



*your council working for you*

# Statement of accounts 2016/17



## CONTENTS

	<b>Page Numbers</b>
<b>Narrative Report</b>	<b>2</b>
<b>Statement of Responsibilities for the Statement of Accounts</b>	<b>16</b>
<b><i>Core Financial Statements</i></b>	
<b>Movement in Reserves Statement</b>	<b>17</b>
<b>Expenditure &amp; Funding Analysis</b>	<b>20</b>
<b>Comprehensive Income &amp; Expenditure Statement</b>	<b>22</b>
<b>Balance Sheet</b>	<b>23</b>
<b>Cash Flow Statement</b>	<b>25</b>
<b>Notes to the Core Financial Statements</b>	<b>27</b>
<b><i>Supplementary Accounting Statements</i></b>	
<b>Housing Revenue Account</b>	<b>97</b>
<b>Collection Fund Account</b>	<b>107</b>
<b>Annual Governance Statement</b>	<b>110</b>
<b>Auditor's Report</b>	<b>119</b>
<b>Glossary of Terms</b>	<b>122</b>

## **Narrative Report**

### **Introduction**

This Narrative Report sets out the commentary on the financial performance of the Council for the year 2016/17 and provides details that should assist the user of the accounts to understand the context of the financial year and how the resources have been used to deliver the Council's ambitions. The Narrative report provides information of the district, the political make up, the ambitions of the Council and an overview of the many achievements that have been made to improve the quality of life to our residents, businesses and visitors.

### **The District**

South Kesteven is a district council in the county of Lincolnshire covering over 365 square miles and is made up of four distinctive market towns, over 80 rural villages and areas of stunning countryside.

Grantham is the largest town, followed by Stamford, Bourne and the Deepings.

The district has excellent access to both the A1 and the East Coast Mainline (London is only an hour away).

The population is projected to grow from 138,000 to 158,000 by 2037. Like many councils across the country, it has an ageing population with some 21% of the population being over 65 years and this is expected to grow to 31% by 2037.

These demographic changes will have obvious implications on how services will be delivered in the future.

### **Political Structure**

The Council holds elections for all Members once every four years. As at 31 May 2017 there were 42 Conservatives, 6 Independent, 3 Labour, 4 SK Independent and 1 unaligned.

The Council operated with a Cabinet structure, five overview and scrutiny committees and a Governance and Audit Committee responsible for corporate governance and approval of the Statement of Accounts. There is also a Development Control Committee, Alcohol & Entertainment Licensing Committee, Licensing committee and a Constitution Committee.

The Cabinet is chaired by the Leader of the Council. The Cabinet has executive decision making powers and meets monthly. Each of the members on the Cabinet has a remit for which they are responsible.

Although a number of areas of decision making are delegated to the Cabinet and Senior Officers, the full Council retains ultimate responsibility for the Policy and Budgetary Framework of the Council.

### **Council's Priorities**

As detailed in the Council's Corporate Plan 2016 – 2020, the priorities are:

- Grow the economy
- Keep South Kesteven clean, green and healthy
- Support good housing for all
- Promote leisure, arts and culture.

The outcomes that are delivered directly support the ambitions set out under each of the priority aims and there is clear alignment of the resources and how they are deployed to deliver these ambitions.

Amidst a number of financial challenges we have remained committed to delivering on our priorities and our statutory responsibilities whilst adding that extra quality of life factor which we know makes South Kesteven such a great place to live.

For quality of life, our festivals, funding for small business and community groups, our commitment to green space and parks and our initiative in pursuing major funding bids mark South Kesteven as an aspirational district.

Grantham's third Gravity Fields Festival in September summed up that approach.

Many of the arts and science events across the five day Sir Isaac Newton-inspired festival were a sell out. On Saturday the town was packed with people enjoying amazing attractions at St Wulfram's Church, Market Place and Abbey Gardens as part of the "Ingenious Night Out".

We drew national newspaper attention to a new Newton's Trail close to his birthplace at Woolsthorpe Manor as part of the festival, and worked with coach operators on aviation heritage tours of the county whilst staying at Stoke Rochford Hall.

Planning started for the 2017 Stamford Georgian Festival, which in 2015 delivered a nigh-on £1m boost to the local economy, and we have supported a brand new Literary Festival in the Deepings.

Plans for the new multi-million pound multiplex cinema in Grantham progressed as the centrepiece of a town centre redevelopment scheme on council-owned land.

In January the Government selected Grantham to house a new Garden Village development with plans for 3,700 new homes on the outskirts of town as one of only 14 throughout the UK selected by the Government

Our economic development team worked with Lincolnshire County Council, majority landowners Buckminster and the Homes and Communities Agency.

In Grantham's historic core a £500,000 shop front improvement scheme continues to transform retail premises in a successful partnership with Historic England.

Our Enterprise Week again delivered advice, guidance and support for small businesses across the district.

'Funding for Rural Businesses' was a chance to find out more about access to money via the council-supported LEADER funding programme. Our Employment Skill Day organised with JobCentrePlus proved a busy day.

Wyndham Park in Grantham is officially one of the very best parks in the UK after earning a prestigious Green Flag Award for the fifth year running.

A major £800,000 Heritage Lottery and Big Lottery funded project announced last summer was the result of a partnership between SKDC and Wyndham Park Forum is now recreating a First World War memorial park.

Our commitment to youth employment continued in November when the council's Apprenticeship Fair – organised with JobCentre Plus, Grantham and Boston Colleges - drew more than 130 hopeful jobseekers.

Our Community Fund launched in 2015 with £300K for local good causes and now has two thirds of that money committed and working in the community.

The fund is being used to improve village halls, tennis clubs, sports pavilions, provide children's play equipment, provide for a kitchen for the homeless and learning equipment for English language learning.

Sport remains high on the agenda. More than 1,000 children took part in the ninth annual Inspire+ Mini Olympics at Grantham Meres themed around Rio 2016 Olympic Games.

### **Changes to the Accounting Policies**

There have been no changes to the Accounting Policies during the 2016/17 financial year.

### **The Statement of Accounts**

We have followed the **Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Local Authority Accounting** in the United Kingdom in putting together our Statement of Accounts for the financial year ended 31 March 2017.

The accounts give a true and fair view of South Kesteven's financial position for the financial year 2016/17. Our accounting policies are outlined in this document and have been fairly and consistently applied. We keep proper and up to date accounting records and take all reasonable steps to prevent and detect fraud and other irregularities.

The Strategic Director (Corporate Focus) is the statutory officer responsible for the proper administration of the Council's financial affairs (referred to in the statement as the Chief Finance Officer). He is required by law to confirm that the Council's system of internal controls can be relied upon to produce an accurate statement of accounts. His statement of assurance for 2016/17 (known as the Statement of Responsibilities) appears on page 16 of this document.

The main statements included in the accounts consist of:

**Statement of Responsibilities (page 16)** - The Statement of Responsibilities for the Statement of Accounts details the respective responsibilities of the Chief Finance Officer and the Council.

**Movement in Reserves Statement (page 17)** - This statement reconciles the total Comprehensive Income and Expenditure Statement to reserve movements in the year.

**Expenditure and Funding Analysis (page 20)** – This analysis demonstrates to council tax (and rent) payers how the funding available to the Council for the year has been used in providing services in comparison with those resources consumed or earned by councils in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes.

**Comprehensive Income and Expenditure Statement (page 22)** - This statement consolidates all the gains and losses experienced by the Council in the financial year and reconciles to the overall movement in net worth.

**Balance Sheet (page 23)** - The Balance Sheet summarises the Council's financial position at 31 March 2017.

**Cash Flow Statement (page 25)** - The cash flow statement summarises the flows of cash that have taken place into and out of the Council's bank accounts over the financial year.

**Notes to the Core Financial Statements (page 27)** – Notes to the preceding financial statements, explaining and providing additional information to figures included in these statements.

**Housing Revenue Account (page 97)** - This reflects a statutory obligation to account separately for the Council's housing landlord function. It shows the major elements of housing revenue expenditure - maintenance, administration, and capital financing costs, and how these are met by rents and other income.

**Collection Fund (page 107)** – We are legally obliged to maintain this fund separately from all our other funds and accounts. It shows transactions that have arisen because we are a billing authority, collecting non-domestic rates and council tax on behalf of central government and precepting authorities – the County Council, Police Authority and Parish Councils as well as ourselves. The Collection Fund shows the money we receive from local taxpayers in relation to non-domestic rates and council tax, and illustrates the way in which this has been distributed to preceptors and the General Fund.

**Annual Governance Statement (page 110)** - Regulation 2(6) of the Accounts and Audit Regulations 2015 requires that the Council or a Committee of the Council consider the findings of a review of the system of internal control. The governance statement covers all significant corporate systems, processes and controls, spanning the whole range of the Council's activities.

**A glossary** is provided (**page 121**) to help explain the terms used.

### **Review of the Year**

The 2016/17 financial year saw the Council continue to implement its transformation and efficiency plans which is delivering reductions in the operating costs of the Council without impacting on front line service quality. The Council has continued to operate in a more business like approach and has introduced a number of commercial initiatives specifically the creation of a local authority company, an investment strategy, a Building Control partnership and the letting of office space at a market rent. These initiatives will continue as the Council moves towards self financing by 2019/20.

The financial performance and key variance explanations of the General Fund are provided and they are intended to demonstrate how the Council has used its resources to deliver priority outcomes. They only focus on the key movements in order to explain any changes between budget and actual expenditure.

The table below shows the Comprehensive Income & Expenditure Statement (CIES) for the General Fund at £15.426M and reconciles back to the Service Outturn of £14.706M.

Priority	2016/17 Original Base  A £'000	2016/17 Adjusted Base  B £'000	2016/17 Net cost of services C £'000	2016/17 Removal of Accounting Adjustments D £'000	2016/17 Outturn E  C+D £'000	2016/17 Variance  E-B £'000
Corporate	4,551	4,459	4,091	162	4,253	(206)
Culture	2,885	2,958	3,307	(203)	3,104	146
Environment	6,379	6,361	6,292	(266)	6,026	(335)
Growth	523	511	336	(167)	169	(342)
Housing	1,088	1,137	1,294	(140)	1,154	17
<b>Net Cost Total</b>	<b>15,426</b>	<b>15,426</b>	<b>15,320</b>	<b>(614)</b>	<b>14,706</b>	<b>(720)</b>

## Summary of Key Priority Variances

### Corporate

Community Fund – the number of applications received during the year was less than the budgeted levels and reduced the funding awarded by £71K from the budget of £200K. In accordance with the Council decision, the community fund reserve balance will be set at £150K for the financial year 2017/18.

Centralisation of budgets – during the year a number of centralised service budgets including, printing, ICT and postage costs, have provided for a saving of £79K reflecting the procurement efficiencies that have been achieved.

There have been costs incurred during the year in respect of progressing the formation of the Local Authority Controlled Company (£24K) and the preparatory work with respect to the Lincolnshire devolution combined authority (£76K). In respect of these work streams, the costs will be met from the Transformation reserve.

A review of empty homes has continue to be undertaken during the year but the review has been undertaken utilising internal resources rather than procuring external support resulting in a saving of £30K.

### Culture

Arts and Events – Leisure and cultural events that have been held at the Meres Leisure Centre during the year have shown a reduction in the profit margin from a budgeted 30% to an actual margin of 4% (£18K reduction). In order to enhance the event facilities, specialised lighting equipment has been procured of £20K for the Meres shows which will be funded by the Maintenance reserve.

Stamford Arts Centre – An unexpected contribution of £52K from a local inheritance has been received which will be used to fund future improvements at the centre. Additional premise repair costs of £40K will be funded from the Maintenance reserve.

Leisure Centres – Additional premise repair costs of £30K will be funded from the Maintenance reserve and (£98K) of grant funding was received to fund the continued works on the 3G football pitch.

Property Investment Strategy – Due to the lack of commercial investment opportunities that meet the Councils requirements in accordance with the agreed criteria, no investment property income was received in 2016/17 against budgeted income of £200K.



## **Environment**

Environmental Services – During the year a large proportion of specialist inspection work has been undertaken utilising in-house resources rather than using sub-contractors resulting in savings of £35K.

Flood Prevention – There has been a review of the programme of works which has resulted in specific flood prevention works being undertaken during 2017/18 using funding of (£40K) received from a third party.

Street Care Services – There have not been any increases to the fuel duty rate in 2016/17 which has resulted in an under spend of (£60K) and vehicle repair costs were lower than budgeted (£20K) due to efficiencies achieved from procurement activities. Additional green waste income (£84K) has been received with 26,330 households renewing their annual subscription and 1,180 new households joining the service.

Footpath Lighting – A reduction in repairs to column and street lamps of (£40K) has been achieved following a scheme of health and safety repairs undertaken in the previous year.

## **Growth**

Car Parks – There is an overall increase in income £87K as a result of higher than budgeted pay & display ticket sales. This has offset additional costs of £25K that have been incurred in relation to enforcement and supervisory costs that have resulted from a temporary contract change.

Development Management – Income in respect of pre-planning advice has increased from the budgeted level of £40K to actual income of £58K following an increase in the number of enquiries from larger development sites. Grant income of (£214K) for the Garden Village has been received during the year and will be utilised to fund specialist works to facilitate the application. Specialist consultancy costs of £109K have been funded by capacity grant funding received in 2015/16.

Additional income of £104K has been received in the year following a dilapidation report for Council owned commercial premises at Northfields, Market Deeping which has subsequently been sold.

Markets – There has been a reduction of income at each of the sites in year (Grantham £27K, Stamford £13K, Bourne £3K) as a result of challenging trading activities and an increase in operational costs. An agreed reduction in the market rights charge for holding the weekly Grantham market has been re-invested in special events during the year in order to promote and reinvigorate attendance.

Planning Policy – Re-phasing of the Local Plan has led to an under spend of (£50K). This will be transferred back to the Economic Development & Growth reserve and used to fund future specialist Local Plan preparatory works.

## **Housing**

Private Sector Housing – There are a number of expenditure items under this service heading that fall within the category of REFCUS (revenue expenditure funded from capital under statute). These items specifically relate to discretionary facilities grants and housing assistance grants.



Homelessness – Preventative measures have been undertaken to reduce the need for emergency accommodation resulting in an underspend of £21K.

## HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) relates to the Council's Landlord functions in respect of the social rented sector it owns. Revenue raised by rents and service charges must be sufficient to match the expenditure costs of the service. A summary table explaining the outturn compared to budget is detailed below:

		2016/17	2016/17	2016/17
		Adjusted	Outturn	Variance
		Base £'000	£'000	Adjusted £'000
	<b>INCOME</b>			
1	Dwelling Rents	(25,212)	(25,195)	17
2	Non Dwelling Rents	(296)	(282)	14
3	Charges for Services and Facilities	(594)	(585)	9
4	Other Income	(65)	(65)	0
5	<b>TOTAL INCOME</b>	<b>(26,167)</b>	<b>(26,127)</b>	<b>40</b>
	<b>EXPENDITURE</b>			
6	Repair and Maintenance	8,234	7,713	(521)
7	Supervision and Management - General	2,527	2,629	102
8	Supervision and Management - Special	1,031	998	(33)
9	HRA share of Corporate and Democratic Costs	364	379	15
10	Depreciation and Impairment of Fixed Assets	2,689	3,334	645
11	Revaluation Losses (Gains)	0	(48,066)	(48,066)
12	Non Enhancing Capital Expenditure	0	4,087	4,087
13	Debt Management Expenses	25	31	6
14	Provision for bad debts	300	94	(206)
15	Pension Deficit	157	0	(157)
16	Internal insurance	0	29	29
17	Savings & Efficiencies	51	0	(51)
15	<b>TOTAL EXPENDITURE</b>	<b>15,378</b>	<b>(28,772)</b>	<b>(44,150)</b>
16	<b>NET COST OF HRA SERVICES</b>	<b>(10,789)</b>	<b>(54,899)</b>	<b>(44,110)</b>

### Dwelling rents and other income

The performance of the collection of rents has been sustained during this financial year by utilising focused collection methods and early interventions with tenants who show signs of difficulty meeting their tenant obligations with respect to rent payments.

## **Repairs and maintenance**

This budget covers expenditure on a range of work areas including structural improvements, insulation, painting, disabled adaptations, asbestos, gas servicing and maintenance as well as reactive and void repairs. The under spend is mainly due to delays in re-procuring contracts, reduced demand requirements, and lower void numbers restricting access to carry out certain works.

## **Supervision and Management (Special)**

This budget covers services relating to some but not all HRA tenants. It includes homelessness dwellings, sheltered housing schemes and grounds maintenance. The under spend of £33K is mainly due to lower utility costs at the sheltered housing schemes.

## **Revaluation Gains**

The vacant possession value of dwellings is adjusted (multiplied) by the Valuation Office Agency to reflect the social housing status of local authority dwellings. For 2016/17 the adjustment factor for social housing in the East Midlands was increased from 34% to 42% resulting in revaluation gains.

## CAPITAL EXPENDITURE

During 2016/17 the Council's total capital investment was £7.351M. A summary of the expenditure is set out below and is compared to the updated base programme.

	<b>Corporate Area</b>	<b>2016/17 Updated Base</b>	<b>2016/17 Outturn</b>	<b>2016/17 Variance</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
1	Growth	10,222	473	(9,749)
2	Housing	650	466	(184)
3	Culture	40	165	125
4	Environment	698	412	(286)
5	Corporate	192	55	(137)
6	Other (including previous year schemes)	0	37	37
<b>7</b>	<b>General Fund Sub Total</b>	<b>11,802</b>	<b>1,608</b>	<b>(10,194)</b>
8	Housing Revenue Account	9,700	5,743	(3,957)
<b>9</b>	<b>Total Capital Programme</b>	<b>21,502</b>	<b>7,351</b>	<b>(14,151)</b>
	<b>FUNDING</b>			
10	External Grants and Contributions		980	
11	Council Reserves and Receipts		6,371	
<b>12</b>	<b>Total Funding</b>		<b>7,351</b>	

## **Variance Analysis – General Fund**

### **Growth Priority Heading**

St. Peter's Hill Development Project – There was slippage of £4.529M due to delays in the delivery of the project. This was due to further scheme design options being considered with respect to the site and which resulted in variations in the timing of the project. This budget has been incorporated into the 2017/18 programme.

Property Investment Strategy – During the year it has not been possible to identify investment opportunities that meet the criteria as detailed in the investment strategy. Therefore no purchases have taken place during 2016/17 and the investment budget has been moved into the 2017/18 capital budget framework.

### **Housing Priority Heading**

Housing Grant Assistance – The under spend of £59K was due to the volume of applications being lower than previously anticipated.

Disabled Facilities Grants – Applications are dependent on an assessment carried out by an occupational therapist at the County Council, these are then processed by the Lincolnshire Home Independence Agency. The number of referrals and processing required for these applications to reach approval has resulted in an under spend of £125K.

### **Culture Priority Heading**

The overall over spend is due to the AstroTurf pitch replacement at the Meres Leisure Centre (£114K). This expenditure will be funded through a combination of grant and section 106 funding.

There is proposed slippage (£25K) for the low voltage panel replacement at the Grantham council offices which has not been completed during the financial year.

### **Environment Priority Heading**

There is a saving with respect to wheelie bin procurement of £54K due to reduced requirements.

The vehicle procurement programme was under spent by £185K due to there being a saving of £40K on the purchase costs and £145K proposed additional slippage as some of the vehicles were not ready for delivery until 2017/18.

### **Corporate Priority Heading**

There are under spends and proposed additional slippages of £42K on the IT Infrastructure budget, 8K on the customer access strategy and £50K on the new customer relationship and document management systems due to changes in the phasing of the project. The Financial systems upgrade budget (£20K) is also proposed to be slipped into the 2017/18 programme due to implementation delays caused by the supplier.

