minority government was unable to muster a majority in the Commons over its Brexit deal and the Prime Minister, Theresa May, subsequently resigned in June 2019. The EU continues to wait for the House of Commons to propose what form of Brexit it would support. At the time of writing, a Conservative leadership election process has been initiated and this will directly impact future Brexit negotiations throughout 2019/20. However, it still appears unlikely that there would be a Commons majority which would support a disorderly Brexit or revoking Article 50, (cancelling Brexit). There would also need to be a long delay if there is no majority for any form of Brexit. If that were to happen, then it

increases the chances of a general election in 2019; this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption which generated an upturn in the strong rate of growth; this rose from 2.2%, (annualised rate) in quarter one of 2018 to 4.2% in quarter two, 3.5% in quarter three and then back to 2.2% in quarter four. The annual rate came in at 2.9% for 2018, just below President Trump's target of 3% growth. The strong growth in employment numbers has fed through to an upturn in wage inflation which hit 3.4% in February, a decade high point. However, CPI inflation overall fell to 1.5% in February, a two and a half year low, and looks to be likely to stay around that number in 2019, i.e. below the Fed's target of 2%. The Fed increased rates another 0.25% in December to between 2.25% and 2.50%, this being the fourth increase in 2018 and the ninth in the upward swing cycle. However, the Fed now appears to be heading towards a change of direction and admitting there may be a need to switch to taking action to cut rates over the next two years.

EUROZONE (EZ). The European Central Bank (ECB) provided massive monetary stimulus in 2016 and 2017 to encourage growth in the EZ and that produced strong annual growth in 2017 of 2.3%. However, since then the ECB has been reducing its monetary stimulus measures and growth has been weakening - to 0.4% in quarters one and two of 2018, and then slowed further to 0.2% in quarters three and four; it is likely to remain weak in 2019. The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The ECB completely ended its programme of quantitative easing purchases of debt in December 2018, which means that the central banks in the US, UK and EU have all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the ECB to take new measures to stimulate growth. With its refinancing rate already at 0.0% and the deposit rate at -0.4%, it has probably reached the limit of cutting rates. At its March 2019 meeting it said that it expects to leave interest rates at their present levels "at least through the end of 2019" (subsequently increased to June 2020), but that is of little help to boosting growth in the near term. Consequently, it also announced a third round of targeted longer-term refinancing operations (TLTRO); this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank's eligible loans.

CHINA. Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

JAPAN - has been struggling to stimulate consistent significant gross domestic product growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

WORLD GROWTH. Equity markets are currently concerned about the synchronised general weakening of growth in the major economies of the world: they fear there could even be a recession looming up in the US, though this fear is probably overdone. It is evident that monetary policy in all the developed economies is going to remain loose for the time being and that any uplift in UK rates will be very much constrained by what is happening in the global economy, as well as domestic factors.

AUDIT AND STANDARDS COMMITTEE

WORK PROGRAMME 2019 - 2020	
DATE OF COMMITTEE	SUBJECT
Wednesday 31 July 2019	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Annual Governance Report 2018/19 • Statement of Accounts 2018/19 • Treasury Management Monitoring Report – Quarter 1 2019/20
Monday 23 September 2019	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Internal Audit Report to 30 June 2019 • Revised Anti-Fraud and Corruption Framework • Treasury Management Report • UK Exit from the European Union (BREXIT) • Revised Procurement Strategy • Unit 4 Systems Administration
Monday 9 December 2019	<p>Part A – Standards Reports</p> <ul style="list-style-type: none"> • Code of Conduct Complaints Monitoring • Local Government Ombudsman Complaints Monitoring and Annual Review 2018-2019 • Review of Local Government Ethical Standards – Assessment of the Council’s Best Practice <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • BDO – Annual Audit Letter 2018-19 • Internal Audit Report to 30 September 2019 • Annual Risk Management Update • Treasury Management Update Report
Monday 23 March 2020	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • Grant Thornton – Grant Claim Certification for the year ended 31 March 2019 • Grant Thornton – Audit Plan 2019-20 • Internal Audit Report to 31 December 2019 • Internal Audit Plan 2020-21 • Review of Internal Audit 2019-20 • Treasury Management Report
ITEMS FOR CONSIDERATION	
Whistleblowing report	