## **Variance Analysis – Housing Revenue Account**

### **Energy Efficiency**

There was an in-year saving of 130K on central heating boilers due to lower than budgeted costs and there were outstanding works (£45K) that were not completed by the end of the financial year and is proposed to be moved into the 2017/18 capital programme.

### **Stock Growth and Acquisitions**

During the year there have been 2 buy backs (former Council properties) and 1 conversion resulting in an under spend of £1.596M. It is proposed to slip the remainder of the budget into the 2017/18 programme.

### **New Build Properties**

The new build capital programme has seen the start of 3 new schemes at Earlesfield Lane Grantham (4 units), Trent Road Grantham (18 units) and Westry Close Barrowby (5 units). However, due to delays in the mobilisation and site preparation there has been an under spend of £524K for 2016/17. £1.013M has already been slipped into the 2017/18 programme to provide a combined budget of £2.213M.

### **ICT Software**

The vehicle management system budget (£50K) is no longer required as a financial appraisal has identified that rental of the devices is more cost effective and therefore this will be revenue expenditure going forward. The customer relationship and document management systems budget (£91K) was not required as changes in the phasing of the project resulted in there being no cost to the HRA in phase 3.

### **Purchase of Vehicles**

The replacement programme for the direct works vehicles provided a saving of £80K and there is proposed slippage of £122K as some vehicles ordered were not ready for delivery until the financial year 2017/18.

### **Non-enhancing Capital Expenditure**

#### **Re-Wiring**

There was an under spend of £192K due to the number of dwellings identified (37) from the preliminary electrical testing work being lower than budgeted (60).

#### **Kitchen & Bathroom Refurbishments**

The volume of lower cost kitchens carried out in year and the numbers of tenants' refusals has resulted in an under spend of £294K. The budget was based on 434 @ £3,100 per unit. The average actual cost per unit was £2,300 and there were 113 tenants who refused to allow the improvements to be undertaken.

#### **Replacement Door Programme**

There was an under spend of £90K due to a reduced number of doors required to be replaced following pre-inspection. The budget was based on 60 properties @ £2,330 per property. 31 properties did not require replacements following pre-inspection.

## **External Wall Insulation**

This scheme was under spent by £782K because starts on site were delayed until January due to the length of time taken to award the contract. There was also procurement of external design advice and surveying of properties not undertaken on previous phases of the programme. Originally 205 properties were budgeted to be done but only 56 were completed in year due to the delay.

## **Cashflow**

At the 31<sup>st</sup> March 2017 the Council had a strong cash position as detailed below;

	<b>31st March 2017 £'000</b>	<b>31st March 2016 £'000</b>
Cash & Cash Equivalents	8,448	7,598
Short Term Investments	46,213	37,305
Long Term Investments	7,000	5,000
	<b>61,661</b>	<b>49,903</b>

The main factors that could affect cash in the future are:

- Acquisition and disposals relating to capital programme
- The value of reserve balances
- Grants & contributions unapplied
- HRA rental income reducing
- Repayment of borrowing

## **Reserves & Balances**

The Council maintains working balances for both the General Fund and the Housing Revenue Account. The working balance has been maintained to provide a financial cushion should something unexpected happen that leads to significant unplanned expenditure that would not be met from other sources. The level of working balance is in accordance with the policy set by the Council to maintain a balance at a level equal to 10-15% of net expenditure.

The General Fund working balance at the end of the financial year is £1.798M which is 11.9% of net original base budget for 2016/17 (net operating expenditure). The Housing Revenue Account working balance of £3.626M represents the existing revenue balance.

The Council's total working balances and reserves total £62.2M as at 31<sup>st</sup> March 2017. The reserves have specific policies relating to their use and are allocated in order to fund capital and revenue expenditure that support the delivery of Council priorities. The increase in balance compared to 31<sup>st</sup> March 2016 is the result of New Homes bonus monies received and the setting a side of funds for the repayment of a HRA loan in 2020. The budget framework each year sets out how the funding from the reserves will be used to contribute towards spending proposals.

A summary of the specific and earmarked reserve balances as at 31 March 2017 are as follows:

	£'000
Usable Capital Receipts Reserve	2,924
HRA Capital Receipts Reserve	2,853
Major Repairs Reserve	8,875
Earmarked GF Revenue Reserves	23,312
General Fund Unapplied Revenue Grants	233
Earmarked HRA Revenue Reserves	1,779
Earmarked GF Capital Reserve	2,792
GF Unapplied Capital Grants	0
Earmarked HRA Capital Reserves	14,000
Housing Revenue Account Balance	3,626
General Fund Balance	1,798
	<b>62,192</b>

### **Treasury Management Performance**

We exceeded our original investment income budget for the year of £402K by £219K which was due to a combination of higher than budgeted cash balances and taking longer dated investments to maximise yields.

### **Pension Liabilities**

The Council has net pension liabilities of £47.6M (£38.3M 2015/16) in the balance sheet. This reflects the value of pension liabilities which the Council is required to pay in the future as they fall due, offset by the value of the assets invested in the pension fund. The increase follows the triennial revaluation undertaken by the actuaries at 31<sup>st</sup> March 2016.

### **Council Performance 2016/17**

The Council has a range of performance measures it uses to monitor and track progress towards achieving its strategic priorities. The following measures are an extract of performance measures for the year and overall show a positive direction of travel between 2015/16 and 2016/17.

<b>Performance Measure</b>	<b>Priority Area</b>	<b>2015/16 Result</b>	<b>2016/17 Result</b>	<b>2016/17 Target</b>
% of Non Domestic Rates collected	Growth	98.6%	99.0%	98.7%
% Household waste sent for reuse, recycling and composting	Environment	43.2%	42.3%	45%
Number of visits through our Leisure Centres	Culture	1,125,883	1,234,908	875,000
% of Council Tax collected	Growth	98.7%	98.8%	98.8%
% of rent collected against annual collection target	Housing	98.5%	98.5%	98.5%
% of planning applications approved	Growth	92%	90.5%	-



### **Further Information**

Further information about the Statement of Accounts is available from the Financial Services section at the Council Offices, St Peter's Hill, Grantham, Lincolnshire, NG31 6PZ, telephone 01476 406203 or [accountancy@southkesteven.gov.uk](mailto:accountancy@southkesteven.gov.uk). In addition, interested members of the public have a statutory right to inspect the accounts before the annual audit is completed. The availability of the accounts for inspection is advertised in the local press and on our website at [www.southkesteven.gov.uk](http://www.southkesteven.gov.uk)



**Daren Turner ACCA**  
**Strategic Director – Corporate Focus**  
**20 September 2017**

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Council's Responsibilities

The Council is required to:

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

### The Chief Finance Officer's Responsibilities

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

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

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

The Chief Finance Officer has also:

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

### CHIEF FINANCE OFFICER'S CERTIFICATE

I certify that the accounts set out in this document present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31 March 2017.



**DAREN TURNER ACCA**  
**CHIEF FINANCE OFFICER**  
**20<sup>th</sup> SEPTEMBER 2017**



**COUNCILLOR IAN STOKES**  
**CHAIRMAN OF GOVERNANCE & AUDIT COMMITTEE**  
**20<sup>th</sup> SEPTEMBER 2017**

## MOVEMENT IN RESERVES STATEMENT

This statement shows the movement from the start of the year to the end on different reserves held by the authority, analysed into “usable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and other “unusable reserves”. The statement shows how the movements in year of the Council’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account (HRA) Balance movements in the year, following those adjustments.

	General Fund Balance (including Earmarked Reserves) £'000	Housing Revenue Account (including Earmarked Reserves) £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied Account £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
<b>Balance at 31 March 2016 carried forward</b>	(24,013)	(17,379)	(4,320)	(6,775)	0	<b>(52,487)</b>	(91,933)	<b>(144,420)</b>
<b>Movement in reserves during 2016/17</b>								
Total Comprehensive Income and Expenditure	(791)	(52,338)				<b>(53,129)</b>	5,331	<b>(47,798)</b>
Transfers between Reserves	0	3,141	(51)	946		<b>4,036</b>	(4,036)	<b>0</b>
Adjustments from income & expenditure charged under the accounting basis to the funding basis	(3,331)	47,171	(1,406)	(3,046)	0	<b>39,388</b>	(39,388)	<b>0</b>
Increase or (Decrease) in 2016/17	(4,122)	(2,026)	(1,457)	(2,100)	0	<b>(9,705)</b>	(38,093)	<b>(47,798)</b>
Balance at 31 March 2017 carried forward	<b>(28,135)</b>	<b>(19,405)</b>	<b>(5,777)</b>	<b>(8,875)</b>	<b>0</b>	<b>(62,192)</b>	<b>(130,026)</b>	<b>(192,218)</b>

For details of reserves see notes 27 and 28

## MOVEMENT IN RESERVES STATEMENT Continued

Movement in Reserves Statement 2015/16 Restated	General Fund Balance (including Earmarked Reserves)	Housing Revenue Account (including Earmarked Reserves)	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2015</b>	(19,729)	(14,135)	(4,376)	(5,384)	(15)	<b>(43,639)</b>	(68,316)	<b>(111,955)</b>
<b>Movement in reserves during 2015/16</b>								
Total Comprehensive Income and Expenditure	2,007	(10,495)				<b>(8,488)</b>	(23,977)	<b>(32,465)</b>
Transfers between Reserves		3,563	790	1,161		<b>5514</b>	(5,514)	<b>0</b>
Adjustments from income & expenditure charged under the accounting basis to the funding basis	(6,291)	3,688	(734)	(2,552)	15	<b>(5,874)</b>	5,874	<b>0</b>
Increase or (Decrease) in 2015/16	(4,284)	(3,244)	56	(1,391)	15	<b>(8,848)</b>	(23,617)	<b>(32,465)</b>
Balance at 31 March 2016 carried forward	<b>(24,013)</b>	<b>(17,379)</b>	<b>(4,320)</b>	<b>(6,775)</b>	<b>0</b>	<b>(52,487)</b>	<b>(91,933)</b>	<b>(144,420)</b>

For details of reserves see notes 27 and 28

## MOVEMENT IN RESERVES STATEMENT Continued

	General Fund Balance	Earmarked General Fund Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	<b>Total Usable Reserves</b>	Unusable Reserves	<b>Total Authority Reserves</b>
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance at 31 March 2015</b>	(1,913)	(17,816)	(4,783)	(9,352)	(4,376)	(5,384)	(15)	<b>(43,639)</b>	(68,316)	<b>(111,955)</b>
<b>Movement in reserves during 2015/16</b>										
Surplus or (deficit) on the provision of services	2007		(10,495)					<b>(8,488)</b>		<b>(8,488)</b>
Other Comprehensive Income & Expenditure (see bottom of CIES)								0	(23,977)	(23,977)
Total Comprehensive Income & Expenditure	<b>2007</b>	<b>0</b>	<b>(10,495)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(8,488)</b>	<b>(23,977)</b>	<b>(32,465)</b>
Adjustments between accounting basis and funding basis under regulations (Note 8)	(6,476)	185	3,688	0	(734)	(2,552)	15	(5,874)	5,874	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves	<b>(4,469)</b>	<b>185</b>	<b>(6,807)</b>	<b>0</b>	<b>(734)</b>	<b>(2,552)</b>	<b>15</b>	<b>(14,362)</b>	<b>(18,103)</b>	<b>(32,465)</b>
Transfers to/(from) Earmarked Reserves (Note 9)	4,469	(4,469)	6,767	(3,204)	790	1,161	0	5,514	(5,514)	0
(Increase)/Decrease in 2015/16	<b>0</b>	<b>(4,284)</b>	<b>(40)</b>	<b>(3,204)</b>	<b>56</b>	<b>(1,391)</b>	<b>15</b>	<b>(8,848)</b>	<b>(23,617)</b>	<b>(32,465)</b>
Balance at 31 March 2016 carried forward	<b>(1,913)</b>	<b>(22,100)</b>	<b>(4,823)</b>	<b>(12,556)</b>	<b>(4,320)</b>	<b>(6,775)</b>	<b>0</b>	<b>(52,487)</b>	<b>(91,933)</b>	<b>(144,420)</b>

For details of reserves see notes 27 and 28

## EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	<b>2016/17</b>		
	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
Corporate	3,598	(124)	3,722
Culture	1,406	(1,906)	3,312
Environment	5,252	(1,041)	6,293
Growth	197	(435)	632
Housing	(14,026)	39,946	(53,972)
<b>Net Cost of Services</b>	<b>(3,573)</b>	<b>36,440</b>	<b>(40,013)</b>
Other Income & Expenditure	(5,716)	7,400	(13,116)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(9,289)</b>	<b>43,840</b>	<b>(53,129)</b>
	Total £'000	General Fund £'000	HRA £'000
<b>Opening General Fund and HRA Balance</b>	(41,392)	(24,013)	(17,379)
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year	(9,289)	(4,122)	(5,167)
Transfers to/ from reserves	3,141	0	3,141
<b>Closing General Fund and HRA Balance</b>	<b>(47,540)</b>	<b>(28,135)</b>	<b>(19,405)</b>

## EXPENDITURE AND FUNDING ANALYSIS Cont'd

2015/16

	Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£'000	£'000	£'000
Corporate	3,282	240	3,522
Culture	1,560	2,698	4,258
Environment	5,270	1,229	6,499
Growth	663	341	1,004
Housing	(12,801)	(27)	(12,828)
<b>Net Cost of Services</b>	<b>(2,026)</b>	<b>4,481</b>	<b>2,455</b>
Other Income & Expenditure	(9,065)	(1,878)	(10,943)
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(11,091)</b>	<b>2,603</b>	<b>(8,488)</b>
	Total £'000	General Fund £'000	HRA £'000
<b>Opening General Fund and HRA Balance</b>	(33,864)	(19,729)	(14,135)
Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year	(11,091)	(4,284)	(6,807)
Transfers to/ from reserves	3,563		3,563
<b>Closing General Fund and HRA Balance</b>	<b>(41,392)</b>	<b>(24,013)</b>	<b>(17,379)</b>



## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement. In accordance with the 2016/17 CIPFA code of practice, the prior year comparators have been restated to reflect the change in reporting of cost of services from analysis by SERCOP heading to analysis by Priority Area.

2015/16 Restated				2016/17		
Gross Expenditure	Gross Income	Net Expenditure	Note	Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
5,881	(2,359)	3,522	Corporate	6,425	(2,703)	3,722
6,407	(2,149)	4,258	Culture	5,453	(2,141)	3,312
9,164	(2,665)	6,499	Environment	9,186	(2,893)	6,293
3,778	(2,774)	1,004	Growth	3,591	(2,959)	632
46,019	(58,847)	(12,828)	Housing	3,170	(57,142)	(53,972)
<b>71,249</b>	<b>(68,794)</b>	<b>2,455</b>	<b>Cost Of Services</b>	<b>27,825</b>	<b>(67,838)</b>	<b>(40,013)</b>
<b>Other Operating Expenditure</b>						
154	(1,166)	(1,012)	(Gain)/Loss Disposal of Fixed Assets	182	(1,052)	(870)
2,168		2,168	Precepts & Levies	2,194		2,194
850		850	Contribution Housing Capital Receipts to the Pool	811		811
		0	Other Operating Income & Expenditure			0
<b>3,172</b>	<b>(1,166)</b>	<b>2,006</b>		<b>3,187</b>	<b>(1,052)</b>	<b>2,135</b>
<b>Financing and Investment Income and Expenditure</b>						
3,223		3,223	Interest Payable on Debt	3,108		3,108
1,679		1,679	Net Interest on the net defined benefit liability (asset)	1,345		1,345
	(555)	(555)	Interest & Investment Income		(621)	(621)
240	(244)	(4)	Income & Expenditure and Movement in Fair Value of Investment Property	121	(68)	53
487	(763)	(276)	(Gain)/Loss on Trading Accounts	497	(895)	(398)
<b>5,629</b>	<b>(1,562)</b>	<b>4,067</b>		<b>5,071</b>	<b>(1,584)</b>	<b>3,487</b>
<b>Taxation and Non-Specific Grant Income</b>						
	(7,782)	(7,782)	Council Tax		(8,137)	(8,137)
	(2,121)	(2,121)	Non-Domestic Rates		(3,415)	(3,415)
	(7,113)	(7,113)	Non-Service-Related Government Grants		(7,186)	(7,186)
<b>0</b>	<b>(17,016)</b>	<b>(17,016)</b>		<b>0</b>	<b>(18,738)</b>	<b>(18,738)</b>
	<b>(8,488)</b>		<b>(Surplus) or Deficit on Provision of Services</b>			<b>(53,129)</b>
	(7,772)		(Surplus) or deficit on revaluation of non-current assets			(2,387)
	(16,205)		Actuarial (gains) / losses on pension assets / liabilities	41		7,718
	<b>(23,977)</b>		<b>Other Comprehensive Income and Expenditure</b>			<b>5,331</b>
	<b>(32,465)</b>		<b>TOTAL COMPREHENSIVE INCOME &amp; EXPENDITURE</b>			<b>(47,798)</b>

## BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

At 1st April 2016 £'000		Note	At 31st March 2017 £'000
178,765	Council Dwellings	15	222,566
57,953	Other Land and Buildings	15	56,076
4,312	Plant, Vehicles and Equipment	15	3,937
191	Surplus Assets not held for sale	15	191
376	Assets Under Construction	15	2,124
429	Heritage Assets	46	429
2,595	Investment Property	16	2,529
380	Intangible Assets	17	334
5,000	Non Current Investments	47	7,000
2,103	Non Current Debtors	22	1,067
<b>252,104</b>	<b>Non Current Assets</b>		<b>296,253</b>
1,420	Current Assets Held for Sale	24	1,695
37,305	Current Investments	47	46,213
11	Inventories	20	12
3,298	Current Debtors	22	5,719
7,598	Cash and Cash Equivalents	23	8,448
<b>49,632</b>	<b>Current Assets</b>		<b>62,087</b>
(3,274)	Current Borrowing	43	(4,280)
(6,483)	Current Creditors	25	(7,866)
(1,208)	Current Provisions	26	(666)
<b>(10,965)</b>	<b>Current Liabilities</b>		<b>(12,812)</b>
(85)	Non Current Provisions	26	(973)
(106,543)	Non Current Borrowing	43	(102,321)
(38,306)	Other Non Current Liabilities	41	(47,628)
(1,417)	Capital Grants Receipts in Advance	35	(2,388)
<b>(146,351)</b>	<b>Non Current Liabilities</b>		<b>(153,310)</b>
<b>144,420</b>	<b>Net Assets</b>		<b>192,218</b>

## BALANCE SHEET Cont'd

At 1st April 2016		Note	At 31st March 2017
£'000			£'000
4,320	Usable Cap Receipts Reserve	27	5,777
6,775	Major Repairs Reserve	27	8,875
19,005	Earmarked GF Revenue Reserves	27	23,545
1,579	Earmarked HRA Revenue Reserves	27	1,779
10,977	Earmarked HRA Capital Reserves	27	14,000
3,095	Earmarked GF Capital Reserves	27	2,792
0	Capital Grants Unapplied	27	0
1,913	General Fund Balance	27	1,798
4,823	HRA Balance	27	3,626
<b>52,487</b>	<b>Usable Reserves</b>		<b>62,192</b>
110,725	Capital Adjustment Account	28	156,086
21,116	Revaluation Reserve	28	22,551
(38,306)	Pension Reserve	28	(47,628)
(131)	Short Term Accumulated Absences Account	28	(131)
(1,507)	Collection Fund adjustment Account	28	(884)
36	Deferred Capital Receipts	28	32
<b>91,933</b>	<b>Unusable Reserves</b>		<b>130,026</b>
<b>144,420</b>	<b>Total Reserves</b>		<b>192,218</b>

## CASH FLOW STATEMENT

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

Cash outflows are shown as negative figures in the cash flow statement to allow the movement in cash & cash equivalents to match the signage convention on the balance sheet.

2015/16 £'000	Notes	2016/17 £'000
<b>Operating Activities</b>		
8,488		53,129
5,827	48	(33,838)
(3,324)		(4,665)
2,837		2,487
Net cash flows from Operating Activities includes		
(3,223)		(3,108)
386		621
<b>10,991</b>		<b>14,626</b>
<b>Investing Activities</b>		
(7,226)		(6,982)
(39,000)		(54,000)
3,206		3,776
30,000		43,000
591		1,913
<b>(12,429)</b>		<b>(12,293)</b>

## CASH FLOW STATEMENT (CONT)

2015/16 £'000		Notes	2016/17 £'000
	<b>Financing Activities</b>		
(3,751)	Repayments of short and long-term borrowing		(3,216)
968	Other payments for financing activities		1,733
<u>(2,783)</u>	<b>Net cash flows from Financing Activities</b>		<u>(1,483)</u>
<u>(4,221)</u>	<b>Net increase or (decrease) in cash and cash equivalents</b>		<u>850</u>
11,819	Cash and cash equivalents at the beginning of the reporting period		7,598
7,598	Cash and cash equivalents at the end of the reporting period	23	8,448

## **1. STATEMENT OF ACCOUNTING POLICIES**

### **I. GENERAL PRINCIPLES**

The Statement of Accounts summarises the Council's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. 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 2016/17* and the *Service Reporting Code of Practice 2016/17*, 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.

### **II. ACCRUALS OF INCOME AND EXPENDITURE**

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument, rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount 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.

### **III. 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 highly liquid investments that mature in 30 days or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### **IV. EXCEPTIONAL ITEMS**

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

### **V. PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES & ESTIMATES AND ERRORS**

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (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.

### **VI. CHARGES TO REVENUE FOR NON-CURRENT ASSETS**

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

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and Impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the loss can be written off.
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.



## **VII. COUNCIL TAX AND NON-DOMESTIC RATES**

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of major preceptors (including government for NDR) and, as, principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

### **Accounting for Council TAX and NDR**

The council tax and NDR included in the Comprehensive Income and Expenditure Statement is the council's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the council's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the council's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

## **VIII. 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 for current employees and are recognised as an expense for services in the year in which the employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **Termination Benefits:**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the appropriate service, or where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement the earlier of when the Council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for

pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end

### **Post-Employment Benefits**

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

The Council recognises the cost of retirement benefits in the revenue account when employees earn them, rather than when the benefits are eventually paid as pensions.

### **Local Government Pension Scheme**

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

- The liabilities of the Lincolnshire County Council pension scheme 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 projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate calculated by the Actuaries (based on the indicative rate of return on the Bond yields and inflation rates).
- The assets of the Lincolnshire County Council pension fund attributable to the Council are included in the balance sheet at their fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unitised securities – current bid price
  - Property - market value
- The change in the net 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 Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked
  - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
  - Net interest on the net defined pension liability (asset) i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- The return on plan assets – excluding amounts included in net interest on the defined benefit liability (asset) charged to the Pension Reserve as Other Comprehensive Income and Expenditure
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumption – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to the Lincolnshire County Council pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards.

In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund 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.

## **IX. 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 these.
- 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, disclosures is made in the notes of the nature of the event and an estimated financial effect.

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

## **X. FINANCIAL INSTRUMENTS**

### **Financial Liabilities**

Financial Liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value

and 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.

For all of the borrowing that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principle repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Account is the amount payable for the year in the loan agreement.

All current borrowing is with the Public Works Loan Board and the Council has no intention at present to make early settlement of these loans. Borrowing costs that relate to these loans are charged to the Comprehensive Income and Expenditure Account as they are incurred.

**Financial assets** are classified into two types:

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

### **Loans and Receivables**

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

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

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

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

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are included.

Assets are maintained in the Balance Sheet at fair value, where it is deemed to be material.

## **XI. FOREIGN CURRENCY TRANSACTIONS**

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## **XII. GOVERNMENT GRANTS & OTHER CONTRIBUTIONS**

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contributions have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potentially embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

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

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

## **XIII. HERITAGE ASSETS**

Heritage assets are held or maintained principally for their contribution to knowledge and culture. They are initially recognised at cost if this is available. If cost is not available, values are only included in the Balance Sheet where the cost of obtaining valuation is not disproportionate to the benefit derived. For most of the Council's heritage assets, insurance valuations are used. Where no market exists or the asset is deemed to be unique, and it is not practicable to obtain a valuation, the asset is not recognised in the Balance Sheet but disclosed in the notes to the accounts.

Heritage assets are depreciated over their useful life if this can be established. If an asset is considered to have an indefinite life, no depreciation is charged. Disposals, revaluation gains and losses and impairments of heritage assets are dealt with in accordance with the Council's policies relating to property, plant and equipment.

The cost of maintenance and repair of heritage assets is written off in the year incurred.

#### **XIV. INTANGIBLE ASSETS**

Expenditure on non-monetary assets that do not have physical substance but are identifiable and controlled by the Council (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.

Expenditure on the development of the Council's website is not capitalised.

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

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

The useful life of intangible assets is assessed by the Chief Finance Officer at the time of acquisition. Intangible assets are derecognised when no future economic benefits are expected from them.

#### **XV. INVENTORIES AND LONG TERM CONTRACTS**

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

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

## **XVI. INVESTMENT PROPERTY**

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

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

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

## **XVII. LEASES**

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

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

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

### **The Council as Lessee**

#### **Finance Leases:**

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

Lease payments are apportioned between:

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

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the



lease term if this is shorter than the assets estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

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

### **Operating Leases**

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

### **The Council as Lessor**

#### **Finance Leases**

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

Lease rentals receivable are apportioned between

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

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

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

## **Operating Leases**

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. 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.

## **XVIII. OVERHEADS AND SUPPORT SERVICES**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2016/17 (SeRCOP)* (for example, charges are based on estimated or actual time allocations with the exception of administrative building costs – floor area basis). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

## **XIX. PROPERTY, PLANT AND EQUIPMENT**

Assets that have physical substance and are held for use in the production or supply of goods and 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, over more than one year and that the cost of the item can be measured reliably. Expenditure that maintains but does not add to an assets potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Enhancement is expenditure intended to:

- lengthen substantially the useful life of the asset,
- increase substantially the value of the asset,
- increase substantially the extent to which the asset can be used

The Council has a de-minimis of £10,000 for capital expenditure, with the exception of the purchase of motor vehicles. Where the total cost of an asset is higher than £10,000 but only part of the expenditure has occurred within a financial year that expenditure would be included in the balance sheet even if it was below the de minimis level.

## Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The Council does not capitalise borrowing costs incurred while assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Council). 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:

- Dwellings – current value determined using the basis of existing use value for social housing (EUV-SH). The social housing discount applied in 2016/17 is 42%.
- Community assets and assets under construction – historical cost.
- Plant, Vehicles & Equipment – depreciated historical cost
- All other classes of assets – current value, unless there is no market-based evidence of fair value because of the specialist nature of the asset. In this case fair value is estimated using the Depreciated Replacement Cost method.

Assets included in the Balance Sheet at current value are re-valued where there have been material changes in the value, but as a minimum every five years. Valuations of property assets are carried out by the District Valuer, an external, qualified valuer, who is independent of the Council. The method of valuations is as recommended by CIPFA and in accordance with the principles and guidance notes issued by the Royal Institute of Chartered Surveyors. Operational assets constructed or acquired during the year will be re-valued on 1 April of the following year.

Increases as a result of revaluations are debited to the appropriate asset account, with the opposite entry going to the Revaluation Reserve to recognise unrealised gains, except to the extent where it reverses a previous revaluation loss that was charged to a service revenue account within the Comprehensive Income & Expenditure Statement. In this case the revaluation gain will first be used to offset the previous loss and any further gain is then taken to the Revaluation Reserve. Revaluation gains charged to Surplus or Deficit on Provision of Services are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Decreases as a result of revaluation, which are not specific to one asset but affect several, are revaluation losses as opposed to impairments. The decrease is recognised in the Revaluation Reserve up to the balance in respect of each asset affected and then in Surplus or Deficit on Provision of Services. Any such charge taken to Surplus or Deficit on Provision of Services is then transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

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

## **Impairment**

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

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

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

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

## **Depreciation**

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

Depreciation is calculated on the following bases:

- Land is not depreciated as it will not have a finite life.
- Council Dwellings and Other Buildings are depreciated using the straight line method. The finite useful life is assessed by the District Valuer at the time of revaluation but for Council Dwellings is usually 50 years, and for other buildings is between 1 and 60 years.
- Plant and Equipment are also depreciated by the straight line method. Useful life is assessed by the Chief Finance Officer at the time of acquisition, usually between 3 and 10 years. Some assets have a longer life span, up to 30 years.
- Vehicles are depreciated using the reducing balance method at a rate of 25% per annum.
- Non-current assets held-for sale are not depreciated.

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.

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 historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## **Componentisation:**

Only assets with a carrying amount more than or equal to £500,000 at the beginning of the financial year are considered for componentisation. To be recognised as a component the value of the part of the asset being considered must be more than or equal to 10% of the value of the asset, and have a life less than or equal to half that of the main asset. When a component is replaced, the carrying amount of the old component is derecognised and the new component is recognised. If the carrying amount of the old component is not known, this is estimated by indexing back from the cost of the new component and adjusting for depreciation and impairment over the old component's useful life. The Building Costs Index will be used.

The depreciation calculated is charged to the service revenue accounts, central support service accounts and trading accounts.

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.

Depreciation charges for non-housing assets are not proper charges to the General Fund, so are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement. Depreciation charges for HRA dwellings that are covered by the Major Repairs Allowance (MRA) are real charges and are included in the Comprehensive Income and Expenditure. If the depreciation charged is higher than the MRA an amount equal to the difference is transferred to the HRA from the Major Repairs Reserve (MRR). If the depreciation is lower than the MRA the transfer is from the HRA to the reserve. These transactions are reported in the Movement in Reserves Statement.

## **Disposals and Non-current Assets Held for Sale**

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is classified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to a fair value less costs to sell, the loss is posted in the Other Operating Expenditure line in the Comprehensive Income and Expenditure statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

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

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

## **XX. PROVISIONS, CONTINGENT ASSETS AND CONTINGENT LIABILITIES**

### **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 Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties

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

Where some or all of the payment required to settle a provision is expected to be recovered from another party (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 obligation is settled.

The council has made a provision for settling the self-insured element of Public Liability insurance claims.

### **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.

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.

## **XXI. RESERVES**

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

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

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

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

## **XXIII. VAT**

Income and expenditure excludes any amounts related to VAT, as in the main, VAT collected is payable to HM Revenue & Customs and VAT paid is recoverable from them. VAT 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.

## **XXIV. FAIR VALUE MEASUREMENT**

The Council measures some of its non-financial assets such as surplus assets and investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability 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 for the asset or liability.

The council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in 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 relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the council's financial statements are categorised within the fair value hierarchy as follows:

- Level 1 – quoted price (unadjusted) in active markets for identical assets or liabilities that the council can access at the measurement date
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability

## **2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT ADOPTED**

The additional disclosures that will be required in the 2016/17 and 2017/18 financial statements in respect of accounting changes that are introduced in the 2017/18 Code are as follows:

- Amendment to the reporting of pension fund scheme transaction costs
- Amendment to the reporting of investment concentration

## **3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

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

- a. There is a high degree of uncertainty about future levels of funding for local government and the impact of the decision for Britain to leave the European Union remains unclear. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of the need to close facilities and reduce levels of service provision.
- b. Investments with banks and other financial institutions are secure and will not suffer impairments.
- c. No contracts with other bodies need to be accounted for as a service concession or contain an embedded lease.
- d. No substantial legal claims or appeals will be made against the Council in the next financial year.

## **4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY**

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



The items in the Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

**a. Property, Plant & Equipment**

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.

If the useful life of assets is reduced, depreciation increases and the carrying amount falls. It is estimated that the annual depreciation charge for buildings and council houses would increase by £213k for every year that useful lives had to be reduced.

**b. Arrears**

At 31 March 2017 the Council had a balance of short-term debtors of £7.2m. A review of these debts suggested that an impairment for doubtful debts of approx 28% was appropriate, totalling £2m. This impairment is included in the net amount shown on the balance sheet. The impairment is calculated based on the different types of debt included (council tax, business rates, rents, trade debtors etc). However, in the current economic climate there is no certainty that this allowance will be sufficient.

If collection rates were to deteriorate by 5%, the amount of the impairment for doubtful debts would require an additional £394K to be set aside for this allowance.

**5. MATERIAL ITEMS OF INCOME AND EXPENDITURE**

The government have changed the rate at which social housing values are discounted for the purpose of disclosures in the statement of account. Social housing is now discounted to 42% of the vacant possession value; rather than 34% in previous years. This increase in valuation has resulted in £48.88m being credited to the expenditure total included in the net cost of services for housing on the face of the Comprehensive Income & Expenditure Statement.

**6. EVENTS AFTER THE REPORTING PERIOD**

The Statement of Accounts was authorised for issue by the Strategic Director – Corporate Focus on 20 September 2017. Events taking place after this date are not reflected in the financial statements or notes.

## 7. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

### Adjustments between Funding and Accounting Basis 2016/17

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Net change for			Total Adjustments
	Adjustments for Capital Purposes (Note a)	the Pensions Adjustments (Note b)	Other Differences (Note c)	
	£'000	£'000	£'000	
Corporate	(286)	162		(124)
Culture	(1,858)	(48)		(1,906)
Environment	(867)	(174)		(1,041)
Growth	(368)	(67)		(435)
Housing	40,079	(133)		39,946
<b>Net Cost of Services</b>	<b>36,700</b>	<b>(260)</b>	<b>0</b>	<b>36,440</b>
Other Income and expenditure from the Expenditure and Funding Analysis	8,119	(1,345)	626	7,400
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>44,819</b>	<b>(1,605)</b>	<b>626</b>	<b>43,840</b>

## Adjustments between Funding and Accounting Basis 2015/16

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note a) £'000	Net change for the Pensions Adjustments (Note b) £'000	Other Differences (Note c) £'000	Total Adjustments £'000
Corporate	182	58		240
Culture	2,764	(66)		2,698
Environment	1,457	(228)		1,229
Growth	452	(111)		341
Housing	391	(418)		(27)
<b>Net Cost of Services</b>	<b>5,246</b>	<b>(765)</b>	<b>0</b>	<b>4,481</b>
Other Income and expenditure from the Expenditure and Funding Analysis	623	(1,679)	(822)	(1,878)
<b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>5,869</b>	<b>(2,444)</b>	<b>(822)</b>	<b>2,603</b>

- a) **Adjustments for Capital Purposes** – this column adds in depreciation and impairment and revaluation gains and losses in the services line and for:
- **Other Operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
  - **Financing and investment income and expenditure** – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
  - **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year, The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.
- b) **Net Change for the Pension Adjustments** – the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:
- **For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
  - **For Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement (CIES).
- c) **Other Differences** between amounts debited/credited to the CIES and amounts payable/receivable to be recognised under statute:
- For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
  - The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NNDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

## 8. EXPENDITURE AND INCOME ANALYSED BY NATURE

2015/16		2016/17
£'000	Expenditure/Income	£'000
	<b>Expenditure</b>	
17,957	Employee benefits expenses	18,248
40,115	Other services expenses	39,434
7,146	Support service recharges	6,989
6,031	Depreciation, amortisation, impairment	(36,846)
<b>71,249</b>	<b>Total expenditure</b>	<b>27,825</b>
	<b>Income</b>	
(9,180)	Fees, charges and other service income	(39,836)
(7)	Interest and investment income	(6)
(32,935)	Government grants and contributions	(2,462)
(775)	Support recharge income	
(25,600)	Dwelling Rents	(25,208)
(297)	Non- Dwelling rents	(326)
<b>(68,794)</b>	<b>Total income</b>	<b>(67,838)</b>
<b>2,455</b>	<b>Surplus or Deficit on the Provision of Services</b>	<b>(40,013)</b>

## **9. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER STATUTE**

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

The descriptions of the reserves that the adjustments are made against are as follows:

### **General Fund Balance**

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

### **Housing Revenue Account Balance**

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

### **Major Repairs Reserve**

The Council is required to maintain the Major Repairs Reserve which funds capital investment in HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at year end.

### **Capital Receipts Reserve**

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

### **Capital Grants Unapplied**

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

### Adjustments between Accounting Basis and Funding Basis under Regulations (Continued)

2016/17	General Fund £'000	HRA £'000	Capital Receipts Reserve £'000	Major Repairs Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000
<b>Adjustments primarily involving the Capital Adjustment Account</b>							
Depreciation of non-current assets	(3,194)	(246)		(3,173)		(6,613)	6,613
Amortisation of intangible assets	(85)	(15)				(100)	100
Revaluation gains/losses on PPE	1	48,066				48,067	(48,067)
Impairments charged to CIES	0	(4,087)				(4,087)	4,087
Movements in market value of investment properties	(77)	7				(70)	70
Revenue expenditure funded from capital under statute (REFCUS)	(568)					(568)	568
Financing of REFCUS	568				0	568	(568)
Capital expenditure	520	3,712	1,559	127		5,918	(5,918)
Statutory provision for financing of capital investment	159					159	(159)
Profit/Loss on disposal of non-current assets	(69)	940	(3,776)			(2,905)	2,905
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>							
Adjustment to council tax income	(34)					(34)	34
Adjustment to NNDR income	657					657	(657)
<b>Adjustments primarily involving the Pension Fund</b>							
Adjustment of IAS 19 retirement entries for actual contributions	(1,209)	(395)				(1,604)	1,604
<b>Adjustments primarily involving the Accumulating Compensated Absences</b>							
Accrual for accumulated compensated absences	0	0				0	0
<b>Adjustments between Usable Reserves</b>							
Payments to Housing Capital Receipts Pool		(811)	811			0	0
<b>Total Adjustments</b>	<b>(3,331)</b>	<b>47,171</b>	<b>(1,406)</b>	<b>(3,046)</b>	<b>0</b>	<b>39,388</b>	<b>(39,388)</b>

### Adjustments between Accounting Basis and Funding Basis under Regulations (Continued)

<b>2015/16 (restated)</b>	General Fund	HRA	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account</b>							
Depreciation of non-current assets	(3,313)	(232)		(2,552)		(6,097)	6,097
Amortisation of intangible assets	(89)	(11)				(100)	100
Revaluation gains/losses on PPE	(723)	5,841				5,118	(5,118)
Impairments charged to CIES	-	(4,694)				(4,694)	4,694
Movements in market value of investment properties	162	(137)				25	(25)
Revenue expenditure funded from capital under statute (REFCUS)	(496)					(496)	496
Financing of REFCUS	481				15	496	(496)
Capital expenditure	320	3,222	1,696			5,238	(5,238)
Statutory provision for financing of capital investment	166					166	(166)
Profit/Loss on disposal of non-current assets	(128)	1,140	(3,280)			(2,268)	2,268
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>							
Adjustment to council tax income	117					117	(117)
Adjustment to NNDR income	(938)					(938)	938
<b>Adjustments primarily involving the Pension Fund</b>							
Adjustment of IAS 19 retirement entries for actual contributions	(1,853)	(591)				(2,444)	2,444
<b>Adjustments primarily involving the Accumulating Compensated Absences</b>							
Accrual for accumulated compensated absences	3	0				3	(3)
<b>Adjustments between Usable Reserves</b>							
Payments to Housing Capital Receipts Pool		(850)	850			0	0
<b>Total Adjustments</b>	<b>(6,291)</b>	<b>3,688</b>	<b>(734)</b>	<b>(2,552)</b>	<b>15</b>	<b>(5,874)</b>	<b>5,874</b>

**Adjustments between Accounting Basis and Funding Basis under Regulations (Continued)**



2015/16	General Fund	Earmarked Revenue Reserves	HRA	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account</b>									
Depreciation of non-current assets	(3,313)		(232)			(2,552)		(6,097)	6,097
Amortisation of intangible assets	(89)		(11)					(100)	100
Revaluation gains/losses on PPE	(723)		5,841					5,118	(5,118)
Impairments charged to CIES	-		(4,694)					(4,694)	4,694
Movements in market value of investment properties	162		(137)					25	(25)
Revenue expenditure funded from capital under statute (REFCUS)	(496)							(496)	496
Financing of REFCUS	411	70					15	496	(496)
Capital expenditure	205	115	3,222		1,696			5,238	(5,238)
Statutory provision for financing of capital investment	166							166	(166)
Profit/Loss on disposal of non-current assets	(128)		1,140		(3,280)			(2,268)	2,268
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>									
Adjustment to council tax income	117							117	(117)
Adjustment to NNDR income	(938)							(938)	938
<b>Adjustments primarily involving the Pension Fund</b>									
Adjustment of IAS 19 retirement entries for actual contributions	(1,853)		(591)					(2,444)	2,444
<b>Adjustments primarily involving the Accumulating Compensated Absences Account</b>									
Accrual for accumulated compensated absences	3		0					3	(3)
<b>Adjustments between Usable Reserves</b>									
Payments to Housing Capital Receipts Pool			(850)		850			0	0
<b>Total Adjustments</b>	<b>(6,476)</b>	<b>185</b>	<b>3,688</b>	<b>0</b>	<b>(734)</b>	<b>(2,552)</b>	<b>15</b>	<b>(5,874)</b>	<b>5,874</b>

## 10. TRANSFER TO/ FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2016/17.

2016/17

	General Fund	Housing Revenue Account	Usable Capital Receipts	Earmarked General Fund Reserves	HRA Revenue Reserves	Major Repairs Reserve	Unapplied Capital Grants	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Amounts set aside to provide for future expenditure</b>										
Insurance provision	(631)	100		631	(100)			0	0	0
SEA provision	41			(41)				0	0	0
Transfer Surplus to reserves	5,231	6,264		(5,231)	(3,123)	(3,141)		0	0	0
Unapplied government grants								0	0	0
Repaid mortgages			(47)					(47)	47	0
Other Long-Term Debtors			(4)					(4)	4	0
<b>Amounts transferred from reserves to support in year expenditure</b>										
Application of other grants								0	0	0
Finance Building Control deficit	25			(25)				0	0	0
Revenue Contributions to Capital						4,087		4,087	(4,087)	0
<b>Total Transfers To/(From) Earmarked Reserves</b>	<b>4,666</b>	<b>6,364</b>	<b>(51)</b>	<b>(4,666)</b>	<b>(3,223)</b>	<b>946</b>	<b>0</b>	<b>4,036</b>	<b>(4,036)</b>	<b>0</b>

## Transfers to/from Earmarked Reserves (Continued)

The comparative amounts in 2015/16 are set out below.

	General Fund	Housing Revenue Account	Usable Capital Receipts	Earmarked General Fund Reserves	HRA Revenue Reserves	Major Repairs Reserve	Unapplied Capital Grants	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Amounts set aside to provide for future expenditure</b>										
Insurance provision	(50)	(50)		50	50			0	0	0
SEA provision	41			(41)				0	0	0
Transfer Surplus to reserves	4,739	6,818		(4,739)	(3,254)	(3,565)		(1)	1	0
Unapplied government grants								0	0	0
Repaid mortgages			(45)					(45)	45	0
Other Long-Term Debtors		(1)	(5)					(6)	6	0
								0	0	0
<b>Amounts transferred from reserves to support in year expenditure</b>								0	0	0
Application of other grants	(264)			264				0	0	0
Finance Building Control deficit	3			(3)				0	0	0
Revenue Contributions to Capital			840			4,726		5,566	(5,566)	0
<b>Total Transfers To/(From) Earmarked Reserves</b>	<b>4,469</b>	<b>6,767</b>	<b>790</b>	<b>(4,469)</b>	<b>(3,204)</b>	<b>1,161</b>	<b>0</b>	<b>5,514</b>	<b>(5,514)</b>	<b>0</b>

## 11. PRECEPTS AND LEVIES

2015/16		2016/17
£'000		£'000
1,529	Parish Council Precepts	1,547
639	Drainage Board Levies	646
<b>2,168</b>		<b>2,193</b>

## 12. OTHER OPERATING INCOME AND EXPENDITURE

2015/16		2016/17
£'000		£'000
0		0
<b>0</b>		<b>0</b>

## 13. INCOME AND EXPENDITURE AND MOVEMENT IN FAIR VALUE OF INVESTMENT PROPERTIES

2015/16		2016/17
£'000		£'000
21	Income & Expenditure from investment properties	(17)
(25)	Movements in relation to changes in the fair value of investment properties	70
<b>(4)</b>		<b>53</b>

## 14. NON SERVICE RELATED GOVERNMENT GRANTS

2015/16		2016/17
£'000		£'000
(3,332)	New Homes Bonus	(3,985)
(1,090)	S31 Grant	(988)
(79)	S106 Contribution	(513)
(2,612)	Revenue Support Grant	(1,700)
<b>(7,113)</b>		<b>(7,186)</b>

## 15. PROPERTY PLANT AND EQUIPMENT

Non-current assets owned and assets leased by the Council include the following:

Movement in 2016/17

	Council Dwellings	Other Land & Buildings	Vehicles, Plant Eqpt	Surplus Assets	Assets Unde Construction	Total PPE
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation at 01/04/2016</b>	<b>181,318</b>	<b>60,323</b>	<b>14,972</b>	<b>202</b>	<b>376</b>	<b>257,191</b>
Additions	4,239	32	704		1,748	6,723
Revaluation increases/(decreases) recognised in the Revaluation Reserve	516	(1,120)				(604)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	41,918	153				42,071
Derecognition - Disposals	(1,496)	(915)	(542)			(2,953)
Assets reclassified to/(from) Surplus Assets						0
Assets reclassified (to)/from Held for Sale (see Note 24)	(755)					(755)
Assets reclassified to/(from) Asset under construction						0
<b>At 31/03/2017</b>	<b>225,740</b>	<b>58,473</b>	<b>15,134</b>	<b>202</b>	<b>2,124</b>	<b>301,673</b>
<b>Accumulated Depreciation &amp; Impairment at 01/04/2016</b>	<b>(2,553)</b>	<b>(2,370)</b>	<b>(10,660)</b>	<b>(11)</b>	<b>0</b>	<b>(15,594)</b>
Depreciation charge	(3,173)	(2,367)	(1,061)	(12)		(6,613)
Depreciation written out to the Revaluation Reserve	38	2,227		12		2,277
Depreciation written out to the Comprehensive Income & Expenditure Statement	6,601	95				6,696
Derecognition of Non Enhancing Capital Expenditure	(4,087)					(4,087)
Derecognition - Disposals		18	524			542
Other Movements in Depreciation and Impairment						0
<b>At 31/03/2017</b>	<b>(3,174)</b>	<b>(2,397)</b>	<b>(11,197)</b>	<b>(11)</b>	<b>-</b>	<b>(16,779)</b>
<b>Net Book Value</b>						
<b>At 31/03/2017</b>	<b>222,566</b>	<b>56,076</b>	<b>3,937</b>	<b>191</b>	<b>2,124</b>	<b>284,894</b>
<b>At 31/03/2016</b>	<b>178,765</b>	<b>57,953</b>	<b>4,312</b>	<b>191</b>	<b>376</b>	<b>241,597</b>

Please note that the figure for council dwelling additions was charged to revenue in year and is therefore recognised as an impairment charged to the Surplus/Deficit on Provision of Services.

## Property, Plant & Equipment (Continued) Restated

Movement in 2015/16

	Council Dwellings	Other Land & Buildings	Vehicles, Plant & Eqpt	Surplus Assets	Assets Under Construction	Total PPE
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation at 01/04/2015	<b>177,828</b>	<b>53,729</b>	<b>14,124</b>	<b>248</b>	<b>1,910</b>	<b>247,839</b>
Additions	5,518	904	931			<b>7,353</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(938)	5,593		18		<b>4,673</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	(926)	268		(233)		<b>(891)</b>
Derecognition - Disposals	(1,282)	(2)	(83)			<b>(1,367)</b>
Assets reclassified (to)/from Surplus Assets		(169)		169		<b>0</b>
Assets reclassified (to)/from Held for Sale (see Note 24)	(416)					<b>(416)</b>
Assets reclassified to/(from) Asset under construction	1,534				(1,534)	<b>0</b>
<b>At 31/03/2016</b>	<b>181,318</b>	<b>60,323</b>	<b>14,972</b>	<b>202</b>	<b>376</b>	<b>257,191</b>
<b>Accumulated Depreciation &amp; Impairment at 01/04/2015</b>	<b>(2,493)</b>	<b>(1,947)</b>	<b>(9,509)</b>	<b>(8)</b>	<b>-</b>	<b>(13,957)</b>
Depreciation charge	(2,552)	(2,329)	(1,205)	(12)		<b>(6,098)</b>
Depreciation written out to the Revaluation Reserve	69	1,819		11		<b>1,899</b>
Depreciation written out to the Comprehensive Income & Expenditure Statement	7,117	80		5		<b>7,202</b>
Derecognition of Non Enhancing Capital Expenditure	(4,694)					<b>(4,694)</b>
Derecognition - Disposals			54			<b>54</b>
Other Movements in Depreciation and Impairment		7		(7)		<b>0</b>
<b>At 31/03/2015</b>	<b>(2,553)</b>	<b>(2,370)</b>	<b>(10,660)</b>	<b>(11)</b>	<b>0</b>	<b>(15,594)</b>
<b>Net Book Value</b>						
<b>At 31/03/2016</b>	<b>178,765</b>	<b>57,953</b>	<b>4,312</b>	<b>191</b>	<b>376</b>	<b>241,597</b>
<b>At 31/03/2015</b>	<b>175,335</b>	<b>51,782</b>	<b>4,615</b>	<b>240</b>	<b>1,910</b>	<b>233,882</b>

### Valuation Assumptions

The significant assumptions applied in estimating the fair values by the Valuer are as follows:

- No potentially deleterious or hazardous materials were used in the construction of the assets and none has subsequently been incorporated.

- That the properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoing and good titles can be shown.
- The properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and that use and occupation are both legal.
- The inspection of those parts which have not been inspected would cause the Valuer to alter their opinion of value.
- The land and properties are not contaminated nor adversely affected by radon.
- No allowances have been made for any rights obligations or liabilities arising from the Defective Premises Act 1972.

## 16. INVESTMENT PROPERTIES

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

2015/16 £'000		2016/17 £'000
(48)	Rental income from investment property	(53)
69	Direct operating expenses arising from investment property	36
<u>21</u>		<u>(17)</u>

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

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

2015/16 £'000		2016/17 £'000
3,372	<b>Balance at start of year</b>	2,595
80	Additions - Purchases	5
25	Net gains/losses from fair value adjustments	(70)
(882)	Disposals	(1)
<u>2,595</u>	<b>Balance at end of year</b>	<u>2,529</u>

The fair value of investment property was determined by external, independent property valuers, having appropriate recognised professional qualifications. Fair value measurement for investment property has been categorised as Level 2 fair value based on information from observable market transactions of comparable property with no significant adjustments.

## 17. INTANGIBLE ASSETS

The Council accounts for its software licences as intangible assets where the software is not an integral part of a particular IT system. The intangible assets included in the balance sheet only include purchased licences. They are held at historic cost.

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

Movements on Intangible Assets during the year were as follows:

2015/16 £'000		2016/17 £'000
	Balance at start of year:	
737	Gross carrying amount	884
(404)	Accumulated amortisation	(504)
<u>333</u>	Net carrying amount at start of year	<u>380</u>
147	Additions	54
(100)	Amortisation for the period	(100)
<u>47</u>		<u>(46)</u>
0	Disposals	(99)
0	Amortisation written back	99
<u>0</u>		<u>0</u>
380	Net carrying amount at end of year	334
	Comprising	
884	Gross carrying amount	839
(504)	Accumulated amortisation	(505)
<u>380</u>		<u>334</u>

None of the intangible assets are individually material to the financial statements.

## 18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### a. Key Risks

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

- 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. Re-financing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- iv. Market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.



## **b. Overall Procedures for Managing Risk**

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

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

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported twice annually to Members.

The annual treasury management strategy for 2016/17 which incorporates the prudential indicators was approved by Council on 8<sup>th</sup> February 2016 and is available on the Council website. The key issues within the strategy were:

- i. The Authorised Limit for 2016/17 was set at £126.76m. This is the maximum limit of external borrowings or other long term liabilities.
- ii. The Operational Boundary was expected to be £109.76m. This is the expected level of debt and other long term liabilities during the year.
- iii. The maximum amounts of fixed and variable interest rate exposure were set at £125m and £40m based on the Council's net debt.
- iv. The maximum and minimum exposures to the maturity structure of debt are:

	Approved Minimum Limits	Approved Maximum Limits
	%	%
Less than 1 year	0	40
Between 1 & 2 years	0	40
Between 2 & 5 years	0	100
Between 5 & 10 years	0	100
More than 10 years	0	100

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

### c. Credit risk

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

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

The Council uses the creditworthiness service provided by Capita Asset Services. This service uses a sophisticated modeling approach with credit ratings from all three rating agencies – Fitch, Moody's and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

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

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council..

The Council's maximum exposure to credit risk in relation to its investments in banks, building societies and money market funds of £60.9m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at the 31 March 2017 that this was likely to crystallise.

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

Deposits with banks and financial institutions	At 31 March 2017	Historical experience of default (1)	Adjustment for market conditions	Estimated Maximum exposure to default
	£'000	%	%	£'000
AAA rated counterparties	6,746	0.00%	0.00%	-
AA rated counterparties	2,004	0.01%	0.01%	-
A rated counterparties	42,143	0.07%	0.07%	28
BB rated counterparties	8,041	0.15%	0.15%	12
BBB rated counterparties	2,023	0.15%	0.15%	3
Trade debtors (not including statutory debtors)	2,099	Local Experience	Local Experience	169
<b>Total</b>	<b>63,056</b>			<b>212</b>

(1) These are average 1 year default rates from all the three main ratings agencies

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

All the Council's deposits are made through the London money markets in UK Sterling currency.

The Council does not generally allow credit for its trade debtors, such that £2,099k of the trade debtors balance is past its due date for payment. The due amount can be analysed by age as follows:

	At 31 March 2017	At 31 March 2016	At 31 March 2015
	£'000	£'000	£'000
Under 30 Days	65	59	55
30-60 days	1,826	971	971
60-90 days	39	39	31
Over 90 Days	169	231	184
<b>Total</b>	<b>2,099</b>	<b>1,300</b>	<b>1241</b>

Collateral – During the reporting period the council held no collateral as security.

#### d. Liquidity risk

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

The Council has ready access to borrowings from the Money Markets to cover any day to day cash flow need, and the PWLB provides access to longer term funds, it also acts as lender of last resort to councils, although it will not provide funding to a council whose actions are unlawful. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

The maturity analysis of financial assets, excluding sums due from customers, is as follows:

	At 31 March 2017 £'000	At 31 March 2016 £'000	At 31 March 2015 £'000
Less than one year	53,958	43,800	39,758
Between one and two years	7,000	5,000	4,000
Between two and three years	-	-	-
More than three years	-	-	-
<b>Total</b>	<b>60,958</b>	<b>48,800</b>	<b>43,758</b>

#### e. Re-financing and Maturity Risk

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

The approved treasury indicator limits for the maturity structure of debt and the limits on investments placed for greater than one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity analysis of financial liabilities is as follows:

	At 31 March 2017 £'000	At 31 March 2016 £'000	At 31 March 2015 £'000
Less than one year	4,280	3,274	3,804
Between one and two years	3,221	4,221	3,222
Between two and five years	34,665	34,665	35,665
Between five and ten years	16,109	16,109	16,109
Between ten and fifteen years	16,109	16,109	16,109
Over Fifteen Years	32,217	35,439	38,660
<b>Total</b>	<b>106,601</b>	<b>109,817</b>	<b>113,569</b>

## f. Market risk

### Interest rate risk

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

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Account will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Account will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

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

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

	£'000
Increase in interest payable on variable rate borrowings	0
Increase in interest receivable on variable rate investments	<u>(212)</u>
Impact on Surplus or Deficit on the Provision of Services	<u>(212)</u>
Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income & Expenditure)	<u>10,570</u>

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note – Fair value of Assets and Liabilities carried at Amortised Cost.

### Price risk

The Council, excluding the pension fund, does not generally invest in equity shares or marketable bonds.

### Foreign exchange risk

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

## 19. FINANCIAL INSTRUMENTS

### a. Financial Instruments Balances

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

	Long-Term		Current	
	At 31 March 2017 £'000	At 31 March 2016 £'000	At 31 March 2017 £'000	At 31 March 2016 £'000
<b>Borrowings</b>				
Financial Liabilities (principal amount)	102,321	106,543	4,222	3,222
Accrued Interest	-	-	58	52
<b>Total Borrowings</b>	<b>102,321</b>	<b>106,543</b>	<b>4,280</b>	<b>3,274</b>
<b>Investments</b>				
Loans & Receivables	7,000	5,000	53,745	39,495
Accrued interest	-	0	213	305
Available for Sale Assets	-	-	-	4,000
<b>Total Investments</b>	<b>7,000</b>	<b>5,000</b>	<b>53,958</b>	<b>43,800</b>

Note 1 – Under accounting requirements the carrying value of the financial instruments is shown in the balance sheet which includes the principal amount borrowed or lent and further adjustments for breakage costs or stepped interest loans (measured by an effective interest rate calculation) including accrued interest. Accrued interest is shown separately in current assets/ liabilities where the payments/receipts are due within one year. The effective interest rate is effectively accrued interest receivable under the instrument, adjusted for the amortisation of any premiums or discounts reflected in the purchase price.

Note 2 – The Council has not made any soft loans

## b. Financial instruments Gains/Losses

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

	Financial Liabilities	Financial Assets	Total
	Liabilities Measured at Amortised Cost	Loans & Receivables	
	£'000	£'000	£'000
2016/17			
Interest expense	3,108		3,108
<b>Total Expense in Surplus or Deficit on the Provision of Services</b>	<b>3,108</b>	<b>0</b>	<b>3,108</b>
Interest income		(621)	(621)
<b>Total Income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(621)</b>	<b>(621)</b>
<b>Net gain/(loss) for the year</b>	<b>3,108</b>	<b>(621)</b>	<b>2,487</b>
2015/16			
Interest expense	3,223		3,223
<b>Total Expense in Surplus or Deficit on the Provision of Services</b>	<b>3,223</b>	<b>0</b>	<b>3,223</b>
Interest income		(555)	(555)
<b>Total Income in Surplus or Deficit on the Provision of Services</b>	<b>0</b>	<b>(555)</b>	<b>(555)</b>
<b>Net gain/(loss) for the year</b>	<b>3,223</b>	<b>(555)</b>	<b>2,668</b>

## c. Fair value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried on the balance sheet at amortised cost (in long term assets/liabilities with accrued interest in current assets/liabilities). Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans from the Public Works Loan Board (PWLB) and other loans payable, premature repayment rates from the PWLB have been applied to provide the fair value under PWLB debt redemption procedures;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;

- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	At 31 March 2017		At 31 March 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
PWLB debt	106,601	124,714	109,817	124,657
Non-PWLB debt	-	-	-	-
Trade Creditors	3,595	3,595	2,979	2,979
<b>Total financial liabilities</b>	<b>110,196</b>	<b>128,309</b>	<b>112,796</b>	<b>127,636</b>
Instant Access Accounts	7,745	7,745	6,495	6,495
Short Term Investments	46,213	46,147	37,305	37,319
Long Term Investments	7,000	7,051	5,000	5,000
Trade debtors	2,099	2,099	1,300	1,300
Other Short Term Debtors	3,620	3,620	1,998	1,998
Long Term Debtors	1,067	1,067	2,103	2,103
<b>Total loans &amp; receivables</b>	<b>67,744</b>	<b>67,729</b>	<b>54,201</b>	<b>54,215</b>

The differences are attributable to fixed interest instruments receivable being held by the Council, whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of financial liabilities and raises the value of loans and receivables.

The fair value of Public Works Loan Board (PWLB) loans of £124.7m measures the economic effect of the terms agreed with the PWLB compared with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date. The difference between the carrying amount and the fair value measures the additional interest that the authority will pay over the remaining terms of the loans under the agreements with the PWLB, against what would be paid if the loans were at prevailing market rates.

However, the authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets. A supplementary measure of the additional interest that the authority will pay as a result of its PWLB commitments for fixed rate loans is to compare the terms of these loans with the new borrowing rates available from the PWLB. If a value is calculated on this basis, the carrying amount of £106.6m would be valued at £114.7m. But, if the authority were to seek to avoid the projected loss by repaying the loans to the PWLB, the PWLB would raise a penalty charge for early redemption in addition to charging a premium for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £124.7m.



## 20. INVENTORIES

Details of inventories held by the Council as at 31 March 2017 are provided below:

2015/16 £'000		2016/17 £'000
<u>11</u>	Balance as at year end	<u>12</u>

The only material inventories held are fuel stocks.

## 21. CAPITAL COMMITMENTS

There is an outstanding commitment to Robert Woodhead Ltd in the sum of £1.4million relating to the building of new homes at Trent Road, Grantham.

## 22. DEBTORS

An analysis of Debtors is shown below:

At 31st March 2016 £'000		At 31st March 2017 £'000
	<b>Current Debtors</b>	
431	Government Departments	1,301
362	Other Local Authorities	954
21	NHS	0
<u>2,484</u>	Other entities and individuals	<u>3,464</u>
<u><b>3,298</b></u>		<u><b>5,719</b></u>
	<b>Long Term Debtors</b>	
2,000	Local Authority Mortgage Scheme	1,000
63	Loans for Leisure Facilities	33
<u>40</u>	Other	<u>34</u>
<u><b>2,103</b></u>		<u><b>1,067</b></u>

## 23. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

At 31st March 2016 £'000		At 31st March 2017 £'000
14	Cash held by the authority	8
1,089	Bank current accounts	695
6,495	Instant Access accounts	7,745
<b>7,598</b>	<b>Total Cash &amp; Cash Equivalents</b>	<b>8,448</b>

Some instant access accounts are used for short-term investments where the rate of interest achieved is better than for a short-term investment. However, due to the requirements of the Code they are included as Cash and Cash Equivalents on the Balance Sheet.

## 24. ASSETS HELD FOR SALE

As at 31<sup>st</sup> March 2017, there are 23 Council Dwellings & land at Vantage Park that are in the process of being sold and these are classified as Current Assets Held for Sale in the Balance Sheet. The details of the assets held for sale are shown below.

2015/16 £'000		2016/17 £'000
1,068	Balance at start of year	1,420
	Revaluation increase/decrease	(5)
	Assets newly classified as held for sale:	
559	Property, Plant & Equipment	820
(72)	Assets sold	(475)
(135)	Withdrawn sales transferred back to PPE	(65)
<b>1,420</b>		<b>1,695</b>

## 25. CREDITORS

An analysis of Creditors is shown below:

At 31st March 2016 £'000		At 31st March 2017 £'000
1,728	Government Departments	718
201	Other Local Authorities	421
0	NHS bodies	3
4,554	Other entities and individuals	6,724
<b>6,483</b>	<b>Total</b>	<b>7,866</b>

## 26. PROVISIONS

	Injury & Damage Compensation Claims	Business Rates Appeals	Accrued employee Benefits	Total
<b>2016/17</b>	£'000	£'000	£'000	£'000
Balance at 1st April 2016	309	984	0	1,293
Additional provisions made in 2016/17	154	426		580
Amounts used in 2016/17	(75)	(104)		(179)
Unused amounts reversed in 2016/17	(55)			(55)
<b>Total</b>	<b>333</b>	<b>1,306</b>	<b>0</b>	<b>1,639</b>

Split between:

Short-term provisions	666
Long-term provisions	973
	<b>1,639</b>

### 2015/16

Balance at 1st April 2015	273	774	134	1,181
Additional provisions made in 2015/16	141	984	0	1,125
Amounts used in 2015/16	(79)	(774)	0	(853)
Unused amounts reversed in 2015/16	(26)		(134)	(160)
<b>Total</b>	<b>309</b>	<b>984</b>	<b>0</b>	<b>1,293</b>

Split between:

Short-term provisions	1,208
Long-term provisions	85
	<b>1,293</b>

All of the injury & damage compensation claims are individually insignificant. They relate to personal injuries sustained where the Council is alleged to be at fault (e.g. through a failure to repair a pavement properly). Provision is made for those claims where it is deemed probable that the Council will have to make a settlement, based on past experience of court decisions about liability and the amount of damages payable. Of the £333k provided at 31<sup>st</sup> March 2017 £241k is expected to be settled in 2017/18.

The Council has a provision for any potential liabilities as a result of Business Rate Payers appeals against rateable valuations. The Council is responsible for a 40% share of this liability along with The Department for Communities and Local Government and Lincolnshire County Council being responsible for a 50% and 10% respectively.

## 27. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and below:

	Balance at 1st April 2015 £'000	Transfer To Reserve £'000	Transfer From Reserve £'000	Balance at 31st March 2016 £'000	Transfer To Reserve £'000	Transfer From Reserve £'000	Balance at 31st March 2017 £'000
GF Cap Receipts Reserve	3,414		(874)	2,540	384		2,924
HRA Capital Receipts Reserve	962	818		1,780	1,073		2,853
Major Repairs Reserve	5,384	1,391		6,775	2,100		8,875
Earmarked GF Revenue Reserves	15,072	3,552		18,624	4,688		23,312
General Fund Unapplied Revenue Grant:	645		(264)	381		(148)	233
Earmarked HRA Revenue Reserves	1,005	574		1,579	200		1,779
Earmarked GF Capital Reserve	2,099	996		3,095		(303)	2,792
GF Unapplied Capital Grants	15		(15)				
Earmarked HRA Capital Reserves	8,347	2,630		10,977	3,023		14,000
Housing Revenue Account Balance	4,783	40		4,823		(1,197)	3,626
General Fund Balance	1,913			1,913		(115)	1,798
	<b>43,639</b>	<b>10,001</b>	<b>(1,153)</b>	<b>52,487</b>	<b>11,468</b>	<b>(1,763)</b>	<b>62,192</b>

## 28. UNUSABLE RESERVES

At 31st March 2016 £'000		At 31st March 2017 £'000
21,116	Revaluation Reserve	22,551
110,725	Capital Adjustment Account	156,086
(38,306)	Pensions Reserve	(47,628)
(1,507)	Collection Fund Adjustment Account	(884)
(131)	Accumulated Absences Adjustment Account	(131)
36	Deferred Capital Receipts	32
<b>91,933</b>		<b>130,026</b>

### a. Revaluation Reserve

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

- Re-valued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation or
- Disposed of and the gains are realised

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

2015/16 £'000		2016/17 £'000
13,902	Balance at start of year	21,116
8,399	Upward revaluation of assets	2,075
(753)	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on Provision of Services	(401)
21,548	Surplus/Deficit on revaluation of non-current assets not posted to Surplus/Deficit on Provision of Services	22,790
(430)	Difference between fair value depreciation and historical cost depreciation	(99)
(2)	Accumulated gains on assets sold or scrapped	(140)
(432)	Amounts written off to the Capital Adjustment Account	(239)
<b>21,116</b>	Balance at end of year	<b>22,551</b>

## **b. Capital Adjustment Account**

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

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

2015/16 £'000		2016/17 £'000
107,259	Balance at start of year	110,725
	<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income &amp; Expenditure Statement</b>	
(6,097)	Charges for depreciation of non-current assets	(6,613)
(4,694)	Charges for impairment of non-current assets	(4,087)
(3,498)	Revaluation losses on Property, Plant & Equipment	(214)
8,743	Revaluation gains reversing previous impairments charged to the Comprehensive Income & Expenditure Statement	48,974
(100)	Amortisation of intangible assets	(100)
(496)	Revenue expenditure funded from capital under statute	(568)
(2,267)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income & Expenditure Statement	(2,745)
98,850		145,372
430	Adjusting amounts written out of the Revaluation Reserve	99
99,280	Net written out amount of the cost of non-current assets consumed in the year	145,471
	<b>Capital financing applied in the year</b>	
2,535	Use of the Capital Receipts Reserve to finance new capital expenditure	1,559
4,726	Use of the Major Repairs reserve to finance new capital expenditure	4,214
376	Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	377
15	Application of grants to capital financing from the Capital Grants Unapplied Account	0
166	Statutory provision for the financing of capital investment charged against the General Fund & HRA balances	159
3,407	Self-financed capital expenditure	3,652
195	Capital expenditure charged against the General Fund and HRA balances	724
11,420		10,685
25	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income & Expenditure Statement	(70)
<b>110,725</b>	<b>Balance at end of year</b>	<b>156,086</b>

### c. 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 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 the funding will have been set aside by the time the benefits come to be paid.

2015/16 £'000		2016/17 £'000
Original		
(52,067)	Balance at start of year	(38,306)
16,205	Remeasurement of the net defined benefit liability/ (asset)	(7,718)
(4,890)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on Provision of Services	(4,260)
2,446	Employer's pensions contributions and direct payments to pensioners payable in the year	2,656
<b>(38,306)</b>	Balance at end of year	<b>(47,628)</b>

### d. Collection Fund Adjustment Account

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

2015/16 £'000		2016/17 £'000
(686)	Balance at start of year	(1,507)
117	Amount by which council tax income credited to the Comprehensive Income & Expenditure Statement is different from council tax income calculated in accordance with statute	(34)
(938)	Amount by which council tax and NNDR income credited to the CIES is different from council tax and NNDR income calculated for the year in accordance with statutory requirements	657
<b>(1,507)</b>	Balance at end of year	<b>(884)</b>



#### e. Accumulated Absences Account

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

2015/16 £'000		2016/17 £'000
134	Balance at start of year	131
(3)	Amounts accrued at the end of the current year	
	Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statute	131
131		
<u>131</u>	Balance at end of year	<u>131</u>

#### f. Deferred Capital Receipts

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

2015/16 £'000		2016/17 £'000
42	Balance at start of year	36
(6)	Repayments received in year	(4)
<u>36</u>	Balance at end of year	<u>32</u>

## 29. TRADING OPERATIONS

The Council has established the following trading undertakings which are required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of the financial results (which are not included in Cost of Services) are:

2015/16 £'000		2016/17 £'000
	The letting of Industrial Units located within the District	
(534)	Income	(671)
<u>162</u>	Expenditure	<u>157</u>
<u>(372)</u>	(Surplus)/Deficit	<u>(514)</u>
	Markets held weekly at Bourne, Grantham and Stamford	
(229)	Income	(224)
<u>318</u>	Expenditure	<u>331</u>
<u>89</u>	(Surplus)/Deficit	<u>107</u>
<u><b>(283)</b></u>	(Surplus)/Deficit	<u><b>(407)</b></u>

On the face of the Comprehensive Income & Expenditure Statement the trading operations show a surplus of £398k. This figure includes revaluation gains & IAS 19 entries totalling £9k which have been credited to the trading operations. They have been excluded from the figures above as they are purely accounting entries and are fully reversed in the Statement of Movement on the General Fund Balance. The net impact of the trading operations in 2016/17 was an increase to the General Fund balances of £407k.

## 30. JOINT OPERATION

South Kesteven District Council are in a Joint Operation with Newark and Sherwood District Council and Rushcliffe Borough Council for the Building Control Partnership. The partnership represented net expenditure of £229k during 2016/17 in the net cost of services and therefore is not deemed to be material for reporting.

## 31. AGENCY SERVICES

The Council has an agency agreement with Lincolnshire County Council to manage Spittlegate Hill Travellers Site, Grantham, for which it is paid a management fee. The fee covers the cost of maintaining the land and collection of rents. The Council also provides a grass cutting service cutting 34 hectares of verges around the district seven times a year, under a highways agency agreement Lincolnshire County Council reimburses the cost of these cuts.

2015/16 £'000		2016/17 £'000
	<b>Travellers Site Expenditure</b>	
37	Management & Maintenance	38
(37)	Income from Rent & Other Charges	(38)
<u>0</u>	Net Cost	<u>0</u>
	<b>Grass Cutting Expenditure</b>	
110	Premises & Support Costs	110
(110)	Income from Lincolnshire County Council	(110)
<u>0</u>	Net Cost	<u>0</u>

### 32. MEMBERS ALLOWANCES

The Local Authorities (Members' Allowances) Regulations 2003 requires local authorities to publish the amounts paid to members under the Members' allowance scheme.

The Council had 56 elected Councillors as at 31<sup>st</sup> March 2017.

Members' allowances and expenses paid during the year amounted to £376,304 (2015/16 £368,231). The figure includes basic allowance, special responsibility, and other related allowances.

### 33. OFFICER REMUNERATION

The numbers of employees whose remuneration was £50,000 or more, (excluding those classed as senior employees with strategic responsibility and shown separately in the second table below) in bands of £5,000 were:

2015/16 No. of officers		2016/17 No. of officers
	<b>Remuneration Band</b>	
3	£50,000 - £54,999	4
2	£55,000 - £59,999	1
0	£60,000 - £64,999	2
0	£65,000 - £69,999	1
4	£70,000 - £74,999	1
0	£75,000 - £79,999	3
-	£80,000 - £84,999	-
-	£85,000 - £89,999	-
-	£90,000 - £94,999	-
<u>9</u>		<u>12</u>

The remuneration of senior employees (i.e. those with strategic responsibility for the Council) is shown below:

		Salary, Fees and Allowances	Bonuses & Expenses Allowances	Compensation for Loss of Employment	Employers Pension contribution	Any other emolument	Total
		£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive	2016/2017	123			21		144
	2015/2016	120	1		21		142
Strategic Director	2016/2017	93			17	7	117
	2015/2016	82	2		14		98
Strategic Director	2016/2017	93			16		109
	2015/2016	88	1		15		104
Strategic Director (S151 Officer)	2016/2017	93			17	6	116
	2015/2016	92	2		16		110
Monitoring Officer	2016/2017	70			12		82
	2015/2016	68			12		80

### 34. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the external audit of the Statement of Accounts, certification of grant claims and other audit work. The Council has not made any payments for non-audit services to its external auditors and not incurred any costs for statutory inspections.

2015/16 £'000		2016/17 £'000
47	Fees payable to the external auditors with regard to external audit services carried out by the appointed auditor.	47
5	Fees payable to the external auditors for the certification of grant claims.	5
3	Fees payable to external auditors for the certification of returns	3
<u>55</u>		<u>55</u>

### 35. GRANT INCOME

The Council credited the following grants and contributions to the Cost of Services in the Comprehensive Income and Expenditure Statement in 2016/17

2015/16 £'000		2016/17 £'000
140	New Burdens	7
125	Local Council Tax Admin Subsidy	140
176	LA Capacity Funding	0
482	Housing Benefits Admin Grant	399
132	Discretionary Housing Payment	161
108	Second Homes	0
24	Welfare Reform	44
99	European Elections	50
88	IER Funding	24
	Police & Crime Commissioner Elections	148
	Custom Build Grant	30
	HCA Spittlegate Heather Garden Village	214
	Football Foundation	90
376	Disabled Facilities Grant	376
254	Arts and Recreation Grants	178
108	Other Grants	58
<u>2,112</u>		<u>1,919</u>

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the money to be returned.

The balances at the year end are as follows:

2015/16	<b>Capital Grants</b>	2016/17
£'000	<b>Receipts in Advance</b>	£'000
1,417	S106 Contributions	2,388
<u>1,417</u>		<u>2,388</u>

### 36. 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** has effective control (significant influence) over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions the Council has with third parties e.g. housing benefits. Details of transactions with government departments are set out in Notes 14 and 35 relating to grant income.

**Members of the Council** have direct control over the Council's financial and operating policies. Guidance has been issued to make Members, Chief Officers and senior managers aware of the requirements to declare all interests relevant to the Council including interests of families, partners and entities controlled by them. Also all Members, Chief Officers and senior managers have been requested to complete a Related Party Transaction declaration. Upon analysis of completed returns no material items were identified that required separate disclosure. The Council maintains a Register of Interests which is complete and up to date on the basis of information received.

**Precept & Levying bodies**, town councils, parish councils and drainage boards levy demands on the Council Tax, and the transactions are detailed below.

Payments made during the year were as follows:

2015/16		2016/17
£'000		£'000
1,529	Town and Parish Councils	1,547
112	Upper Witham Drainage Board	117
57	Black Sluice Drainage Board	58
470	Welland and Deepings Drainage Board	471
<u>2,168</u>		<u>2,193</u>

### 37. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

2015/16 £'000		2016/17 £'000
119,875	<b>Opening Capital Finance Requirement</b>	116,486
	<b>Capital Investment</b>	
824	Council Dwellings	153
904	Other land & buildings	32
931	Vehicles, plant & equipment	704
80	Investment properties	5
0	Assets under construction	1,748
4,694	Capital expenditure	4,087
147	Intangible Assets	54
496	Revenue expenditure charged to capital under statute	568
	<b>Sources of Finance</b>	
(2,535)	Capital receipts	(1,559)
(455)	Capital grants & contributions	(376)
(8,475)	Sums set aside from revenue	(8,797)
<b><u>116,486</u></b>	<b>Closing Capital Financing Requirement</b>	<b><u>113,105</u></b>
	<b>Explanation of movements in year</b>	
<u>(3,389)</u>	Increase/(Decrease) in underlying need to borrow (supported by government financial assistance)	<u>(3,381)</u>
<b><u>(3,389)</u></b>	<b>Increase/ (Decrease) in Capital Financing Requirement</b>	<b><u>(3,381)</u></b>

## 38. LEASES

### a. Council as Lessee

#### Finance Leases

The Council has acquired a number of buildings under finance leases on a peppercorn basis. Typically the annual payments for these buildings are less than £1 per annum, so the future minimum lease payments due are immaterial. The assets acquired under these leases are carried as Property, Plant & Equipment in the Balance Sheet at the following net book values.

At 31st March 2016	<b>Carrying Value</b>	At 31st March 2017
£'000		£'000
<b>1,969</b>	Other Land & Buildings	<b>1,872</b>

None of these properties are sublet.

#### Operating Leases

The Council has acquired various buildings under operating leases. The future minimum lease payments due under non-cancellable leases in future years are shown below, together with the net expenditure charged to the various lines within the Comprehensive Income and Expenditure Statement during the year.

At 31st March 2016	<b>Future Minimum Lease Payments Due</b>	At 31st March 2017
£'000		£'000
8	Not later than one year	27
19	Between one & five years	26
5	Later than 5 years	2
<b>32</b>		<b>55</b>

  

At 31st March 2016	<b>Expenditure charged to Comprehensive Income &amp; Expenditure Account</b>	At 31st March 2017
£'000		£'000
2	Planning Services	4
30	Central Services	51
<b>32</b>		<b>55</b>

### b. Council as Lessor

#### Finance Leases

The Council has leased out HRA shops and the Crematorium at Grantham on finance leases with the remaining terms being between 65 and 70 years. The Council has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be



earned by the Council in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

<b>Gross Investment in the Lease</b>			
At 31st March 2016			At 31st March 2017
£'000			£'000
0	Finance Lease Debtor (net present value of minimum lease payments)		0
	Current		0
13	Non-Current		13
58	Unearned finance income		57
1,740	Unguaranteed residual value of property		1,740
<b>1,811</b>	<b>Gross Investment in the Lease</b>		<b>1,810</b>

The gross investment in the lease and the minimum lease payments will be received over the following periods:

	Gross Investment in the Lease		Minimum Lease Payments	
	At 31st March 2017	At 31st March 2016	At 31st March 2017	At 31st March 2016
	£'000	£'000	£'000	£'000
Not later than one year	1	1	-	-
Between one & five years	5	5	1	1
Later than 5 years	1,804	1,805	13	14
	<b>1,810</b>	<b>1,811</b>	<b>14</b>	<b>15</b>

	Gross Investment in the Lease		Minimum Lease Payments	
	At 31st March 2016	At 31st March 2015	At 31st March 2016	At 31st March 2015
	£'000	£'000	£'000	£'000
Not later than one year	1	1	-	-
Between one & five years	5	5	1	1
Later than 5 years	1,805	1,806	14	14
	<b>1,811</b>	<b>1,812</b>	<b>15</b>	<b>15</b>

No allowance for uncollectible amounts has been set aside as at 31 March 2017.

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17 no contingent rents were receivable by the Council.

#### Operating Leases

The Council leases out property under operating leases for the following purposes

- For the provision of community services such as leisure and community services.
- For economic development services to provide suitable affordable accommodation for local businesses.

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

At 31st March 2016		At 31st March 2017	
£'000		£'000	
249	Not later than one year	229	
384	Between one & five years	311	
396	Later than 5 years	361	
<b>1,029</b>		<b>901</b>	

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2016/17 no contingent rents were receivable by the Council.

### 39. IMPAIRMENT LOSSES

The Council recognised no impairment losses during 2016/17

### 40. TERMINATION BENEFITS

Exit Package cost bands (including special payments)	Number of compulsory redundancies		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17
	No.	No.	No.	No.	£'000	£'000
£0-£20,000		2		2		19
£20,001 - £40,001		-		-		-
£40,000 - £60,001		-		-		-
Total Cost included in bandings					0	19
Amounts provided for in CIES not included in bandings						
Total Cost included in CIES					<b>0</b>	<b>19</b>

## **41. DEFINED BENEFIT PENSION SCHEME**

### **a. Participation in Pension Scheme**

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

The Council participates in the Local Government Pension Scheme administered by Lincolnshire County Council.

- This is a funded defined benefit final salary scheme, meaning the Council, and employees, pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.
- Arrangements for the award of discretionary post-retirement benefits upon early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.
- The Lincolnshire County Council pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Lincolnshire County Council. Policy is determined in accordance with the Pension Fund Regulations.
- The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

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

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

The Council recognises the cost of retirement benefits in the cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement. The reversal of the IAS19 transactions ensures that there is no effect on the amounts to be met from government grant and the local taxpayers. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

2015/16 £'000		2016/17 £'000
	<b>Comprehensive Income and Expenditure Statement</b>	
	<b>Cost of Services</b>	
3,211	- current service cost	2,902
	- past service cost	13
	- (gain)/loss from settlements	
	<b>Financing &amp; Investment Income &amp; Expenditure</b>	
4,139	- Net interest expense	4,049
(2,460)	-Expected return on assets in the scheme	(2,704)
4,890	Total Post-employment benefits charged to the Surplus or Deficit on the Provision of Services	4,260
	<b>Other Post-employment benefits charged to the Comprehensive Income and Expenditure Statement</b>	
	Remeasurement of the net defined benefit liability comprising:	
1,590	-return on plan assets (excluding the amount included in the net interest expense)	(12,623)
	-Actuarial gains and losses arising on changes in demographic assumptions	(2,190)
(16,153)	-Actuarial gains and losses arising on changes in financial assumptions	23,495
(1,642)	-Other	(964)
(11,315)	<b>Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement</b>	11,978
	<b>Movement in Reserves Statement</b>	
(2,444)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(1,604)
	<b>Actual amount charged against the General Fund Balance for pensions in the year.</b>	
2,446	- Employers' contributions payable to scheme.	2,656

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

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

2015/16 £'000 Original		2016/17 £'000
115,909	Present Value of the defined benefit obligation	139,982
<u>(77,603)</u>	Fair value of plan assets	<u>(92,354)</u>
38,306	Sub-total	47,628
-	Other movements in the liability (asset)	-
<b><u>38,306</u></b>	<b>Net liability arising from defined benefit obligation</b>	<b><u>47,628</u></b>

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

2015/16 £'000		2016/17 £'000
77,039	Opening fair value of scheme assets	77,603
2,460	Interest income	2,704
	Remeasurement gain/ (loss:	
	The return on plan assets, excluding the amount	
(1,590)	included in net interest	12,623
	Other	
	The effect of changes in foreign exchange rates	
2,446	Contributions from employer	2,656
703	Contributions from employees into the scheme	744
<u>(3,455)</u>	Benefits paid	<u>(3,976)</u>
<b><u>77,603</u></b>	<b>Closing fair value of scheme assets</b>	<b><u>92,354</u></b>

**e. Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)**

2015/16 £'000		2016/17 £'000
Original		
129,106	Opening balance at 1 April	115,909
3,211	Current Service Cost	2,915
4,139	Interest cost	4,049
703	Contributions from scheme participants	744
	Remeasurement (gains) and losses:	
	Actuarial gains/ losses arising from changes in demographic assumptions	(2,190)
(16,153)	Actuarial gains/ losses arising from changes in financial assumptions	23,495
(1,642)	Other	(964)
	Past Service cost	
	Losses/(gains) on curtailment	
	Liabilities assumed on entity combinations	
(3,455)	Benefits paid	(3,976)
	Liabilities extinguished on settlements	
<b>115,909</b>	<b>Closing Balance at 31st March</b>	<b>139,982</b>

**f. Local Government Pension Scheme assets comprised**

2015/16	<b>Fair Value of Scheme Assets</b>	2016/17
£'000		£'000
838	Cash and Cash equivalents	654
	Equity instruments by industry type:	
16,077	Consumer	10,383
1,723	Manufacturing	1,357
4,205	Energy and utilities	2,395
8,372	Financial institutions	6,378
2,879	Information technology	3,555
8,610	Other	7,582
<u>41,866</u>	Sub Total Equity	<u>31,650</u>
	Debt Securities	
2,658	Corporate Bonds (Investment Grade)	8,584
4,910	Corporate Bonds (Non-Investment Grade)	
1,605	UK Government	2,982
1,086	Other	
<u>10,259</u>	Sub-total bonds	<u>11,566</u>
<u>2,835</u>	Private Equity:	<u>2,133</u>
	Real Estate	
8,258	UK Property	8,404
843	Overseas Property	281
<u>9,101</u>	Sub-total Property	<u>8,685</u>
	Investment Funds and Unit Trusts	
4,378	Equities	25,373
	Bonds	
	Infrastructure	1,388
8,326	Other	10,905
<u>12,704</u>	Sub-total other investment funds	<u>37,666</u>
<u><b>77,603</b></u>	<b>Total Assets</b>	<u><b>92,354</b></u>

All scheme assets have quoted prices in active markets.

**g. Basis of Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit cost method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels etc.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Hymans Robertson, an independent firm of actuaries, estimates for the Lincolnshire County Council Fund being based on the latest full valuation of the scheme as at 1<sup>st</sup> April 2016.

The significant assumptions used by the actuary have been:

2015/16		2016/17
	<b>Long term expected rate of return on assets in the Scheme</b>	
	<b>Mortality Assumptions</b>	
	Longevity at 65 for current pensioners:	
22.2	Men	22.1
24.4	Women	24.4
	Longevity at 65 for future pensioners:	
24.5	Men	24.1
26.8	Women	26.6
3.1%	Rate of increase in salaries	2.8%
2.2%	Rate of Increase in Pensions	2.4%
3.5%	Rate for discounting scheme liabilities	2.6%

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

Rate of increase in salaries (increase or decrease by 0.5%)	1,873
Rate of increase in pensions (increase or decrease by 0.5%)	11,332
Rate of discounting scheme liabilities (Increase or decrease by 0.5%)	13,386

#### **h. Impact on the Council's Cash Flows**

The objectives of the scheme are to keep employers' contribution at as constant a rate as possible. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31<sup>st</sup> March 2019.

The Council is anticipated to pay £2,694K expected contributions to the scheme in 2017/18.



The weighted average duration of the defined benefit obligation for scheme members is 17.6 years.

Further information can be found in Lincolnshire County Council's Pension Fund Annual Report which is available upon request from the Pension Fund Manager, Lincolnshire County Council, County Offices, Newland, Lincoln, LN1 1YE (Tel: 01522 553656).

## 42. CONTINGENT ASSETS AND LIABILITIES

There are no material contingent assets or liabilities as at 31 March 2017.

## 43. BORROWING

Non-Current Borrowing represents borrowing repayable within a period in excess of one year.

2015/16 £'000	Analysis of Loans by Source	2016/17 £'000
106,543	PWLB	102,321
<b><u>106,543</u></b>		<b><u>102,321</u></b>
£'000	Analysis of Loans by Maturity	£'000
4,221	Between 1 and 2 Years	3,221
34,665	Between 2 and 5 Years	34,665
16,109	Between 5 and 10 Years	16,109
16,109	Between 10 and 15 Years	16,109
35,439	Over 15 years	32,217
<b><u>106,543</u></b>		<b><u>102,321</u></b>

Current Borrowing represents borrowing repayable within one year.

2015/16 £'000		2016/17 £'000
3,804	Balance at start of year	3,274
	Borrowing taken out during year	
(3,804)	Borrowing repaid during year	(3,274)
3,222	Transferred from Non-Current Borrowing	4,222
52	Accrued interest at end of year	58
<b><u>3,274</u></b>	Balance at end of year	<b><u>4,280</u></b>

## 44. AUTHORISATION OF ACCOUNTS FOR ISSUE

The date that the Statement of Accounts was authorised for issue was 20 September 2017. This is the date up to which events after the Balance Sheet date have been considered. The name of the person who gave the authorisation was Daren Turner (Chief Finance Officer).

#### **45. SPECIAL EXPENSE AREAS - SEAs**

Special Expense Areas are used to budget for non-strategic services provided for a particular local community as opposed to the whole District. The Special Expense Area charge is levied only on those people living in the relevant area. To ensure that this money is spent entirely for the benefit of the specific area in which it was raised, the Council has set up Reserves to retain any underspend of precepts so that they may be used in future years. For 2016/17 a contribution was paid to the reserve amounting to £41K, bringing the total to £202K.

## 46. HERITAGE ASSETS

Reconciliation of the Carrying Value of tangible Heritage Assets held by the Council

Cost or Valuation	Assets held at value		Assets held at cost	Total Assets
	Antiques	Miscellaneous Artifacts	Orrery	
	£'000	£'000	£'000	£'000
1st April 2015	216	193	20	429
Additions in year				0
Disposals in Year				0
31st March 2016	216	193	20	429
Additions in year				0
Disposals in Year				0
31st March 2017	216	193	20	429

It is not practicable to report any transactions relating to Heritage Assets before 1 April 2010, as such transactions were not distinguished from those relating to operational assets.

### a. Antiques

The Council's collection of antiques is reported in the Balance Sheet at insurance valuation which is based on market values. The collection includes items such as the chandeliers and mirrors at Stamford Arts Centre and 2 large Japanese bronze koros in the civic suite at Grantham. The collection also includes an 18th Century portrait of Catherine Manners, Lady Huntingtower on view at Grantham Guildhall.

### b. Miscellaneous Artefacts

Items of note in this collection include civic regalia and a Victoria Cross medal. Items in this collection are reported in the Balance Sheet at insurance valuation which is based on market values. The collection is held at Grantham.

Valuations were undertaken in January 2008 for insurance purposes by Anthony Marriott, Fine Art Consultant & Valuer.

### c. Orrery

The Orrery sculpture in Grantham Market Place is reported at cost.

### d. Historic

The Council has a collection of assets that are of historic significance but are not reported on the balance sheet as their value cannot be reliably established. This collection is made up of the following:

St Leonard Priory, Stamford	12th Century Priory, listed ancient monument
Conduit, Grantham	16th Century Well Head
St Wulfram's War Memorial, Grantham	World War 1 memorial
Dysart Park Band Stand, Grantham	Victorian wrought iron band stand
Wyndham Park Shelter, Grantham	World War 1 memorial shelter

Currently the Council has no intangible Heritage Assets

More details on the Heritage Assets held by the Council including their location and any public access allowed is held on the Council's Heritage Asset schedule.

## 47. INVESTMENTS

Non-current investments represent money invested for a period longer than one year.

<b>Non-Current Investments</b>		
2015/16		2016/17
£'000		£'000
4,000	Balance at start of year	5,000
5,000	Investments made during year	7,000
-	Investments redeemed during year	-
(4,000)	Transferred to Current Investments	(5,000)
<b>5,000</b>	Balance at end of year	<b>7,000</b>

Current investments are held for periods less than one year.

<b>Current Investments</b>		
2015/16		2016/17
£'000		£'000
29,136	Balance at start of year	37,305
38,000	Investments made during year	52,000
(34,136)	Investments redeemed during year	(48,305)
4,000	Transferred from Non-Current Investments	5000
305	Accrued interest at end of year	213
<b>37,305</b>	Balance at end of year	<b>46,213</b>

## 48. CASH FLOW STATEMENT

The adjustments to the net surplus or deficit on the provision of services for non-cash movements can be analysed as follows;

2015/16 £'000		2016/17 £'000
6,097	Depreciation	6,613
(551)	Impairment & downward valuations	(43,821)
100	Amortisation	100
248	Increase/(Decrease) in impairment for bad debts	133
(4,226)	Increase/(Decrease) in Creditors	311
(652)	(Increase)/Decrease in Debtors	(1,940)
16	(Increase)/Decrease in Stock	(1)
2,444	Movement in pension liability	1,604
2,267	Carrying amount of non-current assets and non-current assets held for sale, sold or de-recognised	2,746
84	Other non-cash items charged to the net surplus or deficit on the provision of services	417
<b>5,827</b>		<b>(33,838)</b>

## HOUSING REVENUE ACCOUNT

### INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2017

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

2015/16 £'000		2016/17 £'000
	<b>Income</b>	
	Gross Rental Income	
(25,600)	- Dwelling Rents	(25,195)
(297)	- Non-Dwelling Rents	(282)
(587)	Charges for Services and Facilities	(585)
(325)	Other Income	(375)
<b>(26,809)</b>	<b>Total Income</b>	<b>(26,437)</b>
	<b>Expenditure</b>	
7,549	Repairs and Maintenance	8,022
3,542	Supervision and Management	3,628
47	Rent, rates, taxes and other charges	29
41	Increase/(Decrease) in Prov'n for Doubtful Debts	94
1,556	Depreciation and impairment of Non-Current Assets	(40,645)
34	Debt Management Costs	31
<b>12,769</b>		<b>(28,841)</b>
<b>(14,040)</b>	<b>Net Cost of HRA Services</b>	<b>(55,278)</b>
359	HRA share of Corporate and Democratic Core	379
<b>(13,681)</b>	<b>Net Cost of HRA Services as included in the whole authority Comprehensive Income and Expenditure Statement</b>	<b>(54,899)</b>
(1,140)	(Gain)/loss on sale of HRA assets	(939)
850	Contribution Housing Capital Receipts to the Pool	811
3,183	Interest payable and similar charges	3,095
(222)	Interest and Investment Income	(206)
119	Investment Property Income and Expenditure	(28)
396	Pension Interest Costs and Expected Return on Assets	318
	Recognised Grants & Contributions	(490)
<b>(10,495)</b>	<b>(Surplus)/Deficit for the year on HRA services</b>	<b>(52,338)</b>

## MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

2015/16 £'000		Note	2016/17 £'000
(4,783)	Balance on the HRA at the end of the previous year		(4,823)
(10,495)	(Surplus)/Deficit for the year on the HRA Income & Expenditure Statement		(52,338)
3,688	Adjustments between Accounting Basis and Funding Basis under statute	8	47,171
<b>(6,807)</b>	<b>Net (increase) or decrease before transfers to or from reserves</b>		<b>(5,167)</b>
6,767	Transfers to or (from) reserves	9	6,364
<b><u>(4,823)</u></b>	<b>Balance on HRA at the end of the current year</b>		<b><u>(3,626)</u></b>

## NOTES TO THE HOUSING REVENUE ACCOUNT

The Housing Revenue Account reflects a statutory obligation to maintain a revenue account for local Council housing provision in accordance with part 6 of the Local Government and Housing Act 1989. The Act sets the framework for "ring fencing" the Housing Revenue Account (HRA). The account has to be self-financing and there is a legal prohibition on cross subsidy to or from the General Fund.

### 1. HOUSING STOCK

The Council was responsible for managing on average 6,128 dwellings during 2016/17. The housing stock and changes during the year are as follows:

	At 1st April 2016	Additions	Disposals /Sales	At 31st March 2017
Rentable Stock				
- Houses	3,329	1	40	3,290
- Bungalows	1,507		6	1,501
- Flats	1,292	3	6	1,289
Shared Ownership	25		2	23
<b>Total</b>	<b>6,153</b>	<b>4</b>	<b>54</b>	<b>6,103</b>



## 2. LAND HOUSES AND OTHER PROPERTY

### Analysis of Housing Fixed Assets

	Operational Assets				Operational Assets		Total
	Dwellings	Other Land a Buildings	Vehicles, Plai Equipment	Investment Properties	Assets Undr Construction		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or Valuation at 1 April 2016	181,318	3,239	1,189	414	265		186,425
Additions	4,239		109		1,379		5,727
Revaluation increases/(decreases) recognised in the Revaluation Reserve	516	7					523
Revaluation increases/(decreases) recognised in the Surplus/Deficit on Provision of Services	41,918	199		7			42,124
Derecognition - Disposals	(1,496)	(9)					(1,505)
Assets reclassified to/from Held for Sale	(755)						(755)
Assets reclassified (to)/from Assets Under Construction	0						0
<b>Gross Book Value as at 31/3/2017</b>	<b>225,740</b>	<b>3,436</b>	<b>1,298</b>	<b>421</b>	<b>1,644</b>		<b>232,539</b>
<b>Depreciation &amp; Impairments</b>							
At 1 April 2016	(2,553)	(141)	(852)				(3,546)
Depreciation charge	(3,173)	(147)	(98)				(3,418)
Depreciation written out to the revaluation reserve	38	100					138
Depreciation written out to the CI&E	6,601	39					6,640
Impairment losses/(reversals) recognised in the Revaluation Reserve	-						0
Impairment losses/(reversals) recognised in the Surplus/Deficit on Provision of Services	(4,087)						(4,087)
Derecognition - Disposals	0						0
Other movements in Depreciation &							0
<b>At 31 March 2017</b>	<b>(3,174)</b>	<b>(149)</b>	<b>(950)</b>	<b>0</b>	<b>0</b>		<b>(4,273)</b>
<b>Balance Sheet Amount at 31 March 2017</b>	<b>222,566</b>	<b>3,287</b>	<b>348</b>	<b>421</b>	<b>1,644</b>		<b>228,266</b>
<b>Balance Sheet Amount at 31 March 2016</b>	<b>178,765</b>	<b>3,098</b>	<b>337</b>	<b>414</b>	<b>265</b>		<b>182,879</b>

The vacant possession value of dwellings at 31 March 2017 was £538.93m (£534.119m at 31 March 2016). Each council dwelling owned, in full or part, by the Council has been valued by the Valuation Office Agency in accordance with the guidance issued by DCLG. The vacant possession value of dwellings must be adjusted to reflect the social housing status of local authority dwellings i.e. that social housing is available to tenants at less than open market rents. The predetermined adjustment factor for social housing in the East Midlands is 42%.

### 3. HRA REVALUATION LOSS

When assets are re-valued, the increase or decrease is an “unrealised gain or loss” until the asset is sold. These unrealised gains and losses are held in the revaluation reserve. If an asset is revalued upward, then in subsequent years re-valued downward, the revaluation loss is set against the original gain in the reserve, so reducing it. Once any gains in the reserve are reduced to zero, any further loss must be charged as expenditure to the Housing Revenue Account in the year.

Due to accounting rules, the Revaluation Reserve was set up with an opening balance of zero at 1 April 2007. The closing position on the Reserve at 31 March 2017 therefore only shows revaluation gains accumulated since 1 April 2007 together with depreciation adjustments to comply with accounting rules. Any revaluation gains (and losses) on non-current assets prior to 1 April 2007 are accounted for in the Capital Adjustment Account.

2015/16 £'000		2016/17 £'000
2,784	Depreciation	3,418
(5,704)	Revaluation Loss/(Gain)	(48,073)
4,694	Impairment Losses	4,087
<u>1,774</u>		<u>(40,568)</u>

### 4. MAJOR REPAIRS RESERVE

The Major Repairs Reserve is maintained to meet HRA capital expenditure. Movements on the Reserve were:

2015/16 £'000		2016/17 £'000
5,384	Opening balance on the Major Repairs Reserve	6,775
	Transfer to/ (from) the Major Repairs Reserve	
2,552	Capital Adjustment Account	3,173
3,565	Shortfall of depreciation on dwellings over Major Repairs Allowance	3,141
(4,726)	Financing of Capital Expenditure	(4,214)
<u>6,775</u>	<b>Closing balance on the Major Repairs Reserve</b>	<u>8,875</u>

## 5. FINANCING CAPITAL EXPENDITURE

The capital expenditure on land, houses and other assets in the HRA together with its financing is shown below:

2015/16 £'000		2016/17 £'000
	<b>Expenditure</b>	
5,518	- Council Dwellings	4,239
32	- Intangibles	18
15	- Plant and Equipment	109
0	- Assets Under Construction	1,379
<u>5,565</u>	<b>Total</b>	<u>5,745</u>
	<b>Financed from:</b>	
4,726	- Major Repairs Reserve	4,214
839	- Capital Receipts	1,041
	- Revenue Contributions	490
<u>5,565</u>		<u>5,745</u>

Supported Capital Expenditure allowances are issued by the Government as part of The Prudential Code for Capital Finance in Local Authorities.

## 6. CAPITAL RECEIPTS

The sale of HRA assets during the year is detailed in the following table. Following the reinvigoration of the Right to Buy (RTB) the split between useable and unusable poolable receipts is now re-calculated by use of a complex procedure imposed by the Department of Communities and Local Government.

	Receipt in Year £'000	Element Pooled £'000	Useable Element £'000
Sale of Land			0
Sale of Garages	7		7
Sale of Vehicles			0
Sale of Council Dwellings	2,914	(808)	2,106
Repayment of discounts			0
Mortgage Repayments	4	(3)	1
<b>Total</b>	<u>2,925</u>	<u>(811)</u>	<u>2,114</u>

A transaction cost of £1,300 per completed RTB sale has been deducted before calculating the apportionment between pooled and useable plus a deduction for the debt supported by those properties sold.

## 7. PENSION COSTS

Note 41 to the Core Financial Statements provide a detailed explanation of the accounting requirements for pension costs.

The following transactions have been made in the Housing Revenue Account to reflect its share of the pension fund transactions in the year.

<b>Housing Revenue Account Pension Cost</b>		
2015/16		2016/17
£'000		£'000
Original	<b>Net Cost of Services</b>	
758	- Current Service Cost	690
	<b>Net Operating Expenditure</b>	
396	- Interest Cost	318
<u>1,154</u>		<u>1,008</u>
	<b>Statement of Movement of the Housing Revenue Balance</b>	
	- Reversal of net charges made for retirement benefits in accordance with IAS19	
<u>(1,154)</u>		<u>(1,008)</u>
	<b>Actual amount charged to revenue accounts for Pensions in the year</b>	
<u>563</u>	- Employers' contributions payable to the scheme	<u>613</u>

## 8. ANALYSIS OF RECONCILING ITEMS IN MOVEMENT ON THE HOUSING REVENUE ACCOUNT STATEMENT

2015/16	Movement on the Housing Revenue Account Statement	2016/17
£'000		£'000
	<b>Adjustments between Accounting and Funding Basis:</b>	
(1,154)	IAS 19	(1,008)
563	- Pension Costs Charged to Rent Income	613
(4,694)	- Non-Enhancing Capital Expenditure	(4,087)
3,222	Capital Expenditure	3,712
1,140	Gains/losses on disposal of non current assets	940
5,704	Revaluation gains/(losses) on PPE	48,073
(850)	Payments to Housing Capital Receipts Pool	(811)
(243)	Depreciation of non-current assets	(261)
<u>3,688</u>		<u>47,171</u>
	<b>Transfers to/from Earmarked Reserves:</b>	
(50)	- Insurance Surplus	100
3,252	- Transfers to/(from) reserves	3,123
3,565	- Transfers to/ (from) Major Repairs	3,141
0	- Transfer to Unapplied Capital Receipts	-
<u>6,767</u>		<u>6,364</u>

## 9. RENT ARREARS

An analysis of rent arrears is shown below:

£'000		£'000
740	Current Tenants	631
194	Former Tenants	404
<u>934</u>	<b>Gross Rent Arrears</b>	<u>1,035</u>
<b>(527)</b>	<b>Bad Debt Provision</b>	<b>(621)</b>

A bad debt Provision has been made in the accounts for potentially uncollectable rent arrears.

## 10. INCOME

Income in the housing revenue account comes from a number of different sources:

- Dwelling rents. These are calculated in accordance with government guidelines for rent restructuring. For 2016/17 all rents decreased by 1%. The figure within the HRA statement is the total rent collectable after an allowance has been made for empty properties where no rent is being charged.
- Non-dwelling rents. This is comprised of plots, garages, HRA shops and wayleaves. Rent on garages and plots were increased by 1.5% for 2016/17.
- Charges for services and facilities include:
  - Communal room charge to cover the cost of providing communal lounges, kitchens and use of laundry equipment;
  - Communal facilities charge covers the costs of cleaning, fire alarms and the provision of lifts to living areas;
  - Heating charges for communal heating systems; and
  - Water charges to cover the cost of water consumption in communal areas as well as servicing tenants' dwellings from the same meter.Communal room and communal facilities charges decreased by 1% and all other charges for services and facilities were increased by 1.5% for 2016/17.
- Other income. This comes from a number of sources, including the recharge of repairs and maintenance, court and legal costs and insurance recharges.

## 11. EXPENDITURE

Repairs and Maintenance covers all aspects of maintenance for the housing revenue account properties.

<b>Repairs and Maintenance</b>	Original	Revised	
	Budget	Budget	Actuals
	2016/17	2016/17	2016/17
	£	£	£
Expenditure	8,262,303	8,651,719	8,022,447
Average Number of Properties 2016/17	6,128	6,128	6,128
Average cost per dwelling	£1,348.29	£1,411.83	£1,309.15

Supervision and Management can be split into two parts - general and special.

- General supervision and management costs relate to activities which are pertinent to all Council properties, this includes policy and management issues, rent collection, accountancy and tenancy management activities.

<b>Supervision and Management</b>	Original Budget 2016/17 £	Revised Budget 2016/17 £	Actuals 2016/17 £
Expenditure	2,541,727	2,557,453	2,629,746
Average Number of Properties 2016/17	6,128	6,128	6,128
Average cost per dwelling	£414.77	£417.34	£429.14

- Supervision and management special costs relate to services which are only received by some but not all properties in the housing revenue account. Service includes supported housing schemes, heating charges, homelessness family units and other estate expenditure (grounds maintenance). They have not been included in the comparison above.

**COLLECTION FUND INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2017**

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

Business Rates £'000	2015/16			Business Rates £'000	2016/17		Total £'000
	Council Tax £'000	Total £'000			Council Tax £'000	Total £'000	
<b>Income</b>							
0	65,894	65,894	Council Tax Payers	0	69,373	69,373	
38,176	0	38,176	Business Ratepayers	42,267	0	42,267	
Apportionment of Previous Year Deficit -							
390	0	390	Central Government	940	0	940	
312	0	312	South Kesteven District Council	752	0	752	
78	0	78	Lincolnshire County Council	188	0	188	
<u>38,956</u>	<u>65,894</u>	<u>104,850</u>	<b>Total Income</b>	<u>44,147</u>	<u>69,373</u>	<u>113,520</u>	
<b>Expenditure</b>							
39,845	65,128	104,973	Precepts and Demands	3 41,342	68,499	109,841	
196	0	196	Costs of Collection	178	0	178	
179	0	179	Transitional Protection Payment	0	0	0	
Bad and doubtful Debts -							
(269)	214	(55)	Write Offs	162	65	227	
394	(242)	152	Provisions	70	43	113	
526	0	526	Appeals	806	0	806	
Apportionment of Previous Year Surplus -							
0	195	195	South Kesteven District Council	0	120	120	
0	1,213	1,213	Lincolnshire County Council	0	758	758	
0	221	221	Lincolnshire Police & Crime Commissioner	0	139	139	
<u>40,871</u>	<u>66,729</u>	<u>107,600</u>	<b>Total Expenditure</b>	<u>42,558</u>	<u>69,624</u>	<u>112,182</u>	
(1,916)	(835)	(2,751)	<b>Movement on Fund</b>	1,589	(251)	1,338	
(2,140)	1446	(694)	Balance at the Beginning of the Year	(4,056)	611	(3,445)	
<u>(4,056)</u>	<u>611</u>	<u>(3,445)</u>	<b>Surplus/(Deficit) on Fund at End of Year</b>	<u>(2,467)</u>	<u>360</u>	<u>(2,107)</u>	
<b>Allocated to -</b>							
(2,028)	0	(2,028)	Central Government	(1,234)	0	(1,234)	
(1,622)	72	(1,550)	South Kesteven District Council	(987)	38	(949)	
(406)	456	50	Lincolnshire County Council	(246)	278	32	
0	83	83	Lincolnshire Police & Crime Commissioner	0	44	44	
<u>(4,056)</u>	<u>611</u>	<u>(3,445)</u>		<u>(2,467)</u>	<u>360</u>	<u>(2,107)</u>	



## NOTES TO THE COLLECTION FUND

### 1. COUNCIL TAX

Council Tax income derives from charges raised according to the value of residential properties that have been classified into eight Valuation Bands (A to H). Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by Lincolnshire County Council, Office of the Police and Crime Commissioner for Lincolnshire and South Kesteven District Council together with each parish requirement and dividing this by the Council Tax base i.e. the number of properties in each valuation band converted to an equivalent number of band D dwellings and adjusted for discounts.

The Council Tax base for 2016/17 increased to 45,440.4 (44,753.2 in 2015/16)

The Council Tax base was calculated as follows:

Band	Estimated No. of Taxable Properties After Effect of Discounts	Ratio	Band D Equivalent Dwellings
A	12,205.60	6/9	8,137.1
B	11,376.80	7/9	8,848.6
C	9,581.70	8/9	8,517.1
D	8,111.80	9/9	8,111.8
E	5,059.40	11/9	6,183.7
F	2,612.00	13/9	3,772.9
G	1,006.10	15/9	1,676.8
H	62.50	18/9	125.0
Band A entitled to Disabled Relief Reduction	18.80	5/9	10.4
			45,383.4
Ministry of Defence Properties			57.0
<b>Council Tax Base</b>			<b><u>45,440.4</u></b>

### 2. BUSINESS RATES

Under this scheme SKDC keeps the total non-domestic rates due, less certain reliefs and deductions, and then redistributes the rates collected based on estimates at the start of the year. The redistribution of the central and local shares is based on the ratio of 50:40:10 for Central Government, SKDC and Lincolnshire County Council. The business rates retention scheme is designed to encourage economic growth and incentivise Councils by allowing them to keep a proportion of any business rates growth achieved during the year.

Under the arrangements for Non-Domestic Rates, the Council collects rates for its area based upon local rateable values (determined by the Valuation Office Agency, an executive agency of HM Revenue & Customs) multiplied by the multiplier (determined by Government). For 2016/17 there are two multipliers:

Full	0.497 (0.493 for 2015/16)
Small Business	0.484 (0.480 for 2015/16)

The total Non-Domestic Rateable Value at 31 March 2017 was £101.998m (31 March 2016 £101.076m).

### 3. PRECEPTS AND DEMANDS

2015/16			2016/17		
£'000	£'000	£'000		£'000	£'000
Council Tax	Business Rates	Total		Council Tax	Business Rates
-	19,944	19,944	Central Government		20,671
48,599	3,980	52,579	Lincolnshire County Council	51,295	4,134
8,845	-	8,845	Lincs Police & Crime Commissioner	9,157	
7,684	15,921	23,605	South Kesteven District Council	8,047	16,537
<b>65,128</b>	<b>39,845</b>	<b>104,973</b>		<b>68,499</b>	<b>41,342</b>
					<b>109,841</b>



# Annual Governance Statement

## 2016/17

# Introduction

Local authorities are statutorily required to review their governance arrangements at least once a year. The preparation and publication of an Annual Governance Statement (AGS), in accordance with the CIPFA/Solace “Delivering Good Governance in Local Government: Framework”, fulfils this requirement. The AGS also conforms to the Council’s [Local Code of Corporate Governance](#). Our AGS covers all significant corporate systems, processes and controls spanning the whole range of the Council’s activities. It provides an overview of the Council’s key governance systems and explains how they are tested and the assurances that can be relied on to show that the systems are working effectively. The statement explains how the Council has complied with the Local Code of Corporate Governance, and the core governance principles, and builds on the work of previous years.

## Key elements of the Council’s governance framework





# How we comply with the CIPFA/Solace Framework

The Council has approved and adopted a Local Code of Corporate Governance based on the requirements of the CIPFA/Solace Delivering Good Governance in Local Government Framework 2016. Set out below is how the Council has complied with the seven principles set out in the CIPFA/Solace Framework during 2016/17.

## Principle A

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

We have defined and communicated the standards of conduct and personal behaviour expected of Members and officers through various policies, procedures, codes of conduct and protocols to ensure integrity.

We have arrangements in place for individuals to raise concerns where they believe these values and behaviours are not being lived. We have a Counter Fraud Strategy, which incorporates bribery and corruption, and a Whistleblowing Policy which provides protection for individuals to raise concerns in confidence and ensures that any concerns raised are investigated properly.

The governance framework brings together an underlying set of legislative requirements, good practice principles and management processes. It comprises the systems, processes, culture and values by which the Council is directed and controlled, and through which it accounts to, engages with and informs the local community. It enables the Council to monitor the achievement of its strategic objectives.

The Council is committed to the rule of the law and adherence to all laws and regulations underpinning its work. All council decisions consider the legal implications and these are captured within all Council reports along with a quality impact analysis and consideration of any risks and mitigations.

## Principle B

Ensuring openness and comprehensive stakeholder engagement

All meetings are open to the public with agenda papers, reports and decisions being published on our website, except those determined as exempt from publication.

Our constitution sets out how we engage with stakeholders and partners. We have talked to residents who have told us what they want us to concentrate on and they agree with our priorities of Growth, Environment, Culture and Housing.

We have introduced a new allocations policy which incorporates the review of the operation of the previous policy, new legislation, good practice and research regarding the approach of other local housing authorities.

We have carried out a number of consultations during 2016/17 including consulting with local businesses, parish councils, local residents and members of our Citizen's Panel in respect of Council Tax setting proposals. The outcomes from this consultation fed into the budget proposals for 2017-18.

We also consulted on gauging the views of what people think about Wyndham Park. The feedback from the 404 respondents was useful in that it helped inform the second stage of the Heritage Lottery Fund, Parks for People, application which was successful. The funding will allow us to refurbish the park to a standard that supports a number of our corporate priorities.



## Principles C & D

*Defining outcomes in terms of sustainable economic, social and environmental benefits and determining the interventions necessary to optimise the achievement of the intended outcomes*



South Kesteven District Council

The strategic vision for South Kesteven District Council is set out in our Corporate Plan which shares our vision for the future and shows how we will meet our priorities and the needs of our communities. The Council, through its Commercial, Community, Environment, Development & Growth activities sets out how it will deliver the outcomes, in order to meet the priorities, through appropriately resourced business and action plans.

We have an Economic Development Strategy which guides the activities of all agencies involved in economic development within South Kesteven, by indicating not only what the Council intends to do, but also the totality of need and action.

We have been recognised as one of the government's 30 local authority starter home partners in partnership with the Homes and Communities Agency (HCA) and are currently working on site appraisals for a number of potential housing sites in conjunction with the HCA and its consultant expertise. The designation of Spitalgate Heath as one of the Government's new wave of Garden Villages (14 were named across the UK) is in recognition of the area's significant growth potential, its strategic relevance and the approach that the Council and the landowners, Buckminster Estate, have taken in setting a vision for a high quality new settlement.

We regularly review the Council's goals and aspirations and the implications for the governance arrangements and the economic, social and environmental benefits; notably through economic assessments of major schemes, such as Spitalgate Heath, and our festival programme. We publish an annual report which communicates the Council's activities, achievements, financial position and performance.

## Principle E

*Developing the entity's capacity, including the capability of its leadership and the individuals within it*

The Council ensures that officers and Members receive both induction training and continued professional development to enable maintenance of skills and knowledge to effectively perform their duties. The Council's People Strategy is built around a series of values and behaviours as follows:

- We deliver on the council's goals and priorities
- We take action and are accountable
- We challenge to improve
- We listen and respond to our customers
- We communicate to build the team

One of the interrelated themes underpinning the strategy is "supporting the wellbeing of our people" so that they can maintain a good work-life balance.

The Council ensures that officers and Members receive both induction training and continued professional development to enable maintenance of skills and knowledge to effectively perform their duties.

We have a clear vision and strategy which is underpinned by strong and effective leadership and management. There are structures and robust mechanisms in place to ensure that the Council's vision, strategic plans, priorities and targets are developed in consultation with the local community and other key stakeholders, including partnerships, and that they are clearly articulated and disseminated.

We have a scheme of delegation that sets out how decisions are made within the Council both at officer level and Member level. We have effective arrangements for the discharge of the statutory Monitoring Officer and Head of Paid Service functions and we comply with the relevant requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government.

## Principle F

Managing risks and performance through robust internal control and strong public financial management

The Council has effective risk management which is embedded across all areas of business activity. We recognise that risk management is an integral part of all activities and must be considered in all aspects of decision making. The Risk Management Framework sets out our approach to identifying and controlling risks. Risk registers are maintained at a corporate and business area level. Corporate risks are reported to Strategic Management Team quarterly and to the Governance and Audit Committee biannually.

intention crime problem security held costly most rapid false fight  
damage result serious guilty court loss abuse  
dishonest conviction regulated penalties  
...we all pay for it  
Help Lincolnshire local authorities in the fight against fraud  
Use our Confidential hotline freephone: 0800 0853716  
email: whistleblowing@lincolnshire.gov.uk

We have a Counter Fraud Strategy, structured on the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption, which sets out the importance of achieving intended outcomes whilst acting in the public interest and being seen to do so.

The Council is part of the Lincolnshire Counter Fraud Partnership which was established to create the framework for a county-wide anti-fraud approach. The Partnership provides a forum for counter fraud specialists and subject area experts from Lincolnshire County Council and the seven district councils to develop and deliver proactive exercises and investigate fraud.

We have a dedicated Performance and Programme Management Office who provide monitoring, control and reporting across the programmes of activity and also support managers and leading officers with training and project management tools, techniques and performance management advice.

Financial management is a key element of the structure and processes that comprise the Council's governance arrangements. Underpinning the delivery of our Corporate Plan and priorities is the ethos of a well run Council. This includes effective financial management to achieve efficiencies and savings in the short and medium terms.

## Principle G

Implementing good practices in transparency, reporting and audit to deliver effective accountability

The Council as a whole is open and accessible to the community, service users and employees. We have a commitment to openness and transparency in all that we do. We ensure that clear channels of communication are in place with all sections of the community and other stakeholders and we monitor these to ensure that they are operating effectively. Every effort is made to ensure that information is concise and easy to understand.

In accordance with the Local Government Transparency Code we publish how we spend our money, how we use our assets, how we make decisions and issues important to local people.

We have a comprehensive consultation process for published reports which ensures senior management and Members own the contents. The Council is committed to publishing information on its performance in a timely manner and report performance against targets and financial targets on a regular basis.

We have an effective internal audit service that reports direct to the Governance and Audit Committee on all aspects of its work, including the tracking of implementation of recommendations.

The Council welcomes peer challenge, reviews and inspections from regulatory bodies and it participates in national benchmarking exercise to obtain comparative data on performance.



# Governance framework for 2016/17

The Governance Framework shown below has been in place throughout the financial year which ended on 31 March 2017 and continues to be in place up to the date of the approval of the Statement of Accounts.

## Assurances required

- Delivery of Council's aims and objectives
- Services deliver value for money
- Engagement with stakeholders and public accountability
- Budget and financial management
- Roles and responsibilities of Members and Officers
- Standards of conduct and behaviour
- Compliance with laws, regulations, policies and procedures

## Sources of assurance

- Constitution, Scheme of Delegation, financial procedures and Contract & Procurement Procedure Rules
- Council, Cabinet and Committees including Governance & Audit and Overview & Scrutiny Committees
- Medium Term Financial Strategy
- Human resources policies and procedures
- Whistleblowing and counter fraud procedures
- Risk management and internal control frameworks
- Performance management framework
- Partnerships governance arrangements
- Codes of Conduct
- Senior Management Team
- Assurance statements

## Assurances received

- Statement of Accounts
- External audit reports
- Internal audit reports
- Independent and external sources
- Local Government Ombudsman reports
- Scrutiny reviews
- Reviews by Overview & Scrutiny Committees and Governance & Audit Committee
- Member/officer working groups
- Customer feedback



# Review of effectiveness

The Council uses a number of ways to review and assess the effectiveness of its governance arrangements. These are set out below:

## Governance and Audit Committee

The Governance and Audit Committee is well established and its terms of reference comply fully with CIPFA guidance.

The key areas covered by the Committee's terms of reference are audit activity, risk management, governance, counter fraud and bribery, regulatory framework, accounts and financial reporting and the ombudsman process. In addition it receives annual reports on health and safety and business continuity.

At the meeting of Council in April 2017, Members considered the Chairman of the Committee's Annual Report on the key outcomes arising from the work of the Governance and Audit Committee for 2016/17. Members acknowledged that these outcomes had helped to improve and strengthen the Council's overarching control environment and governance arrangements. In line with best practice, and to ensure that Members become better informed and therefore engaged with the work of the Committee, an indicative annual work plan and timetable for 2017/18 was also presented to Council at the same meeting.

## Internal audit

The Council's internal auditors, RSM, are required to provide an opinion on the overall adequacy and effectiveness of the Council's risk management, governance and internal control arrangements. With regard to internal control, 12 reviews were undertaken during 2016/17, plus three follow-up reviews and one advisory review. The 12 reviews resulted in an assurance opinion summarised below:



For the 12 months ended 31 March 2017, based on the work undertaken, internal audit's opinion below details the adequacy and effectiveness of the Council's risk management, governance and internal control arrangements:

***“The Council has an adequate and effective framework for risk management, governance and internal control.”***

With regard to the issues raised by the Head of Internal Audit in their Annual Report to the Governance and Audit Committee in June 2016, action plans have been put in place to address these, particularly in those areas where management concerns have also been raised and further work is required to strengthen the control framework.

## External audit

The Council's external auditor, KPMG, in their 2015/16 Annual Audit Letter concluded that there were good financial reporting arrangements in place and proper arrangements to secure financial resilience and no significant risks were identified. In particular, the external auditor acknowledged that the Council was working hard to deliver a balanced budget year on year against the background of further reductions in Government funding and cost pressures on services. Further, the external auditor reported that the Authority's organisation and IT control environment was effective and controls over the key financial systems were sound.

Internal audit files and reports for key financial systems are reviewed annually by external audit in order for them to place reliance on this work. As in previous years, it is expected that they will be able to place full reliance on the work of internal audit and any recommendations made by the external auditor will be consistent with those made by internal audit. External audit issued an unqualified Value for Money Conclusion and an unqualified opinion was given on the annual accounts:

***“We issued an unqualified opinion on the Authority's financial statements on 29 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.”***

# Follow up of last year's key areas of focus

Last year's Annual Governance Statement identified five areas of focus and the table below sets out the action taken to address those areas:

Key area of focus identified for 2015/16	Action taken
Continue to review and implement savings, efficiency and change programmes and ensure the Medium Term Financial Strategy reflects the financial climate and supports the delivery of the Council's ambitions	The Medium Term Financial Strategy was fundamentally reviewed and updated to reflect the current financial climate and future funding challenges and was approved by Council in November 2016
Incorporate governance and risk training into the overarching corporate training programme for employees and members utilising appropriate training tools such as elearning	The training requirements for governance and risk are being incorporated into the organisational learning and development programme
Continue to work with internal audit to review and improve the system and controls for the procurement of goods and services, including the management of contracts and official orders	The Council's Contract and Procurement Procedure Rules were updated and approved in April 2016 which incorporated national and regional changes to the procurement of goods and services
Review and implement a new Local Code of Corporate Governance in accordance with the revised CIPFA/Solace Framework "Delivering Good Governance in Local Government: Framework"	The new Local Code of Corporate Governance was approved by Governance and Audit Committee at its meeting in March 2017
Undertake the Counter Fraud Assessment Tool to assist with the measurement of our counter fraud arrangements against the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption	The assessment was undertaken and will now form part of a wider piece of work to be undertaken with the Lincolnshire Counter Fraud Partnership which will also assess our position against the <i>Fighting Fraud &amp; Corruption Locally 2016-2019 Strategy</i>

# Governance issues

For the financial year 2016/17 there has been **no significant governance issues** identified by audit and ourselves. However, we continue to enhance and improve our governance arrangements and relevant actions are listed in the table below:

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## Key area of focus for 2017/18

Continue to review and implement savings, efficiency and change programmes and ensure the Medium Term Financial Strategy reflects the financial climate and supports the delivery of the Council's ambitions

Continue to work with the Lincolnshire Counter Fraud Partnership in order to deliver mutually beneficial outcomes

Implementation and embedding of the People Strategy outcomes

## Conclusion

We give our assurance that the Council is satisfied that appropriate governance arrangements are in place. We are committed to continuous improvement and believe that we have established the excellent foundations on which to build further capacity to enable us to continue to develop and strengthen our governance arrangements.



**CLlr Matthew Lee**

The Leader of the Council

Signed on behalf of South Kesteven District Council



**Aidan Rave**

Interim Chief Executive



## **Independent auditor's report to the members of South Kesteven District Council**

We have audited the financial statements of South Kesteven District Council for the year ended 31 March 2017 on pages 17 to 109. 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 2016/17.

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. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, 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 members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Finance Officer and auditor**

As explained more fully in the Statement of the Chief Finance Officer Responsibilities, the Chief Finance Officer 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, and for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2017 and of the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement set out on pages 110 to 118 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' (CIPFA/SOLACE 2016 Edition); or
- the information given in the Narrative Statement for the financial year for which the financial statements are prepared is not consistent with the financial statements; or



- any matters have been reported 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
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or
- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of these matters.

## **Conclusion on South Kesteven District Council's arrangements for securing economy, efficiency and effectiveness in its use of resources**

### **Authority's responsibilities**

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

### **Auditor's responsibilities**

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by C&AG in November 2016, as to whether South Kesteven District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether South Kesteven District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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



## Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2016, we are satisfied that, in all significant respects, South Kesteven District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

## Certificate

We certify that we have completed the audit of the financial statements of South Kesteven District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

John Cornett

For and on behalf of KPMG LLP, Statutory Auditor  
*Chartered Accountants*  
St Nicholas House  
Park Row  
Nottingham  
NG1 6FQ

25 September 2017

## GLOSSARY OF TERMS

### Accounting Period

The length of time covered by the Council's accounts. This is twelve months commencing on 1 April. The end of the accounting period is the balance sheet date.

### Accounting Policies

Those principles, conventions, rules and practices applied by the council that specify how the effects of transactions and other events are to be reflected in the financial statements through

- Recognising
- Selecting measurement bases for, and
- Presenting assets, liabilities, gains, losses and changes to reserves

### Accrual Concept

This is one of the main accounting concepts and ensures that income and expenditure are shown in the accounting period that they are earned not as money is received or paid.

### Actuarial Gains and Losses

For a defined pension scheme, the changes in actuarial deficits or surpluses that arise because:

- (a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or
- (b) the actuarial assumptions have changed

### Amortisation

The writing down in value of intangible assets, which is charged to service revenue accounts to reflect the cost of such assets, used in the provision of those services. This is the equivalent of depreciation for non-current assets.

### Annual Governance Statement

A statement, updated annually, detailing all significant corporate systems, processes and controls covering all the Council's activities.

### Asset

An asset is something that the Council owns that has monetary value. Assets are either "current" or "non-current".

- A **current asset** is one that will be used or cease to have material value by the end of the next financial year e.g. stock or debtors
- A **non-current asset** provides benefits for a period of more than one year e.g. Council Offices.
- An **intangible asset** is those non-monetary assets that cannot be seen, touched or physically measured and which are created through time and/or effort e.g. IT software.

### Audit of Accounts

An audit is an examination by an independent expert of an organisation's financial affairs to check that the relevant legal obligations and codes of practice have been followed.

### Bad Debt Provision

Outstanding amounts owed to the Council which are highly unlikely to be collected.

## **Balance Sheet**

The Balance Sheet summarises the Council's financial position at the end of each financial year i.e. 31<sup>st</sup> March.

## **Budget**

The Council's plans set out in financial terms. Both revenue and capital budgets are prepared, and are used to control and monitor expenditure and performance.

## **CAA**

Capital Adjustment Account. The Capital Adjustment Account contains the amounts that are required by Statute to be set aside from capital receipts and revenue for the repayment of external loans as well as amounts of revenue, useable capital receipts and contributions that have been used to fund capital expenditure. It also accumulates depreciation, impairment and write-off of non-current assets on disposal.

## **Capital Charges**

A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services, i.e. depreciation.

## **Capital Expenditure**

Expenditure on the acquisition of a non-current asset or expenditure which adds to and not merely maintains the value of an existing non-current asset.

## **Capital Receipts**

Money received from the disposal of a non-current asset. Capital receipts cannot be used to fund revenue services.

## **Carrying Amount**

The value of an asset or liability as shown in the Balance Sheet.

## **Cash Flow Statement**

A statement that forms part of the Core Financial Statements and summarises the cash flows within the Council's bank accounts that have taken place within the financial year.

## **Certificate of Deposit**

A savings certificate with a set maturity date offering a fixed rate of interest which can be traded on the money markets.

## **CIES**

Comprehensive Income & Expenditure Statement

## **CIPFA**

The Chartered Institute of Public Finance and Accountancy. The professional accounting body concerned with Local Government and the Public Sector.

## **Code (the)**

The Code of Practice on Local Authority Accounting in the UK: A Statement of Recommended Practice.



## **Collection Fund**

A separate account to record the income and expenditure collected from council tax and Non-Domestic Rates, including outstanding community charges.

## **Community Assets**

Assets that the Council intends to hold in perpetuity that have no determinable useful life and that may have restrictions regarding their sale. Examples of such items are parks and historic buildings.

## **Current Service Cost**

The increase in the present value of the pension scheme liabilities expected to arise from employee service in the current period.

## **Curtailment**

Curtailments will show the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year.

## **Contingent Liabilities**

Potential losses for which a future event will establish whether a liability exists for which it is appropriate to set up a provision in the accounts.

## **Council Tax**

This is a banded property tax set by local authorities in order to meet their budget requirements. There are eight bands (Band A-Band H), set by the District Valuer according to the value of the property. The amount of tax each household pays depends on the band of the property.

## **Creditors**

Amounts owed by the Council for work done, goods received or services rendered before the end of the accounting period but for which payment was not made by the end of the accounting period.

## **Current Liabilities**

Amounts payable that become due during the next financial year.

## **DCLG**

Department for Communities and Local Government, a central government department.

## **Debtors**

Amounts due to the Council for goods or services provided before the end of the accounting period, but for which actual payments had not been received by the end of the accounting period.

## **Deferred Charges**

Expenditure that may properly be deferred but which does not result in, or remain matched with, assets controlled by the Council.

## **Deferred Credits**

This term is applied to deferred capital receipts. These transactions arise when non-current assets are sold and the amounts owed by the purchasers are repaid over a number of years, such as by way of mortgages. The balance is reduced by the principal amounts repayable in any financial year.

## **Depreciation**

An estimate of the loss in value of a non-current asset due to age, wear and tear or obsolescence over a period of time.

## **Emoluments**

Sums paid to an employee and sums due by way of expenses allowances and the money value of any other benefits received other than in cash. Pension contributions payable are excluded.

## **Earmarked Reserves**

These are reserves set aside for specific purposes, a type of service or type of expenditure.

## **Expected Rate of Return**

The average rate of return expected over the remaining life of the related obligation on the actual assets held by the pension scheme

## **Explanatory Foreword**

A simplified introduction to the Statement of Accounts and its contents.

## **Finance Leases**

Arrangements whereby the lessee is treated as the owner of the leased asset and is required to include such assets within the non-current assets on the Balance Sheet.

## **Financial Year**

The period over which the Council reports its financial activity. Currently this is 1<sup>st</sup> April to 31<sup>st</sup> March.

## **FRS**

Financial Reporting Standards, a reference to the accounting treatments that companies in the UK (and Local Authorities) would generally be expected to apply in the preparation of the Financial Statements.

## **General Fund**

The total services of the council except for the Housing Revenue Account and Collection Fund. The day to day spending on services is met from the fund.

## **Government Grants**

Grants made by central government towards either revenue or capital expenditure to help with the cost of providing services and capital projects. Some government grants have restrictions on how they may be used whilst others are general purpose.

## **Housing Benefits**

This is a national system for giving financial assistance to individuals towards certain housing costs. The cost of the service is subsidised by central government.

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

A separate account to the General Fund recording all the transactions relating to the provision of social housing.

## **Joint Operation**

This is an arrangement whereby all parties have joint control of the assets and liabilities to the operation.

### **IAS**

International Accounting Standards, a reference to accounting treatments that companies in the UK (and Local Authorities) would generally be expected to apply in the preparation of the Financial Statements.

### **IFRS**

International Financial Reporting Standards, a reference to accounting treatments that companies in the UK and Local Authorities would generally be expected to apply in the preparation of the Financial Statements.

### **Income**

This is the money that the council receives or expects to receive from any source, including fees, charges, sales, grants and interest.

### **Impairment Losses**

A reduction in the value of a non-current asset to below its carrying amount on the Balance Sheet, as a result of damage, obsolescence or a general decrease in market value.

### **Intangible Assets**

Capital expenditure that does not result in the creation of a tangible asset but which gives the Council a controllable access to future economic benefit , e.g. computer software licences.

### **Interest on Pension Scheme Liabilities**

The increase in the present value of the pension scheme liabilities expected to arise from employee service in the current period.

### **Investments**

Cash deposits with approved institutions.

### **Key Prudential Indicator**

One of the indicators required under the Prudential Code for the measuring of the Council's Treasury Management activities.

### **Liability**

A liability arises when the Council owes money to others and it must be included in financial statements. There are two types of liability:

- A **current liability** is a sum of money that will or might be payable during the next accounting period e.g. creditors or cash overdrawn
- A **deferred liability** is a sum of money that will not become payable until some point after the next accounting period or is paid off over a number of accounting periods.

### **Long Term Debtor**

Amounts due to the Council more than one year after the Balance Sheet date.

### **Materiality**

This is one of the main accounting concepts. It ensures that the statement of accounts includes all the transactions that, if omitted, would lead to a significant distortion of the financial position at the end of the accounting period.

### **Minimum Revenue Provision**

The minimum amount which must be charged to the Council's revenue accounts each year and set aside for debt repayment. New guidance in 2008 allows the Council to set aside the amount it considers "prudent" instead of following a formula calculation as in the past.

### **MIRS**

Movement in Reserves Statement

### **MRA**

Major Repairs Allowance.

### **MRR**

Major Repairs Reserve

### **Net Book Value (NBV)**

The value of a non-current asset less the accumulated amount of depreciation/amortisation.

### **Non Distributed Costs**

These are overheads for which no user benefits and should not be apportioned to services.

### **Non Domestic Rates**

Tax charged on the rateable value of non-domestic properties (business properties). The rate of tax is set by the Government.

### **Non-Exchange Transactions**

In a non-exchange transaction an entity either gives or receives value to or from another without directly giving or receiving equal value in exchange.

### **Non-Operational Assets**

Non-current assets held by the Council that are not directly used in the delivery of services.

### **Operational Assets**

Non-current assets held by the Council that are used in direct delivery of services (another term for working capital).

### **Operating Leases**

A lease where the lessor retains all the risks and rewards of ownership of a non-current asset.

### **Past Service Cost**

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

### **Pension Fund**

An employee's pension fund maintained by a Council or group of councils in order to primarily make pension payments on the retirement of participating employees. It is financed by contributions from the employing authority, the employees and investment income.

## **Performance Management**

A technique which assists the Council to monitor progress in achieving key performance measures and priority actions.

## **PPE**

Property, Plant & Equipment. Assets other than Council dwellings, Assets under Construction and Investment Properties.

## **Precepts**

The amount of Council Tax income that Councils, Police Authorities, Parish Councils and Fire Authorities need to provide their service. The amount for all local authorities providing services in an area appears on council tax bills.

## **Provisions**

This is a sum of money that has been put aside in the accounts for liabilities that are due but where the amount or the timing of the payment is not known with any certainty.

## **PWLB**

Public Works Loans Board. A central government agency that provides lending facilities to local authorities.

## **Related Party Transactions**

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge has been made.

## **Reserves**

Amounts set aside to meet capital or revenue expenditure which do not fall under the definition of Provisions.

## **Revaluation Reserve**

The Revaluation Reserve records the accumulated gains from the increase in the revaluation of assets. It also records any reduction in the value of assets subject to the limits of the previous increases in value of the same asset.

## **Revenue Expenditure**

Expenditure that is incurred on the day to day costs of running local authority services, for example, staff costs, utility charges, rent and business rates.

## **Revenue Expenditure Funded from Capital Under Statute**

This is expenditure treated as capital expenditure but which does not result in a non-current asset belonging to the council. An example of this is a Disabled Facilities Grant paid to a homeowner to fund adaptations to their own home.

## **Revenue Support Grant**

A general grant paid by central government to local authorities as a contribution towards the cost of their services.

**SeRCOP**

The Service Reporting Code of Practice.

**Soft Loan**

A soft loan is a loan with a below market rate of interest.

**Treasury Management**

The process by which the Council manages its day to day cash requirements.